

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

31 December 2018

PERIOD	INCOME RETURN ²	NTA RETURN ³	TOTAL RETURN ⁴	INCOME RETURN INCL FRANKING CREDITS	TOTAL RETURN INCL FRANKING CREDITS ⁵
1 Month	0.00%	-3.54%	-3.54%	0.00%	-3.54%
3 Months	1.58%	-13.86%	-12.28%	1.92%	-11.94%
6 Months	3.46%	-12.71%	-9.25%	4.20%	-8.51%
1 Year	6.30%	-18.75%	-12.45%	7.65%	-11.10%
3 Years (annualised)	6.82%	-6.81%	0.01%	8.28%	1.47%
Inception ¹ (annualised)	6.02%	-4.86%	1.16%	7.31%	2.45%

Notes:

1) Inception date is 13 August 2015. 2) Income Return is the income paid during the period divided by the beginning period pre-tax net tangible assets (NTA) per share. NTA is the underlying portfolio value after all fees and expenses are deducted; 3) NTA Return is the movement in pre-tax NTA during the period; 4) Total Return is the Income plus NTA Return; and 5) Does not consider the individual investors personal tax position.

INVESTMENT OBJECTIVE

CIE is an income focussed listed investment company, with a portfolio of stocks outside of the top 30 ASX listed companies. The stated objective of the Company is to distribute 6.5% of the pre-tax Net Tangible Assets (NTA) per annum, while maximising franking where possible. We select companies that, in aggregate, generate a sustainable dividend income. The portfolio is characterised by a strong and diverse portfolio of companies that exhibit good cash flows and business models.

At a share price of \$0.79 at 31 December 2018, CIE yields over 7.8% (net). Historically franking has been 50%, which equates to a gross yield of over 9.5%.

PERFORMANCE SUMMARY

CIE's investment portfolio was lower over the month of December, with a return of -3.54%, underperforming the broader market. The NTA before tax of the portfolio stood at \$0.845 per share. The rolling 12-month return was -11.10% and the fund has achieved a total return since inception of 2.45% per annum (including franking).

PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 4.3%, compared with a target cash weight of 5%. We expect to be opportunistic with our investing so that cash may move around this target.

Over the last few months the Company has steadily increased some of its defensive positions, and reduced exposure to stocks which are considered in a weak or exposed position either through cyclical or regulatory risk. For example, the portfolio's current exposure to REIT's and Utilities, considered two of the most defensive sectors, is about 22%.

A new position was established in AusNet Services in December. AusNet operates a gas distribution business as well as an electricity distribution and transmission business.

Other existing holdings were also increased over the month, including Smart Group, carsales.com.au and GPT Group. Additions to the portfolio have been either defensive companies or quality growth companies that have been treated harshly in the market sell off.

MARKET OBJECTIVE

Global equity markets deteriorated significantly over the month. The falls were led by the markets that had been the strongest, such as the US. Australia was also lower but less so, as the domestic index had lagged.

The falls in global equities appear to be liquidity and technically driven, as there was no significant deterioration in traditional fundamentals. Momentum-based strategies now comprise a large part of global trading. Momentum has clearly been broken in many indices which has triggered further selling.

Sector performance was mixed with the best sectors being Materials, Utilities and REIT's. The positive performance of both REIT's and Materials is unusual given Materials usually rely on strong world growth and REITs are a haven in declining growth scenarios. The portfolio is overweight REIT's given their higher yield characteristics, but not Materials. The worst performing sectors included Banks and Diversified Financials. CIE has a significant stake in these sectors.

The best performing stocks in the portfolio were, unsurprisingly, defensive exposures. These included the property companies such as Charter Hall, Dexu and GPT Group. AGL also did well, regaining some of its defensive status after facing regulatory issues for most of the year.

The poorest performing stocks included those exposed to the stock market, like Magellan and Perpetual Trustees. These stocks earn fees largely based on the level of the stock market.

PORTFOLIO OUTLOOK

We are looking forward to the upcoming reporting season and expect some solid results. However, share market weakness may see some conservatism by boards when declaring dividends. Therefore, dividend growth may be low. As previously we will measure and report the outcome.

Interest rates remain low with Australian bonds around 2.4%, and economic activity, although slowing slightly, remains positive. Indications of inflation remain largely benign giving confidence that the investment outlook remains favourable.

NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	30 Dec 2018	30 Nov 2018
NTA before tax	\$0.845	\$0.876
NTA after tax and before tax on unrealised gains	\$0.876	\$0.900
NTA after tax	\$0.866	\$0.887
Month-end closing share price (ASX:CIE)	\$0.790	\$0.810

GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Communication Services	6.12
Consumer Discretionary	14.47
Consumer Staples	1.48
Energy	6.28
Financials	23.82
Health Care	1.14
Industrials	11.56
Information Technology	2.01
Materials	6.07
REITS	15.17
Utilities	6.63
Cash	5.24

PORTFOLIO CHARACTERISTICS

December 2018	CIE
Dividend yield (gross)	9.53%
Dividend yield (net)	7.87%
Median market cap (\$m)	2,778
Price to earnings ratio	13.49
Earnings growth (%)	4.00
Return on equity (%)	15.14
Beta	0.89

Source: Bloomberg LLP.

COMPANY FACTS

KEY DETAILS	
ASX code:	CIE
Dividend policy	6.50% of pre-tax NTA
Historical franking	50%
Investment objective:	To distribute 6.5% of pre-tax NTA per annum while maximising franking credits
Number of stocks:	35 – 50
Target cash position:	5%
Portfolio size:	\$88.08 million
Shares on issue:	104.075 million
No. of stocks held:	43

TOP 10 PORTFOLIO HOLDINGS

CODE	COMPANY NAME	WEIGHT %
BOQ	Bank of Queensland Ltd	5.20
BEN	Bendigo & Adelaide Bank Ltd	5.19
ASX	ASX Ltd	2.57
PPT	Perpetual Ltd	2.33
MYS	MyState Ltd	2.32
MFG	Magellan Financial Group Ltd	1.85
MPL	Medibank Private Ltd	1.73
ECX	Eclipx Group	1.31
IFL	IOOF Holdings Ltf	1.31
SGP	Stockland	3.12
		26.93

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