

# CONTANGO INCOME GENERATOR LIMITED (ASX:CIE) INVESTMENT UPDATE AND NTA STATEMENT

31 March 2019

PERIOD	INCOME RETURN <sup>2</sup>	NTA RETURN <sup>3</sup>	TOTAL RETURN <sup>4</sup>	INCOME RETURN INCL FRANKING CREDITS	TOTAL RETURN INCL FRANKING CREDITS <sup>5</sup>
1 Month	0.00%	0.89%	0.89%	0.00%	0.89%
3 Months	1.83%	7.10%	8.93%	2.62%	9.72%
6 Months	3.16%	-7.75%	-4.59%	4.18%	-3.57%
1 Year	8.30%	-7.27%	1.03%	10.42%	3.15%
3 Years (annualised)	6.64%	-2.32%	4.32%	8.17%	5.85%
Inception <sup>1</sup> (annualised)	6.32%	-2.71%	3.61%	7.76%	5.05%

<sup>1</sup>Inception date is 13 August 2015. <sup>2</sup>Income Return is the dividends paid 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; <sup>3</sup>NTA Return is the movement in pre-tax NTA during the period; <sup>4</sup>Total Return is the Income plus NTA Return; and <sup>5</sup>Does not consider the individual investors personal tax position.

\* 1 year income includes 5 dividends. Moving forward CIE expects to pay one dividend per quarter.

## INVESTMENT OBJECTIVE

CIE is an income-focused listed investment company, with a portfolio of companies outside of the ASX top 30. CIE's stated objective 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.

**Over the past 12 months, CIE has paid a dividend yield of 6.74%, or 8.52% including franking credits. Dividend yield is calculated as the last four dividends paid over the 12 months to 31 March 2019 relative to the closing share price of \$0.965 at the beginning of the period.**

## PERFORMANCE SUMMARY

CIE's investment portfolio was positive over the month of March, with a return of +0.89%, in line with the broader market. The gain completes a relatively good quarter with the portfolio up 8.93%. The NTA before tax of the portfolio stood at \$0.905 per share.

The positive portfolio performance wasn't reflected in CIE's share price. Addressing the ongoing share price discount is something to which we are committed. The only way we will achieve this is by maintaining investment discipline and performance, increasing shareholder engagement and by growing our shareholder base.

## PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 5.2%, compared with a target cash weight of 5%. We will continue to be opportunistic with our investing so the cash level may move around this target.

Activity in the portfolio picked up as information from results season was analysed. We added to positions in several holdings that we believe were oversold during the results period. These were funded by profit taking in several companies that have performed well.

The purchases included adding to CIE's existing holdings in Unibail-Rodamco-Westfield, Star Entertainment, Aristocrat, Event Hospitality and the growth company, Reliance Worldwide. There is a 'growth and overseas' flavour to the most recent purchases. Given the challenging growth environment in Australia, we have been targeting companies that provide global exposure and offer a sustainable yield.

## MARKET COMMENTARY

Global markets mostly pushed higher over March, led by the bellwether NASDAQ up 2.6%. The Chinese market (CSI 300 Index) was 5.27% higher on the month as it became apparent that the economy has stabilised.

As many of the world's stock markets recovered over the March quarter to be close to all-time highs, the movements in the bond markets have been dramatic. Bond markets were stronger (lower yield) due to central banks becoming more dovish on rates (lower for longer) which was closely followed by weaker economic news which seemed to justify the central banks' caution. Bond markets have continued to rally since.

We have seen the US 10-year bond yield decline from 3.2% in November to 2.4% by the end of March. Likewise, the Australian 10-year bond has rallied from 2.76% in November to end March at 1.8%. For Australia, this represents the lowest yield on Government 10-year bonds for at least 50 years.

## PORTFOLIO OUTLOOK

The performance of the bond market has several implications for sector and market returns. The world looks set for a sustained period of historically low interest rates. Global growth has slowed, and it appears that low growth is becoming the base case. China and the US remain the two largest economies and although they are growing, the rate of growth is slowing. Their ability to raise growth in a sustainable way appears to be becoming increasingly difficult.

In this environment, yield becomes a focus and is more valuable to investors. Over the past several months we have increased our exposure to yield-sensitive companies to significant levels. With bond markets close to all-time highs we may wait for better opportunities in these names, but the overall strategy remains.

As for the domestic economy, we believe that growth will be much more difficult to come by. We will continue to upgrade the portfolio to the strongest businesses we can find. Our focus is on finding those businesses that have yield and are exposed to growth and/or offshore economies.

## NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	31 MAR 2019	28 FEB 2019
NTA before tax	\$0.905	\$0.897*
NTA after tax and before tax on unrealised gains	\$0.923	\$0.924*
NTA after tax	\$0.905	\$0.900*
Month-end closing share price (ASX:CIE)	\$0.770	\$0.790

\* Ex-dividend

## GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Financials	20.58
Real Estate	16.10
Consumer Discretionary	15.20
Industrials	11.91
Energy	6.85
Communication Services	6.69
Utilities	6.65
Materials	5.87
Information Technology	2.23
Consumer Staples	1.75
Health Care	0.97
Cash	5.19

## PORTFOLIO CHARACTERISTICS

	CIE
Dividend yield (net) <sup>1</sup>	6.74%
Dividend yield (gross) <sup>1</sup>	8.52%
Median market cap (\$m)	3,405
Price to earnings ratio	16.41
Earnings growth (%)	2.1
Return on equity (%)	15.09
Beta	0.88

Source: Bloomberg LLP, Contango Asset Management. <sup>1</sup>Dividend yield is calculated as the last four dividends paid over the 12 months to 31 March 2019 relative to the closing share price of \$0.965 at the beginning of the period.

## COMPANY FACTS

KEY DETAILS	
ASX code:	CIE
Dividend policy	6.50% of 30 June pre-tax NTA
Target franking	50%
Investment objective:	To distribute 6.5% of 30 June pre-tax NTA per annum while maximising franking credits
Number of stocks:	35 – 50
Target cash position:	5%
Portfolio size:	\$94.54 million
Shares on issue:	104.221 million
No. of stocks held:	43

## TOP 10 PORTFOLIO HOLDINGS

CODE	COMPANY NAME	WEIGHT %
TAH	TABCORP HOLDINGS LTD	4.66
BOQ	BANK OF QUEENSLAND LTD	4.60
BEN	BENDIGO AND ADELAIDE BANK	4.40
SGP	STOCKLAND	3.23
GPT	GPT GROUP	2.89
ASX	ASX LTD	2.83
SKI	SPARK INFRASTRUCTURE	2.78
URW	UNIBAIL-RODAMCO-WESTFIEL	2.77
SGR	STAR ENTERTAINMENT	2.76
DLX	DULUXGROUP LTD	2.66

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