

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

30 April 2019

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%	3.31%	3.31%	0.00%	3.31%
3 Months	1.74%	4.70%	6.44%	2.48%	7.18%
6 Months	3.41%	2.75%	6.16%	4.50%	7.25%
1 Year	6.75%	-2.91%	3.84%	8.54%	5.63%
3 Years (annualised)	6.63%	-1.39%	5.24%	8.16%	6.77%
Inception ¹ (annualised)	6.16%	-1.79%	4.37%	7.58%	5.79%

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

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 dividends paid over the 12 months to 30 April 2019 relative to the closing share price at the beginning of the period.

PERFORMANCE SUMMARY

CIE's investment portfolio was positive over the month of April, with a return of 3.31%, outperforming the broader market by 0.77%. The gain in NTA recovers some of the dip seen from October last year and is the highest NTA since September 2018. Dividends have been paid over this period as well. The NTA before tax of the portfolio stood at \$0.935 per share.

The 30 April closing share price of \$0.785 represents a substantial 16% discount to NTA. Addressing the ongoing share price discount is something to which we are committed. Maintaining investment discipline and performance, increasing shareholder engagement and growing our shareholder base are keys to addressing this issue.

PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was on target at 5.0%. We will continue to be opportunistic with our investing. Activity in the fund was up a little from last month. We added to companies that we believe offer good value and are in relatively strong positions, whilst our selling was focussed on companies where we have made substantial profits.

We added to existing positions in Caltex (ASX:CTX) after participating in the share buyback, McMillan Shakespeare (ASX:MMS), Unibail-Rodamco-Westfield (ASX:URW) and Spark infrastructure (ASX:SKI) – a collection of solid yielding companies. The lease companies in particular have been heavily sold down recently. We consider MMS a conservative way to play a recovery in this area.

MARKET COMMENTARY

Global markets again mostly pushed higher over April, led by the bellwether NASDAQ up 4.7%. The German and Japanese markets were also higher by 7.1% and 5.0% respectively.

Whilst the bond market rally seems to have stabilised, interest rates remain near historical lows. The US earnings season has commenced and looks to have a positive skew at this stage. The Chinese economy appears to have stabilised with leading indicators starting to turn positive. All these factors combined are giving investors confidence that the world's equity markets can continue to rally.

Sector performance was very tight with the best performing sector, Financials, being 1.4% higher while the poorest performer, Materials, was down 0.4%. The best performing companies in the portfolio were Dulux (ASX:DLX) (+31.8%), which received an attractive bid, McMillan Shakespeare (ASX:MMS) (+10.6%) and SG Fleet (ASX:SGF) (+11.4%). We believe these companies will weather the downturn with their strong cashflows and balance sheets.

PORTFOLIO OUTLOOK

The performance of the bond market has several implications for sector and market returns. The world looks set for a further sustained period of historically low interest rates. Global growth has slowed, and it appears that low growth is becoming the base case outcome. 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 increasingly difficult.

In this environment, yield becomes more of a focus and 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 but also have some growth attributes.

NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	30 APRIL 2019	31 MAR 2019
NTA before tax	\$0.935	\$0.905
NTA after tax and before tax on unrealised gains	\$0.949	\$0.923
NTA after tax	\$0.928	\$0.905
Month-end closing share price (ASX:CIE)	\$0.785	\$0.770

GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Financials	19.59
Real Estate	17.01
Consumer Discretionary	15.37
Industrials	12.75
Communication Services	6.73
Utilities	6.72
Energy	6.43
Materials	5.86
Information Technology	1.84
Consumer Staples	1.73
Health Care	0.94
Cash	5.03

PORTFOLIO CHARACTERISTICS

	CIE
Dividend yield (net) ¹	6.74%
Dividend yield (gross) ¹	8.52%
Median market cap (\$m)	3,798
Price to earnings ratio	17.30
Earnings growth (%)	1.38
Return on equity (%)	14.82
Beta	0.88

Source: Bloomberg LLP, Contango Asset Management. 1. Dividend yield is calculated as the last four dividends paid over the 12 months to 30 April 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:	\$97.52 million
Shares on issue:	104.221 million
No. of stocks held:	43

TOP 10 PORTFOLIO HOLDINGS

CODE	COMPANY NAME	WEIGHT %
TAH	TABCORP HOLDINGS LTD	4.68
BOQ	BANK OF QUEENSLAND LTD	4.55
BEN	BENDIGO AND ADELAIDE BANK	4.54
URW	UNIBAIL-RODAMCO-WESTFIELD	3.08
SGP	STOCKLAND	3.06
ASX	ASX LTD	2.93
SKI	SPARK INFRASTRUCTURE	2.93
SGR	STAR ENTERTAINMENT	2.91
DLX	DULUXGROUP LTD	2.89
MMS	MCMILLAN SHAKESPEARE LTD	2.83

CONTANGO INCOME GENERATOR LIMITED

ACN 160 959 991

Level 6, 10 Spring Street, Sydney NSW 2000

T: +61 2 9048 7888

W: www.contango.com.au/income-generator-limited

E: invest@contango.com.au

DISCLAIMER: This update has been prepared for information purposes only related to the underlying investment portfolio. It does not contain investment recommendations nor provide investment advice. There may be errors in this document and the data provided within, you are to refer to audited statements and data officially released via the ASX. Investors in LICs should understand the distinction between Investment Portfolio Performance, NTA Performance and Share Price return. Gross performance does not reflect the impact from fees, taxes and charges. Past performance is not a predictor of future returns. Contango Funds Management Limited (CFML) ABN 52 085 487 421 AFSL No. 237119 is the investment manager. Neither CIE, CFML nor their respective related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested within CIE or any associated product or Fund. We strongly encourage you to obtain professional advice and read any relevant offer document in full before making any investment decision. CIE and any CFML investment product identified in this document may not be suitable for your investment needs. This is not an offer to invest. © 2018 Contango Asset Management Limited