

CONTANGO INCOME GENERATOR LIMITED (ASX:CIE)

INVESTMENT UPDATE AND NTA STATEMENT

30 June 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%	0.33%	0.33%	0.00%	0.33%
3 Months	1.17%	3.12%	4.29%	1.55%	4.67%
6 Months	3.09%	10.44%	13.53%	4.28%	14.72%
1 Year	6.16%	-3.60%	2.56%	7.94%	4.34%
3 Years (annualised)	6.91%	-2.05%	4.86%	8.54%	6.49%
Inception ¹ (annualised)	6.11%	-1.77%	4.34%	7.53%	5.76%

Notes: 1. Inception date is 13 August 2015. 2. 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; 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-focused listed investment company, with a portfolio of companies largely outside of the ASX top 30. CIE's stated objective is to distribute 6.5% of 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 6.3%, or 8.2% including franking credits. Dividend yield is calculated as the last four dividends paid over the 12 months to 30 June 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 June 2019, with a return of 0.3%. The NTA before tax of the portfolio stood at \$0.93 per share.

The portfolio continues to edge higher as it has done for most of this calendar year. A suite of earnings downgrades for domestic focussed stocks due to subdued economic activity around the time of the Federal election has held performance back. The benefits of interest rate cuts, tax cuts, relaxed lending standards and better corporate confidence post the election do not appear to have stimulated activity as yet. A recovery in the housing market would be beneficial to the portfolio

PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 6.0%, 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.

Over the month activity in the fund picked up. We increased CIE's portfolio weights in stocks that have downgraded earnings and been over-sold. These included Caltex Australia and Viva Energy Group. We also increased our exposure to Bapcor, Brickworks and G.U.D. Holdings, but generally remain cautious of cyclical going into this results season.

We participated in the GPT Group placement and added APA Group to the portfolio.

MARKET COMMENTARY

Global equity markets, led by the US, bounced back from May's weakness to achieve new highs. Positive messages from the Federal Reserve regarding likely interest rate cuts in the months ahead outweighed soft data reads and trade issues.

The Australian market was also higher over the month but lagged world markets. The RBA lowered the cash rate which was taken positively as was the relaxing of lending standards by the banks.

A slew of earnings downgrades have justified the RBA cutting rates. Most downgrades have been due to weak domestic demand.

Australian bond markets continued to rally with the 10 Year bond rate falling below 1.3% during the month before settling around 1.35% by month end. At the start of this calendar year bond yields were 1% higher.

PORTFOLIO OUTLOOK

Over the last several months, 20 of the top 200 stocks on the ASX have downgraded earnings. The widespread earnings weakness is mainly stemming from weak domestic operating conditions. There appears to have been an appreciable slowing in economic activity heading into the Federal Election in May.

The election outcome was undoubtedly a positive for corporate confidence. Other positives include the proposed tax cuts, interest rate cuts and the relaxing of lending criteria by the banks. The next result season in August will likely show the extent of the weakness in the economy in the first half of the year, but will hopefully be accompanied by more positive outlook commentaries.

The ongoing decline in interest rates should be a positive for yield-focussed strategies, like CIE.

CIE remains significantly exposed to those high income generating securities. In our view, these investments will be increasingly valuable in a world of low rates.

Interest rates remain low and economic activity, although slowing, remains positive. While volatility in equity markets is expected to continue, indications of inflation remain largely benign giving confidence that the investment outlook remains favourable over the medium term.

NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	30 June 2019	31 May 2019
NTA before tax	\$0.933	\$0.930
NTA after tax and before tax on unrealised gains	\$0.952	\$0.946
NTA after tax	\$0.928	\$0.922
Month-end closing share price (ASX:CIE)	\$0.755	\$0.765

GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Financials	19.33
Real Estate	17.61
Consumer Discretionary	15.48
Industrials	12.45
Utilities	7.38
Energy	6.66
Communication Services	6.63
Materials	5.69
Information Technology	1.79
Health Care	1.06
Cash	5.92

PORTFOLIO CHARACTERISTICS

	CIE
Dividend yield (net) ¹	6.34%
Dividend yield (gross) ¹	8.17%
Median market cap (\$m)	3,779
Price to earnings ratio	17.72
Price to book ratio	1.68
Return on equity (%)	14.50
Beta	0.87

Source: Bloomberg LLP, Contango Asset Management. 1. Dividend yield is calculated as the last four dividends paid over the 12 months to 30 June 2019 relative to the closing share price of \$0.940 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:	\$97.70 million
Shares on issue:	104.440 million
No. of stocks held:	41

TOP 10 PORTFOLIO HOLDINGS

COMPANY NAME	WEIGHT %
BENDIGO AND ADELAIDE BANK	4.84
BANK OF QUEENSLAND LTD	4.67
TABCORP HOLDINGS LTD	4.34
STOCKLAND	3.38
ASX LTD	3.23
SPARK INFRASTRUCTURE GROUP	3.14
GPT GROUP	3.08
PERPETUAL LTD	2.77
CARSales.COM LTD	2.73
BAPCOR LTD	2.64

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