

# Contango MicroCap Ltd (CTN)

Listed Managed Investments

June 2015 Quarterly Review

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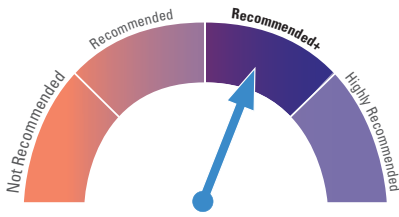
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## Rating



## LMI Type

Listed investment company

## Investment Area

Australia

## Investment Assets

Listed companies and other

## Investment Sectors

Diversified

## Key Investment Information

Price (\$) as at 26 August 2015	0.985
Market cap (\$M)	157.6
Shares on issue (M)	160.0
Shares traded (\$M p.a)	67.2
12-month L/H (\$)	0.88/1.195
Listing date	March 2004

## Fees

Management Fee (% p.a)	na*
Performance incentives (%)	na*

\*No management fees are paid post the acquisition of the investment manager. The investment team is now on salary.

## Pre-tax NTA Performance Analytics (including dividends)

	All Ords Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	-9.23	-11.38
TE (%)	8.65	11.23

Benchmark returns are purely pre-tax, whereas LIC (pre-tax NTA) returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield	%
FY13	8.67pf
FY14	7.80pf
FY15	8.00pf

Major Shareholders	%
RBC Investor Services	2.9
Victor Plummer	2.1

As at 30 June 2015

## COMPANY OVERVIEW

CTN provides the market with a listed investment company focusing on small/micro cap stocks. The fund is managed by Contango Asset Management Ltd (CAML), who currently have around \$700M of funds under management across their suite of investment funds. CAML is now owned by CTN after the acquisition in late 2013.

## INVESTMENT OBJECTIVE

CTN aims to achieve a return above the benchmark index (All Ordinaries Accumulation Index) and pay regular dividends to investors through investment in a portfolio of ASX listed small/micro cap stocks. There tends to be increased risk levels when investing in small/micro cap stocks, however, the upside potential can be considerable.

## STYLE AND PROCESS

CTN uses a combination of top down and bottom up fundamental analysis to identify attractive investment opportunities in the small/micro cap universe. The manager focuses on stocks that have a market cap of between \$10M and \$350M at the time of acquisition. There is often a lack of research on small/micro cap stocks. CTN endeavours to take advantage of this situation to identify market inefficiencies. When the economy is growing strongly, the fund focuses on companies that can grow their businesses rapidly, while in more difficult times, it focuses on companies with more stable earnings.

## PORTFOLIO CHARACTERISTICS

CTN holds a diversified portfolio of small/micro cap stocks with the company aiming to have between 60 to 100 stocks in the portfolio. Given the risk associated with the investment universe, the manager does not tend to take large positions in companies and reduces risk through portfolio diversification. The largest allocations are to the Consumer Discretionary (25.3%), Information Technology (16.8%) and Financials (16.5) sectors. During the quarter, the company added a number of new companies to the portfolio, increasing its exposure to the Energy and Resource sectors. The portfolio is largely invested at June-end with 5% cash.

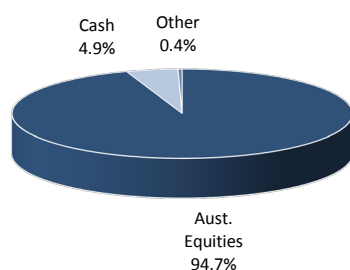
## INDEPENDENT INVESTMENT RESEARCH COMMENTS

CTN provides investors with the opportunity to gain exposure to a professionally managed diversified portfolio of small/micro cap stocks, a universe in which there is limited research available. We stress that there tends to be greater risk involved with smaller cap stocks, however the upside potential can be considerable. The portfolio (pre-tax NTA plus dividends) declined 9.8% over the June quarter, underperforming the broader market by 3.5%. The performance over the quarter has resulted in the portfolio significantly underperforming the broader market over the 12-months to 30 June 2015 by 9.2%. Given the portfolio comprises primarily ex-100 stocks we compare the performance to the S&P/ASX Small Ords Accumulation Index and the S&P/ASX Emerging Companies Index. Over the 12-month period, the portfolio underperformed the S&P/ASX Small Ords Accumulation Index and performed in line with the S&P/ASX Emerging Companies Index. Over the longer-term the portfolio maintains its outperformance of the broader market with the portfolio generating an average rolling annual return of 10.9% over the ten years to 30 June 2015, compared to an average rolling annual return of 8.2% for the ASX All Ordinaries Accumulation Index. We note however that the margin of outperformance is narrowing. If you were to look at the average rolling return over the three-year period, the portfolio has significantly underperformed the broader market. The company was trading at a premium to pre-tax NTA of 0.6% at June-end, well above the average three-year discount of 11.4%. This is the first time the company has traded at a premium based on month-end data since October 2007. Whether the premium is sustained will depend on the performance of the portfolio and the company maintaining the dividend payment.

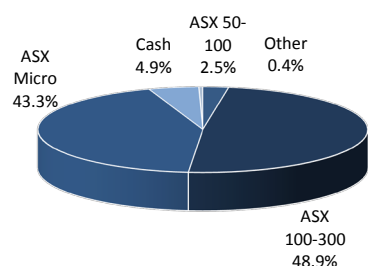
## SECTOR BREAKDOWN

Sector	31 Mar (%)	30 Jun (%)
Energy	2.6	4.5
Materials	5.9	8.0
Industrials	12.1	12.3
Consumer Discretionary	22.2	25.3
Consumer Staples	0.9	2.0
Health Care	8.6	7.0
Financials	20.9	16.5
Information Technology	17.9	16.8
Telecommunication Services	2.1	0.1
Utilities	2.7	1.9
SPI Futures	1.5	0.6
Cash	2.5	5.0

### Asset Weighting



### Size Weighting



## BOARD OF DIRECTORS

Mark Kerr	Chairman (Non-Executive)
David Stevens	Managing Director (Executive)
Ian Ferres	Director (Non-Executive)
Glenn Fowles	Director (Executive)

## OTHER DATA

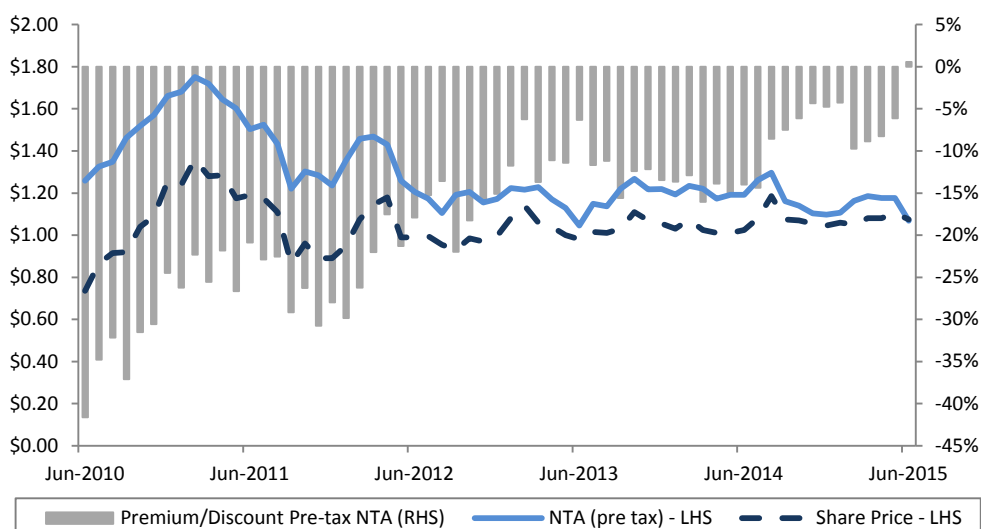
- ◆ **Options** – 557,052 unlisted options on issue.
- ◆ **Dividend policy** – CTN will aim to pay annual dividends amounting to a minimum 6%pa yield on the net tangible asset value per share prevailing at the beginning of the financial year.
- ◆ **Capital management policy** – CTN can buy back its shares, however has no buy back window in operation.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes at a 3% discount.

### CTN's Portfolio (Top 10) Weighting

Code	Portfolio (%)
MYX	3.4
VLW	3.3
SGF	3.2
IFM	3.1
SFR	2.9
ALU	2.8
AHG	2.7
ASB	2.7
SGH	2.6
PMP	2.5
	<b>29.1</b>

Source all figures: CTN/Independent Investment Research/IRESS.  
All data as at 30 June 2015 unless otherwise specified

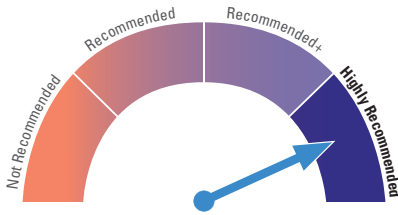

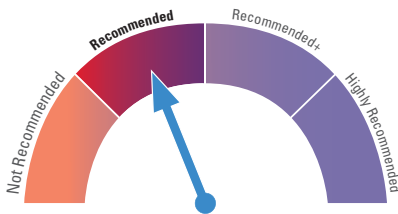
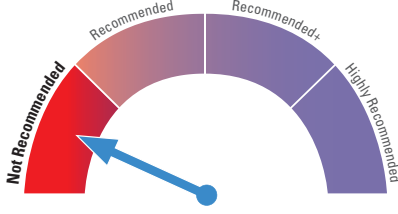
### NTA & Share Price Performance



## APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

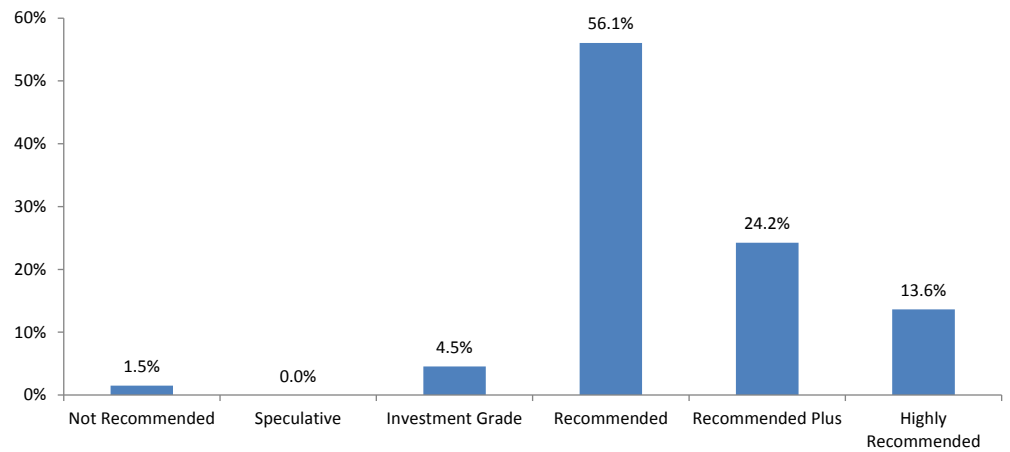
LMI Ratings	SCORE
<p><b>Highly Recommended</b></p> 	<p><b>83 and above</b></p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p><b>Recommended +</b></p> 	<p><b>79–82</b></p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p><b>Recommended</b></p> 	<p><b>60–78</b></p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p><b>Not Recommended</b></p> 	<p><b>&lt;60</b></p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

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## APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

**Spread of Managed Investment Ratings**



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