

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## Contango MicroCap Ltd (CTN)

Listed Managed Investments

September 2014 Quarterly Review

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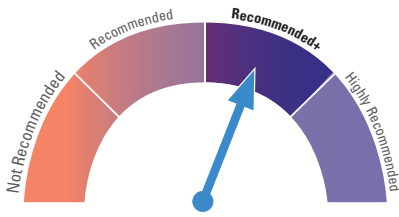
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## Rating



## LMI Type

Listed investment company

## Investment Area

Australia

## Investment Assets

Listed companies and other

## Investment Sectors

Diversified

## Key Investment Information

Price (\$) as at 11 December 2014	1.025
Market cap (\$M)	162.9
Shares on issue (M)	158.9
Shares traded (\$M p.a)	76.3
12-month L/H (\$)	0.98/1.195
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. (%)	-3.63	-8.76
TE (%)	7.43	12.63

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	%
FY12	7.88ff
FY13	8.67pf
FY14	7.80pf

## Major Shareholders

Major Shareholders	%
Victor Plummer	3.2
RBC Investor Services	2.4

As at 30 September 2014

## 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 manager 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 allocation is to the Consumer Discretionary sector. There has been a significant rotation in the portfolio over the past few years with the exit from the materials sector and reallocation of the portfolio to the consumer discretionary and information technology sectors.

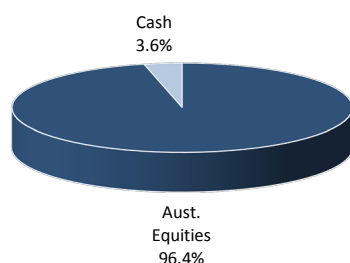
## INDEPENDENT INVESTMENT RESEARCH COMMENTS

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) underperformed the broader market over the 12 months to 30 September 2014, rising 2.3% compared to the benchmark index increase of 5.9%, however outperformed the S&P/ASX Small Ords Accumulation Index and the S&P/ASX Emerging Companies Accumulation Index which both declined in value over the 12 month period, respectively. The portfolio has outperformed the broader market since inception, with an average rolling annual return of 12.7% over the ten years to 30 September 2014, compared to an average rolling annual return of 9.5% for the All Ords Accumulation index. The rotation out of the resource sector has added to the company's outperformance of these indices, with the ASX Small Resources Accumulation Index declining 15.8% over the 12-months to 30 September 2014. The company was trading at a discount to pre-tax NTA of 7.5% at 30 September 2014, below the average three-year discount of 16.3%. Although only partially franked, the company provides an above market dividend yield.

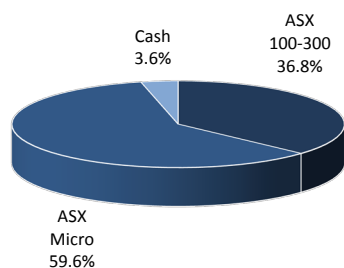
## SECTOR BREAKDOWN

Sector	%
Energy	7.2
Materials	9.6
Industrials	14.7
Consumer Discretionary	22.8
Consumer Staples	1.5
Health Care	4.8
Financials	18.6
Information Technology	15.1
Telecommunication Services	1.2
Utilities	2.0
SPI Futures	0.0
Cash	2.6

### 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

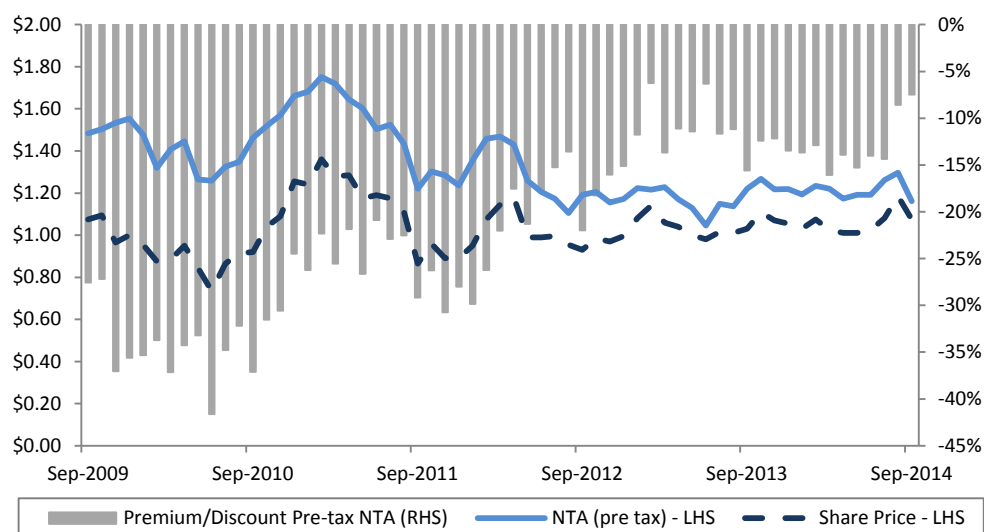
- ◆ **Options** – None on issue
- ◆ **Dividend policy** – CTN will aim to pay annual dividends amounting to a minimum 6%pa yield on the net tangible asset value per share prevailing at the beginning of the financial year.
- ◆ **Capital management policy** – CTN can buy back its shares, however has no buy back window in operation.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes at a 3% discount.

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

Code	Portfolio (%)
SGH	4.2
AFJ	3.2
VLW	3.0
GBT	2.9
IPP	2.6
AHE	2.6
TGS	2.6
VRL	2.5
ASB	2.4
MYX	2.4
	<b>28.4</b>

Source all figures: CTN/Independent Investment Research/IRESS.  
All data as at 30 September 2014 unless otherwise specified

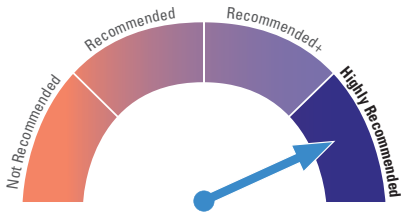
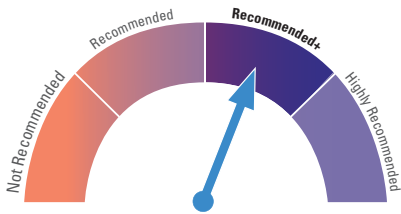

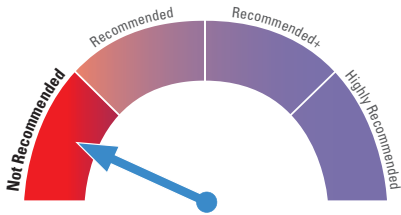
### NTA & Share Price Performance



## APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

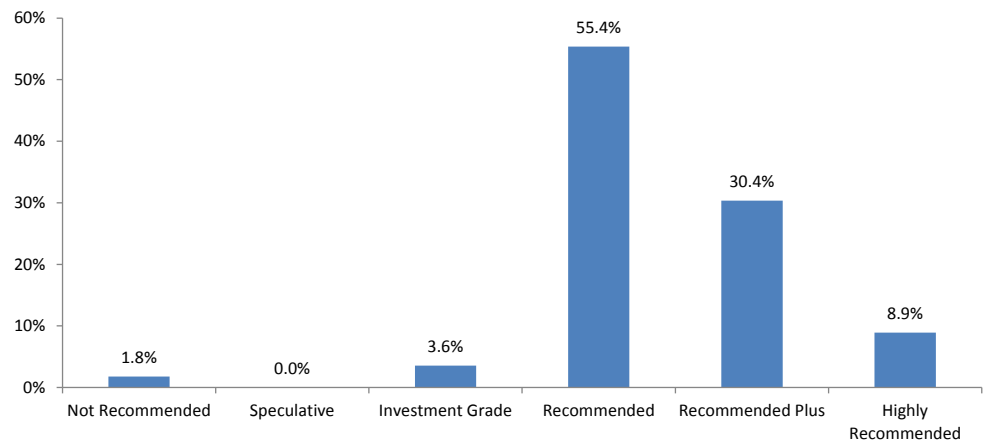
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

## 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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