

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Contango MicroCap Ltd (CTN)

Listed Managed Investments

December 2012 Quarterly Review

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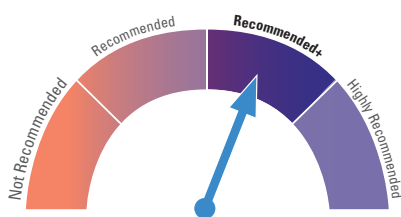
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 20 February 2013	1.18
Market cap (\$M)	176.6
Shares on issue (M)	149.7
Shares traded (\$M p.a)	40.8
12-month L/H (\$)	0.92/1.20
Listing date	March 2004

Fees

Management Fee (% p.a)	1.25
Performance incentives (%)	15.0*

*15% of outperformance of the All Ords Accum Index subject to exceeding high water mark

Pre-tax NTA Performance Analytics (including dividends)

	All Ords Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	(17.57)	(6.69)
TE (%)	14.58	14.41

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

Dividend Yield

	%
FY10	2.72ff
FY11	6.89ff
FY12	7.88pf

Substantial Shareholders

	%
UBS Wealth Management Australia	4.98

As at 31 December 2012

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.

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. 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 sector allocation is to the materials sector, which is to be expected given the presence of resource stocks outside the S&P/ASX 300, however this does make the portfolio susceptible to shocks in this sector.

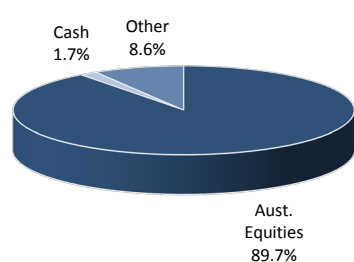
INDEPENDENT INVESTMENT RESEARCH COMMENTS

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) significantly underperformed the benchmark index over the December quarter, declining 1.7% compared to the benchmark index increase of 6.8%. The portfolio also underperformed the S&P/ASX Small Ords Acc. Index which increased 2.0%. Over the 12-months to 31 December 2012, the portfolio has underperformed the benchmark index by 17.6% and the S&P/ASX Small Ords Acc. Index by 5.3%. From a shareholder return perspective (share price plus dividends) the company has outperformed the benchmark index, with a 21.5% return over the 12 months to 31 December 2012. From a longer-term perspective, the portfolio has consistently outperformed the benchmark index since inception with an average annual return of 14.7%, compared to the benchmark index return of 8.8%. The company has made an offer to acquire the remaining shares in Contango Capital Partners Limited (CCQ), which owns 49.9% of CAML, the manager of the portfolio. As at 4 February 2013, CTN held 95.9% of CCQ shares and announced their intention to proceed with the compulsory acquisition of the remaining shares. The acquisition offers fee consolidation and scale efficiencies to CTN, through owning a significant portion of the manager. In addition, the company benefits from fee revenue generated by other mandates managed by CAML. At 31 December 2012, CTN was trading at a 15.1% discount to pre-tax NTA, below the average 15.8%. Since December-end the discount has narrowed below 10%. Given the revaluation of the company by the market through the significant narrowing of the discount we have re-rated CTN as a Recommended Plus.

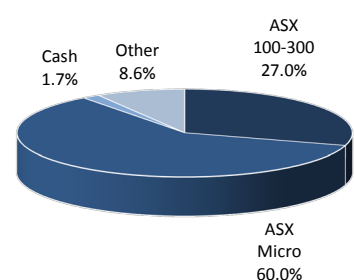
SECTOR BREAKDOWN

Sector	%
Energy	13.8
Materials	23.9
Industrials	19.1
Consumer Discretionary	15.4
Consumer Staples	0.0
Healthcare	5.5
Financials (ex Property)	10.6
Property	2.3
Information Technology	3.6
Telecommunication Services	4.6
Utilities	1.3

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.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes - 3% discount .

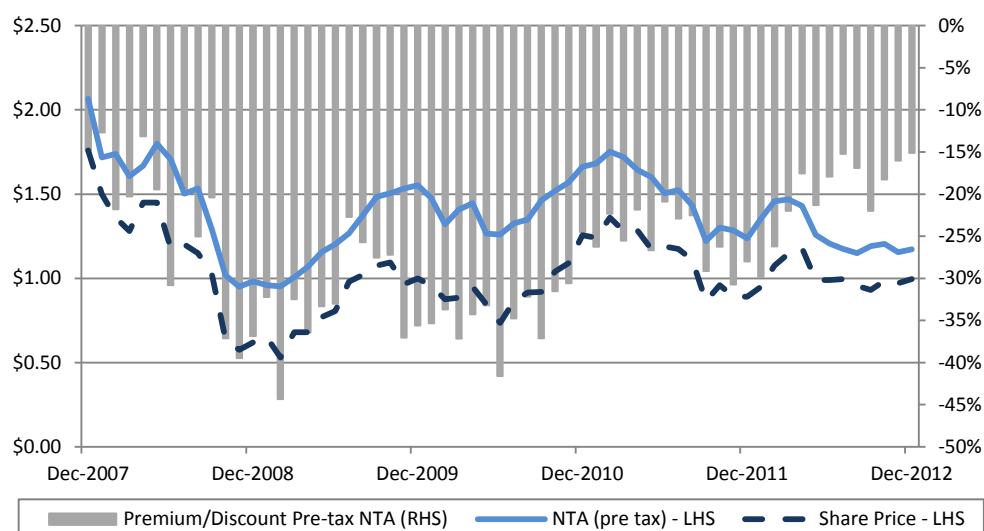
CTN's Portfolio (Top 10) Weighting

Code	Portfolio (%)
MTU	3.3
MMS	3.0
AUB	2.7
SLR	2.3
TGS	2.2
BDR	2.2
GEM	2.1
SGH	2.1
FXL	2.0
SXY	2.0
	23.9

Note: The above table does not include CTN's holding of CCQ, which represents 7.3% of CTN's total NTA.

Source all figures: CTN/Independent Investment Research/IRESS.
All data as at 31 December 2012 unless otherwise specified

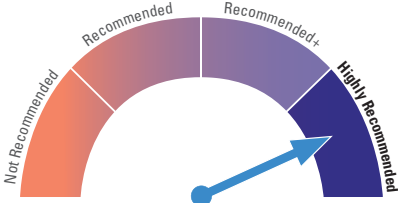


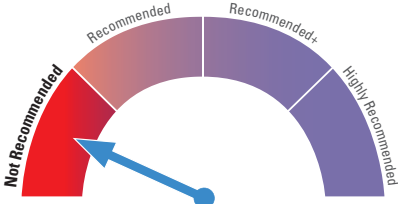
NTA & Share Price Performance



APPENDIX – 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>Highly Recommended</p> 	<p>83 and above</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>Recommended +</p> 	<p>79–82</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>Recommended</p> 	<p>60–78</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>Not Recommended</p> 	<p><60</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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