

# Contango MicroCap Ltd (CTN)

Listed Managed Investments

June 2013 Quarterly Review

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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 13 September 2013	1.05
Market cap (\$M)	158.0
Shares on issue (M)	150.5
Shares traded (\$M p.a)	37.7
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. (%)	(27.42)	(8.05)
TE (%)	13.90	13.84

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

Dividend Yield	%
FY11	6.89ff
FY12	7.88ff
FY13	8.67pf

## Major Shareholders

Major Shareholders	%
UBS Wealth Management Australia	5.07

As at 30 June 2013

## 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 Manager has been in the process of reducing its exposure to the Materials sector, shifting its focus from growth stocks to dividend yielding industrials.

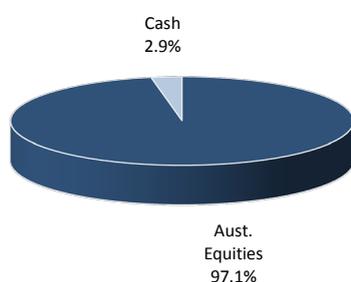
## INDEPENDENT INVESTMENT RESEARCH COMMENTS

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 12 months to 30 June 2013, declining 6.75% compared to the benchmark index increase of 20.7%. The portfolio also underperformed the S&P/ASX Small Ords Acc. Index by 1.4% over the 12-month period, however has outperformed this index over the three and five year periods. The underperformance of the broader market can largely be attributed to the poor performance of the small-end of the market over the June quarter, with the S&P/ASX Small Ords Acc. Index falling 14.9%. This compares to the All Ords Acc. Index decline of 3.3% over the quarter and a 1.3% decline by the S&P/ASX 50 Acc Index. Resources was the primary driver of the decline of small cap stocks over the June quarter, with the Small Resources Acc Index falling 38.7%. From a shareholder perspective, despite portfolio declines over the 12 months to 30 June 2013, the share price (plus dividends) increased 7.3% and over the three years to 30 June 2013 returned 11.2%p.a more than the benchmark index. At 30 June 2013, the company was trading at a discount to pre-tax NTA of 6.3%, significantly below the three year average of 22.5%. The company offers a dividend yield far superior to both the All Ordinaries Index and the S&P/ASX Small Ordinaries Index, with a yield in excess of 8% based on dividends paid during FY'13 and the share price at 30 June 2013.

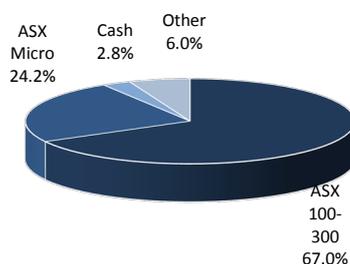
## SECTOR BREAKDOWN

Sector	%
Energy	6.3
Materials	7.1
Industrials	12.5
Consumer Discretionary	24.6
Consumer Staples	0.0
Health Care	6.6
Financials	18.4
Information Technology	6.3
Telecommunication Services	7.3
Utilities	2.1
SPI Futures	6.0

## Asset Weighting



## Size Weighting



## KEY POSITIVE CONTRIBUTORS

- ◆ Austbrokers Holdings Ltd
- ◆ Village Roadshow Ltd
- ◆ M2 Telecomm. Grp Ltd

## KEY NEGATIVE CONTRIBUTORS

- ◆ Codan Ltd
- ◆ IDM International Ltd
- ◆ Tiger Resources Ltd

*Note: The Key Positive and Negative Contributors are provided on an attribution basis. This means the contributors reflect the impact that the positions or lack of positions have on the portfolio performance compared to the benchmark index.*

## BOARD OF DIRECTORS

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

## OTHER DATA

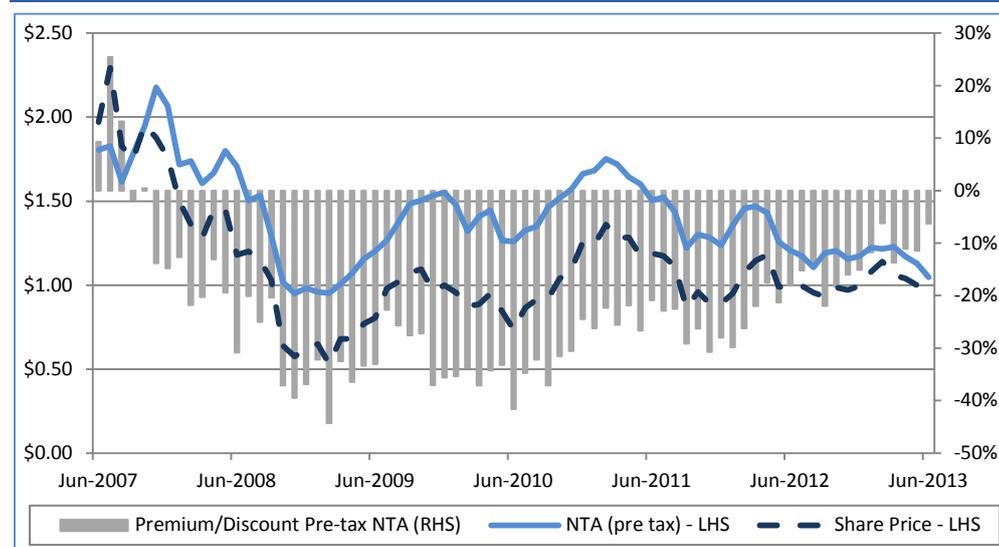
- ◆ **Options** – None on issue
- ◆ **Dividend policy** – CTN will aim to pay annual dividends amounting to a minimum 6%pa yield on the Net Tangible Asset value per share prevailing at the beginning of the financial year.
- ◆ **Capital management policy** – CTN can buy back its shares.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes - 3% discount .

## CTN's Portfolio (Top 10) Weighting

Code	Portfolio (%)
AUB	3.9
SGH	3.8
MTU	3.6
VRL	3.2
MMS	3.1
GEM	3.0
FXL	2.7
MYX	2.5
PRT	2.5
IIN	2.4
	<b>30.8</b>

Source all figures: CTN/Independent Investment Research/IRESS.  
All data as at 30 June 2013 unless otherwise specified

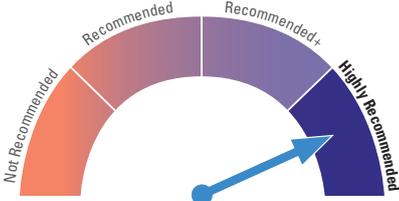
## NTA & Share Price Performance



## 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><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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