

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Contango MicroCap Ltd (CTN)

Listed Managed Investments

June 2014 Quarterly Review

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Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

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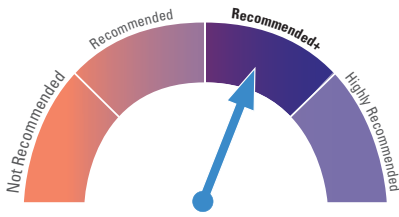
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 25 August 2014	1.165
Market cap (\$M)	183.6
Shares on issue (M)	157.6
Shares traded (\$M p.a)	64.3
12-month L/H (%)	0.98/1.185
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. (%)	4.19	(10.85)
TE (%)	9.64	13.33

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	3.3
UBS	2.6

As at 30 June 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, followed by the Financials sector.

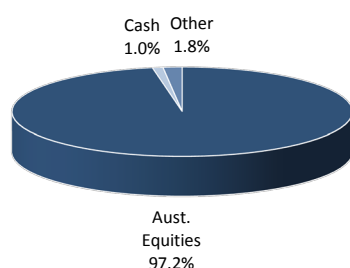
INDEPENDENT INVESTMENT RESEARCH COMMENTS

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) outperformed the broader market over the 12 months to 30 June 2014, rising 21.8% compared to the benchmark index increase of 7.1%. The portfolio also outperformed the S&P/ASX Small Ord Accumulation Index and the S&P/ASX Emerging Companies Accumulation Index by 8.7% and 27.2%, respectively, over the 12 month period. The portfolio has outperformed the broader market since inception, with an average rolling annual return of 13.4% compared to an average rolling annual return of 10.4% for the All Ords Accumulation index. The company paid an interim dividend of 4 cents per share, franked to 25%, up from 3.8 cents for the previous interim dividend. The company has proposed a final dividend of 3.3 cents per share, partially franked. This will take the full year dividend to 7.7 cents per share, down from the previous full year dividend of 7.8 cents per share. The company was trading at a discount to pre-tax NTA of 14% at 30 June 2014, below the average three-year discount of 17.2%. Although only partially franked, the company still provides an above market dividend yield at the share price at 30 June 2014.

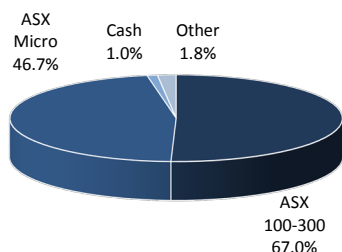
SECTOR BREAKDOWN

Sector	%
Energy	7.3
Materials	12.4
Industrials	13.1
Consumer Discretionary	22.5
Consumer Staples	0.9
Health Care	4.7
Financials	21.0
Information Technology	12.1
Telecommunication Services	1.1
Utilities	2.1
SPI Futures	1.8
Cash	1.0

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

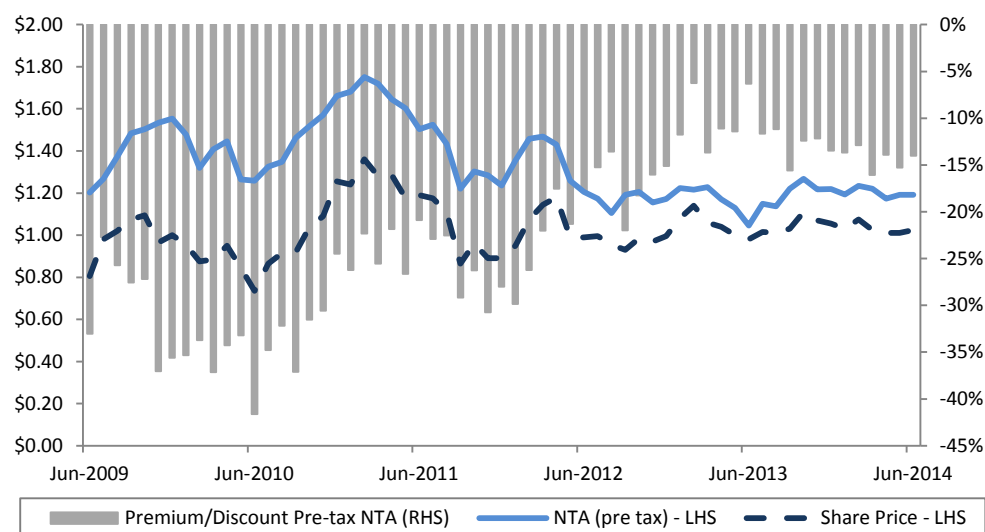
- ◆ **Options** – None on issue
- ◆ **Dividend policy** – CTN will aim to pay annual dividends amounting to a minimum 6%pa yield on the Net Tangible Asset value per share prevailing at the beginning of the financial year.
- ◆ **Capital management policy** – CTN can buy back its shares, however has no 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	4.0
CWP	2.9
PRT	2.9
VLW	2.8
MYX	2.7
VRL	2.7
SYR	2.7
SFW	2.6
TGS	2.6
IPP	2.5
	28.5

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

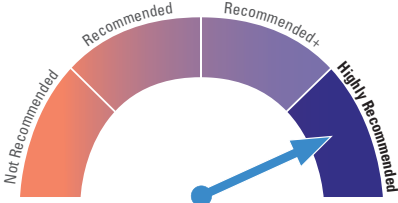


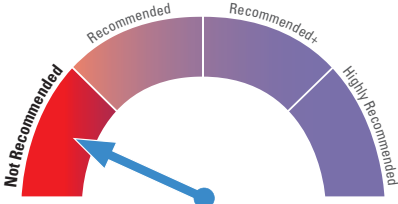
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

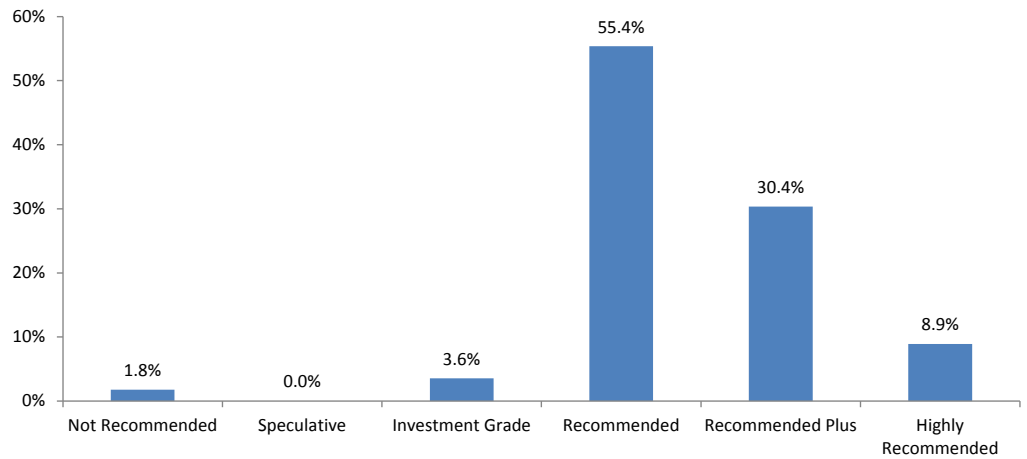
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
<p>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>

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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