

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Contango MicroCap Ltd (CTN)

Listed Managed Investments

September 2012 Quarterly Review

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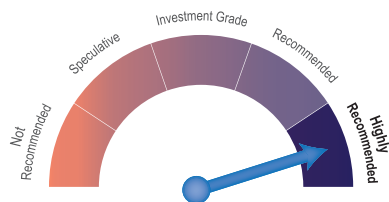
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price as at 27 November 2012	0.97
Market cap (\$M)	145.2
Shares on issue (M)	149.7
Shares traded (\$M p.a)	38.6
12-month L/H (\$)	0.88/1.19
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. (%)	(9.09)	(3.67)
TE (%)	14.46	14.35

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

Substantial Shareholders	%
UBS Wealth Management Australia	4.98
As at 30 Sept 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.

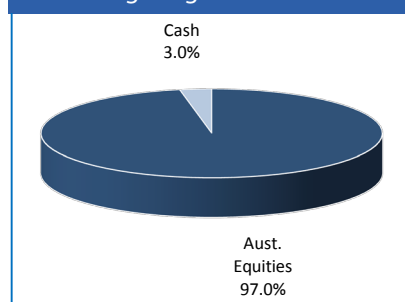
INDEPENDENT INVESTMENT RESEARCH COMMENTS

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) underperformed the benchmark index over the September quarter, rising 2.9% compared to the benchmark index increase of 8.2%. The portfolio also underperformed the S&P/ASX Small Ords Acc. Index which increased 7.3%. We note that the company is currently trading at a good yield on the back of a change in the dividend policy, which has resulted an increase in the dividend payout over the last two financial years. These dividends have on occasion included capital returns. Investors are not entitled to the LIC tax concessions on the capital return portion of the dividends. Earlier in the year the company acquired a majority stake in CCQ, which owns 49.9% of CAML, the manager of the portfolio. 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. The company's discount to pre-tax NTA expanded over the September quarter, with the company trading at a 22% discount at 30 September 2012. While this is well below the 30%+ discount the company has previously traded at it is still significant.

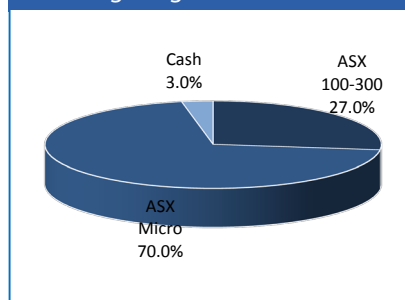
SECTOR BREAKDOWN

Sector	%
Energy	15.2
Materials	29.8
Industrials	19.0
Consumer Discretionary	8.5
Consumer Staples	0.0
Healthcare	2.9
Financials (ex Property)	5.5
Property	3.3
Information Technology	3.2
Telecommunication Services	3.1
Utilities	0.9

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 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 .

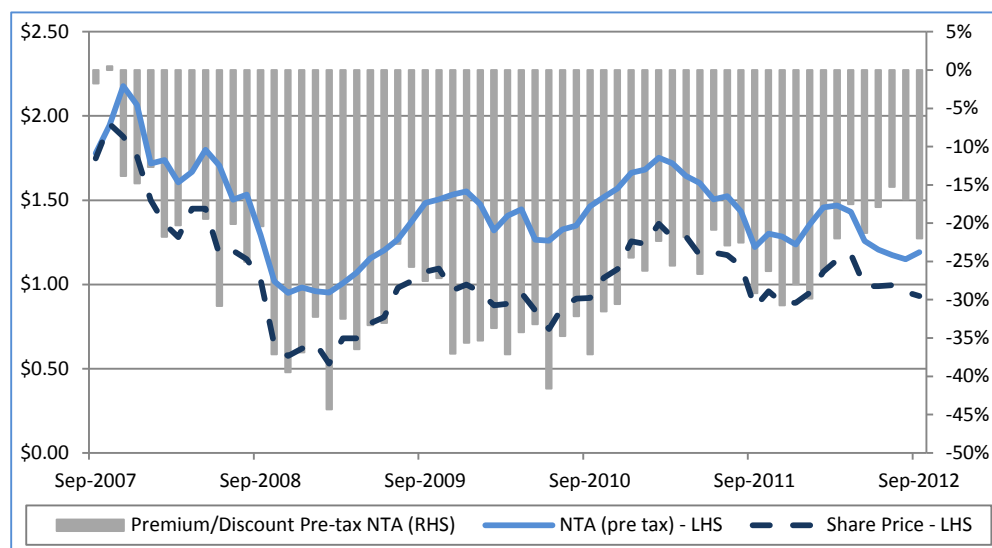
CTN'S PORTFOLIO (TOP 10) WEIGHTING

Code	Portfolio (%)
MMS	3.3
TGS	2.6
BDR	2.5
SLR	2.5
MTU	2.4
GEM	2.3
CDD	2.3
RSG	2.2
AUB	2.2
TRY	2.1
	24.5

Note: The above table does not include CTN's holding of CCQ, which represents 7.1% of CTN's total NTA.

Source all figures: CTN/Independent Investment Research/IRESS.
All data as at 30 Sept 2012 unless otherwise specified

NTA & Share Price Performance



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