

Contango MicroCap Ord CTN

Manager Contango Microcap Ltd

Morningstar Category™
Equity Australia Mid/Small Blend

Market Index
S&P/ASX Small Ordinaries TR AUD

Net Assets 30/09/14
\$188.1 M

Listing Date
25/03/04

Morningstar Recommendation



NTA Information (30/09/14)

NTA (Pre-Tax)	\$1.19
NTA (Post-Tax)	\$1.12
Premium/Discount (Pre-Tax)	-9.89
Premium/Discount (Post-Tax)	-4.10

Trading Information (21/10/14)

Closing Market Price	\$1.05
52-Week Range	\$0.98 - 1.20
% Below 52-Week High	12.55
Average Daily Shares Traded (1 Yr)	212,998
Shares Outstanding (21/10/14)	158,881,328
Avg 4-Week Buy/Sell Spread %	0.57
Exchange	ASX

Fee Information

Management Fee % pa	1.25
Performance Fee Applicable	Yes

Role In Portfolio

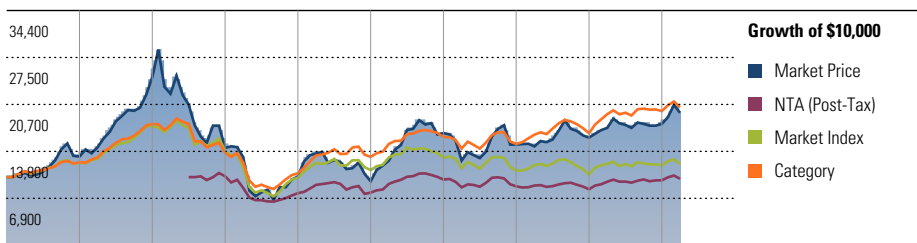
Supporting Player. This strategy invests at the smallest end of the market, resulting in greater volatility, so should occupy only a small part of an investor's Australian equities exposure.

Bulls Case

- Experienced investment team
- Flexible investment process

Bears Case

- Opaque and complex fee and ownership structure
- Large sector biases
- Focus on micro-caps leads to higher volatility and trading costs



	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Sep-14	Performance
Market Price	32.76	89.48	-42.13	-29.39	-6.87	75.34	-10.29	6.93	12.73	9.11	Market Return %
NTA (Post-Tax)	29.31	64.98	-17.67	-27.85	6.36	26.15	-15.26	-6.98	21.75	3.57	NTA (Pre-Tax) %
Market Index	NAv	NAv	NAv	-24.50	1.14	24.73	-10.27	-5.13	16.14	2.36	NTA (Post-Tax) %
Category	25.48	44.43	-20.46	-28.58	11.18	16.41	-14.61	-5.32	13.12	1.49	Market Index %
	24.94	46.15	-23.68	-22.32	22.99	22.36	-6.33	10.39	19.93	2.85	Category Index %

Morningstar Take

Contango Microcap CTN sensibly changed direction in 2013 but faces obstacles on its new course. CTN now wholly owns Contango Asset Management Limited (CAML), putting investors in the odd position of owning their asset manager (about 6% of CTN's portfolio). CTN now has no explicit fee but investors pay indirectly through salaries and other business expenses as owners of CAML. CTN's prior fee was sub-optimal so its removal is welcome, but the new fee and ownership structure is complex and opaque. Benefits or drawbacks depend on unpredictable factors such as CAML's asset-growth and profitability. Despite the presence of long-running and experienced team members, CAML has seen team changes, an expanded array of products and an evolving investment process which will take time to bed down. Shawn Burns joined in 2013 to build out small-cap stock models, especially for industrials, but has since moved to CAML's large-cap products. In 2014, Marcus Tuck joined as Head of Research but lasted less than a year. There were also tweaks to the analyst team, and plans to add another director to make the board majority independent. A buy-and-hold focus should deliver lower portfolio turnover, which could be a long-run positive. But historically high turnover disqualifies CTN from the LIC tax concession. Analysis identifies secular trends in each sector, before stocks are picked. The vehicle can short sell index futures and notably took a short position of more than 10% in 2010-11. The 70-90 stock portfolio is diversified, but sector bias adds to the risks of

Alexander Prineas
Morningstar Analyst 30/09/14

small-cap investing. For example materials stocks (largely miners) accounted for more than 50% of assets in 2011. All this adds up to a middling track record relative to small- and micro-cap rivals. If executed successfully, the changes at CTN might improve the status quo. An experienced team and a diversified portfolio means CTN shouldn't go too far wrong in relative terms but we have more confidence in rivals at this time.

Portfolio Construction: Contango researches thematic drivers and attractive stocks within each industry. It can short-sell index futures, going more than 10% short in 2011. In 2013, the firm bulked up stock research towards a buy-and-hold approach and a focus on industrial stocks. CTN typically holds 70-90 stocks with market caps of A\$10 million to A\$450 million. High portfolio turnover disqualifies CTN from the LIC tax concession. Post-tax NTA is thus the most relevant way to assess premiums/discounts. CTN's long-running, deep discount to NTA narrowed in 2013. CTN aims to pay investors a 6% p.a. dividend.

Fees: CTN is in the odd position of owning its own management company, so there is no explicit fee or performance charge, but investors pay indirectly through salaries and other business expenses. Investors should read CTN's disclosure documents and fully understand the ramifications before investing.

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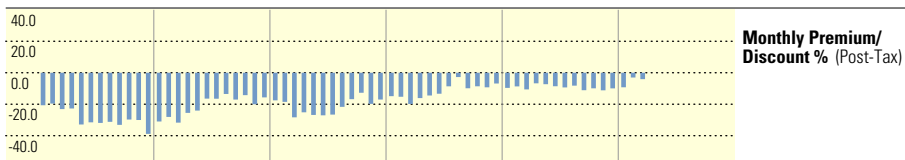
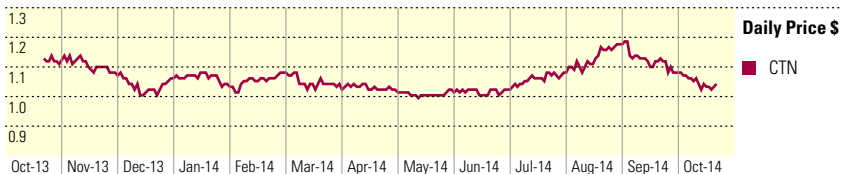
Risk & Performance 30/09/14

Risk Measures (Mkt)	3 Yr	5 Yr	10 Yr
Standard Deviation	18.22	19.33	21.38
Sharpe Ratio	0.24	-0.02	0.16
Tracking Error %	7.79	9.10	10.09
Information Ratio	0.55	0.20	0.23

MPT Statistics (Mkt)	3 Yr	5 Yr	10 Yr
R-Squared	81.81	78.10	77.90
Beta	1.04	1.06	0.97
Alpha	4.54	2.51	2.61

Trailing Total Return	Mkt%	NTA (Post)%	Mkt Idx%
6 Months	9.11	1.03	-0.80
12 Months	12.76	4.69	-0.07
3 Yr Annualised	16.05	4.71	1.71
5 Yr Annualised	7.61	1.93	-0.28
10 Yr Annualised	7.54	-	3.60

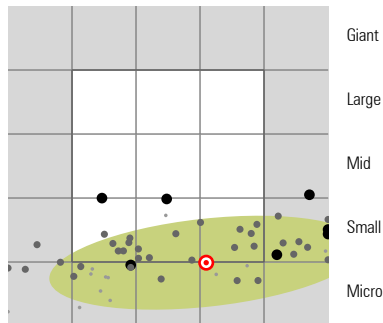
Price Information



	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Sep-14	Premium/Disc (Post-Tax)
	-28.76	-21.14	-21.50	-11.65	-9.26	-5.46	Avg
	-19.59	-13.49	-12.72	-2.74	-6.72	-3.03	High
	-38.85	-31.70	-28.33	-19.83	-11.17	-9.24	Low

Portfolio 30/09/14

Morningstar Ownership Zone™



Deep Val Core Val Blend Core Grth High Grth
 ● Centroid = weighted average of stock holdings
 ● Zone = 75% of the fund's stock holdings

Average Mkt Cap (\$Mil) 322.66

Value Measures	Stocks
Price/Earnings	12.29
Price/Sales	0.76
Price/Book	1.50
Price/Cash Flow	6.31
Dividend Yield %	2.76

Growth Measures	Stocks
Long-Term Earnings %	23.34
Historical Earnings %	12.52
Sales %	-7.36
Cash Flow %	3.14
Book Value %	-2.54

Market Cap Breakdown

	Stocks %
Giant	0.00
Large	0.00
Medium	8.12
Small	66.45
Micro	25.43

Top 20 Holdings

	Assets %
Slater & Gordon Ltd	4.31
Affinity Education Group Ltd	3.25
Villa World Ltd	3.13
GBST Holdings Ltd	2.93
iProperty Group Ltd	2.74
Automotive Holdings Group Ltd	2.68
Village Roadshow Ltd	2.63
Mayne Pharma Group Ltd	2.52
Austal Ltd	2.46
Tiger Resources Ltd	2.43
Bt Investment Management Limited	2.35
Prime Media Group Ltd	2.32
Cedar Woods Properties Ltd	2.31
Austbrokers Holdings Ltd	2.28
PMP Ltd	2.23
ERM Power Ltd	2.06
SG Fleet Group Ltd	2.05
Sino Gas & Energy Holdings Ltd	1.93
Infomedia Ltd	1.93
Enero Group Ltd	1.91
% Assets In Top 20 Holdings	50.43
Total Number of Holdings	69

Morningstar Stock Sectors

	Stocks %
Cyclical	49.72
Basic Materials	11.03
Consumer Cyclical	23.08
Financial Services	5.37
Real Estate	10.24
Sensitive	41.03
Communication Services	1.45
Energy	7.55
Industrials	14.46
Technology	17.57
Defensive	9.26
Consumer Defensive	1.18
Healthcare	5.69
Utilities	2.39

Top 5 World Regions

	Stocks %
Australasia	97.85
North America	2.15
-	-
-	-
-	-

Top 5 Countries

	Stocks %
Australia	97.85
United States	2.15
-	-
-	-
-	-

Research Report Disclosure Document

Currency

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