

# Contango MicroCap Ord CTN

**Manager** Contango Microcap Limited

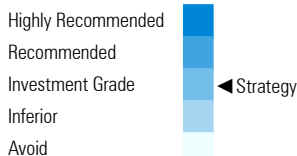
**Morningstar Category™**  
Equity Australia Mid/Small Blend

**Market Index**  
S&P/ASX Small Ordinaries TR AUD

**Net Assets 30/09/13**  
\$172.4 M

**Listing Date**  
25/03/04

## Morningstar Recommendation



## NTA Information (30/09/13)

NTA (Pre-Tax)	\$1.15
NTA (Post-Tax)	\$1.22
Premium/Discount (Pre-Tax)	-10.59
Premium/Discount (Post-Tax)	-15.57

## Trading Information (07/10/13)

Closing Market Price	\$1.04
52-Week Range	\$0.94 - 1.20
% Below 52-Week High	13.33
Average Daily Shares Traded (1 Yr)	144,620
Shares Outstanding (07/10/13)	151,545,998
Avg 4-Week Buy/Sell Spread %	0.89
Exchange	ASX

## Fee Information

Management Fee % pa	1.25
Performance Fee Applicable	Yes

## Role In Portfolio

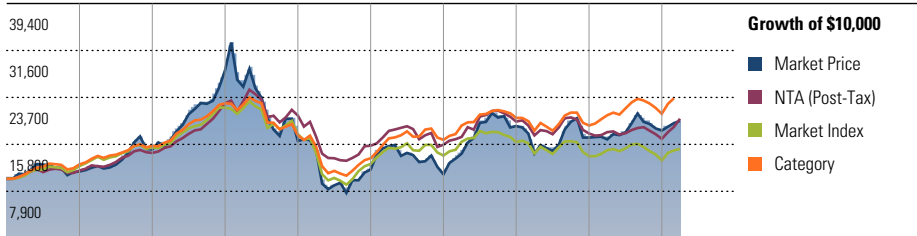
Supporting Player. This strategy invests at the smallest end of the market, resulting in greater volatility, and so should only occupy a small part of an investor's Australian equities exposure.

## Bulls Case

- Experienced, stable investment team
- Flexible investment process

## Bears Case

- High fee and performance fee charged on inappropriate benchmark
- Large sector biases
- Focus on micro-caps leads to higher volatility and trading costs



	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Sep-13	Performance
Market Price	17.35	32.76	89.48	-42.13	-29.39	-6.87	75.34	-10.29	6.93	9.09	Market Return %
NTA (Post-Tax)	23.01	29.31	64.98	-17.67	-27.85	6.36	25.70	-14.81	-7.01	13.97	NTA (Pre-Tax) %
Market Index	18.89	26.21	57.83	-9.13	-24.50	1.14	24.72	-10.27	-5.13	20.26	NTA (Post-Tax) %
Category	27.41	25.48	44.43	-20.46	-28.58	11.18	16.41	-14.61	-5.32	14.89	Market Index %
	30.03	24.94	46.15	-23.68	-22.32	22.99	22.36	-6.33	10.39	NAv	Category Index %

## Morningstar Take

Contango Microcap (CTN) offers capable exposure to the smallest end of the Australian stock market, though it has some shortcomings. Portfolio Manager Bill Laister is well-supported by a stable team, most members having worked together for a decade. Several team members bring an economics or strategy background, helping with top-down and tactical positioning. Industry analysis identifies secular trends, before stock-picks are made in each sector. The arsenal includes short-selling index futures, CTN going more than 10.0% short in 2010/11. The resulting portfolio is diversified, typically holding around 90 stocks, and is not overly top-heavy. But the portfolio can develop significant sector exposures from time to time, adding to the already significant risks of investing in small stocks with a market capitalisation as low as \$10.0 million. For example industrial materials stocks (largely miners) accounted for more than 50.0% of the portfolio in 2011. Laister also aims to be flexible, tweaking the research depending on market conditions, and shifting the portfolio accordingly. For example acknowledging the slowing mining boom, Laister hired Shawn Burns in early 2013 to bring a greater focus on long-term investing, and enhance the firm's stock modelling capabilities, particularly for industrial stocks. It's a sensible move, but it's a material change that we think may take time to deliver benefits. The vehicle's cost is also a concern. The base fee of 1.25% is reasonable, but is hefty when combined with the fund's 15.0% performance fee.

## Alexander Prineas

Morningstar Analyst 03/10/13

The capacity constraints of investing in microcaps may justify a high fee, but the performance fee structure is not ideal – the benchmark is the S&P/ASX All Ords – a large-cap index is not an ideal benchmark for a micro-cap fund. It's all added up to track record that is middling among small and microcap rivals. CTN is not without drawbacks, but it does a reasonable job for investors who can handle the risks of investing in microcaps.

**Portfolio Construction:** Contango researches industry drivers, and attractive stocks within each industry. It can short-sell index futures, going more than 10.0% short in 2011. CTN targets annual distributions of 6.0%. In 2013 the firm bulked up stock research towards a buy-and-hold approach and a focus on industrial stocks. CTN typically holds 80-100 stocks with market caps of A\$10.0 – A\$450.0 million. High portfolio turnover disqualifies CTN from the LIC tax concession. Post-tax NTA is thus the most relevant figure to assess premiums or discounts. A long running, deep discount in CTN's market price narrowed in 2013.

**Fees:** CTN has a 1.25% annual fee and a performance fee of 15.0% payable on returns above the Australian All Ordinaries Index subject to a high watermark. This is more expensive than other LICs, but in line with similar unlisted funds. Brokerage and buy/sell spreads should also be considered.

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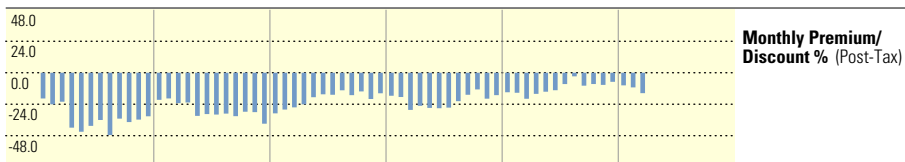
## Risk & Performance 30/09/13

<b>Risk Measures (Mkt)</b>	3 Yr	5 Yr	10 Yr
Standard Deviation	26.30	38.10	—
Sharpe Ratio	0.37	0.23	—
Tracking Error %	16.89	23.04	—
Information Ratio	0.92	0.40	—

<b>MPT Statistics (Mkt)</b>	3 Yr	5 Yr	10 Yr
R-Squared	0.59	0.62	—
Beta	1.19	1.28	—
Alpha	17.99	9.86	—

<b>Trailing Total Return</b>	Mkt%	NTA (Post)%	Mkt Idx%
6 Months	0.85	7.58	-2.18
12 Months	18.80	12.61	1.42
3 Yr Annualised	11.54	5.66	-2.55
5 Yr Annualised	5.96	3.31	0.95
10 Yr Annualised	—	—	5.56

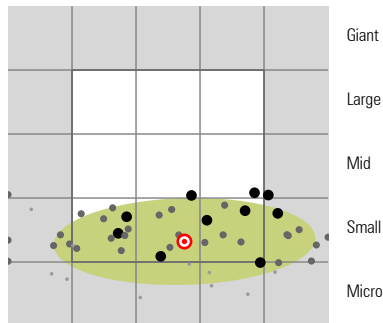
## Price Information



	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Sep-13	Premium/Disc (Post-Tax)
	-34.85	-28.76	-20.14	-21.50	-11.65	-12.12	Avg
	-19.62	-19.59	-13.38	-12.72	-2.74	-9.62	High
	-47.47	-38.85	-30.97	-28.33	-19.83	-15.57	Low

## Portfolio 31/03/13

### 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) 413.11

<b>Value Measures</b>	Stocks
Price/Earnings	14.16
Price/Sales	0.86
Price/Book	1.75
Price/Cash Flow	6.37
Dividend Yield %	3.46

<b>Growth Measures</b>	Stocks
Long-Term Earnings %	14.95
Historical Earnings %	-0.10
Sales %	5.19
Cash Flow %	0.24
Book Value %	1.85

### Market Cap Breakdown

	Stocks %
Giant	0.00
Large	0.00
Medium	12.25
Small	77.69
Micro	10.06

### Top 20 Holdings

	Assets %
Austbrokers Holdings Limited	3.10
Codan Limited	3.08
McMillan Shakespeare Limited	2.96
Cash Converters International Ltd	2.69
Tiger Resources Limited	2.62
Mayne Pharma Group Ltd	2.51
Automotive Holdings Group Limited	2.49
M2 Telecommunications Group Limited	2.39
Slater & Gordon Limited	2.37
FlexiGroup Limited	2.18
Village Roadshow Limited	2.16
Austin Engineering Limited	2.13
G8 Education Limited	2.11
Maca Ltd.	2.10
Tox Free Solutions Limited	2.02
Senex Energy Limited	1.92
Bt Investment Management Limited	1.85
Acrux Limited	1.76
iiNET Limited	1.74
SFG Australia Ltd	1.73
% Assets In Top 20 Holdings	45.90
Total Number of Holdings	80

### Morningstar Stock Sectors

	Stocks %
<b>Cyclical</b>	<b>51.87</b>
Basic Materials	14.46
Consumer Cyclical	20.92
Financial Services	10.88
Real Estate	5.61
<b>Sensitive</b>	<b>41.02</b>
Communication Services	6.90
Energy	6.93
Industrials	19.71
Technology	7.48
<b>Defensive</b>	<b>7.12</b>
Consumer Defensive	0.00
Healthcare	7.12
Utilities	0.00

### Top 5 World Regions

	Stocks %
Australasia	98.77
Africa/Middle East	1.12
North America	0.11

### Top 5 Countries

	Stocks %
Australia	96.77
New Zealand	2.00
South Africa	1.12
Canada	0.11