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The Manager
ASX Market Announcements
Australian Securities Exchange Limited
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By e-Lodgement

INVESTMENT MANAGER'S MONTHLY PORTFOLIO UPDATE AS AT 31 AUGUST 2017

Contango MicroCap Limited (the **Company** or **CTN**) (ASX: CTN) wishes to provide shareholders with an update in respect of the Portfolio. Shareholders are referred to the Investment Manager's Monthly Portfolio Update as at 31 August 2017 from Bill Laister, Senior Portfolio Manager at Contango Asset Management Limited that is provided with this announcement.

Yours faithfully

Mark Kerr
Chairman

CONTANGO MICROCAP LIMITED (ASX:CTN)

MONTHLY PORTFOLIO UPDATE

MARKETS UPDATE

Economic growth in the major developed regions has converged above the 2% level, the first period of solid synchronised growth in many years. Meanwhile, inflation remains quiescent, negating the need for prompt central bank action. However, while the broader economic environment provides a positive backdrop for markets, geopolitical risk seems to be on the rise. The escalation in tensions over North Korea and its nuclear testing program following US President Trump's threat to rain "fire and fury like the world has never seen" on North Korea has served to add to anxiety.

Global equity markets were largely unchanged in August, with concerns over the escalation of tensions on the Korean peninsula offsetting the ongoing improvement in growth and earnings. Despite the imposition of further UN sanctions, the North Korean regime has continued its missile-testing program. Gold has been one of the beneficiaries of the ratcheting up of threats from both North Korea and the US while the USD has continued to soften. Global bond yields moved slightly lower on the back of surprisingly low inflation and partly because of the move towards safe havens.

The Australian equity market managed a 0.7% return in August, and while it is up 3.9% for the year to date, the domestic market has been flat since falling from its near-6000 level in early May. Since end-April, the overall market has been weighed down by concerns over a heavily indebted household sector against a backdrop of weak wages growth, tightening financial conditions, at least for housing investors, and a general lack of consumer confidence. Over this four month period the bank sector is down 8.7% while building materials -8.3%, retailers -6.6% and REITs -4.7%, have been undermined by concerns relating to consumer confidence, the threat from Amazon and the housing cycle. The pharmaceuticals sector has lost 5% since April, partly because of the surprise lift in the AUD while the telco's sector was down a further 9.7%, taking the year to date loss to 22.4%.

The best performing sectors over this period, and indeed in the past month, have been capital goods, up 14.7%, food and beverages, up 12.8%, materials up 8.8% and transport, up 6.9%. The favoured themes for investors are clearly, the recovery in the global cycle and in commodity prices, defensive growth exposures and infrastructure. Consumer facing, domestic cyclical themes have continued to struggle.

KEY DETAILS

Report Date:	31 August 2017
ASX Code (Shares / Convertible Notes):	CTN / CTNG
Listed on ASX:	25 March 2004
Investment Manager:	Contango Funds Management Ltd
Benchmark:	Small Ordinaries Index
No. of stocks held:	86
Max cash position:	50%
Stock universe:	Market cap \$30m-350m
Portfolio size:	\$201.81 million
Shares on issue:	168.088 million
NTA (Pre-tax):	\$1.033
NTA (Post-tax):	\$0.971
Share Price:	\$0.945

PORTFOLIO CHARACTERISTICS

AUGUST 2017	CTN	ASX SMALL ORDS ACCUM INDEX
Price to Earnings Ratio	15.6	17.5
Earnings growth (%)	22.5	11.6
Dividend Yield (net)	3.9	3.9
Dividend Yield (gross)	5.1	4.9
Return on Equity (%)	15.1	15.9
Beta	0.8	1.0
Tracking Error (Ex ante)	6.8	

Source: Bloomberg, as of 31 August 2017

PORTFOLIO UPDATE

The performance of the CTN portfolio was 4.1% over the quarter vs the Small Ordinaries Index return of 5.1% resulting in underperformance of 1.0%.

The month was dominated by the FY17 reporting period which can be summarised by the word “benign”. This was a similar outcome to the November AGM season where top line growth was hard to find. The positive surprise really came from the resources sector where payout ratios were increased by both the large and small cap producers. This came after a long period of debt repayment and reduced capital expenditure. The recent strength in commodity prices has resulted in solid cash flow generation, stronger balance sheets and raised dividend levels. We have also evidenced a widespread increase in capital expenditure in FY18.

Industrials saw mixed results. In general, high PE stocks that either disappointed or came in line with forecasts came under pressure while the mining services sectors reporting strong results based off a stronger FY17 capex spend by a number of resource companies. The number of Industrial companies seeing downward EPS revisions outweighed upward revisions, with the index-weighted consensus EPS revision at -2.0%.

142 companies in the ASX Small Industrials Index reported in August 2017. Post reporting, 17 companies have seen upwards consensus EPS revisions and 56 downwards revisions.

The strongest performing sectors were Consumer Staples (+6.8%), Materials (+6.3%), Energy (+5.7%) and REITS (+5.4%) while the weakest performing sectors were Healthcare (-6.2%), Consumer Discretionary (-3.0%) and Information Technology (-0.6%).

Key positive contributors for the month included **Blackham^ (+44.8%)** which rebounded post a better quarter. **Panoramic^ (+31.4%)** which benefitted from higher nickel prices driven by further closure of nickel production in China as well as Philippines. **UCW^ (+26.1%)** had a strong FY17 result with student numbers starting to accelerate. **Index^ (+23.3%)** was strong as the mining services sector continues to benefit from increased capex spend by the mining industry, supported by higher commodity prices. **Total Face Group^ (+21.4%)**, announced the potential to receive a takeover bid from an external party although at this stage the party has not been identified. **Gascoyne^ (+20.0%)** benefitted from a higher gold price driven by geo-political uncertainty and a weaker \$US. **Range International^ (+19.7%)**, announced further sales into China as well as a capital raise to allow the company time to get to targeted break even by the end of 2018.

Negative contributors for the month included **Nearmap^ (-19.6%)** which ran strongly into the release of the FY17 result. As the result was in line with forecasts, profit taking looks to be the main reason for this recent selloff. **Indoor Skydiving^ (-16.4%)**, recorded a profit result which was marginally below consensus. Most of the operations are

PERFORMANCE*

PERFORMANCE	CTN	ASX SMALL ORDS ACCUM INDEX	ADDED VALUE
3 Months	4.1%	5.1%	-1.0%
5 Years	8.2%	5.7%	2.5%
Since Inception (Mar 2004) pa	14.0%	5.3%	8.7%

Source: Bloomberg, as of 31 August 2017

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT (%)
EML	EML Payments Ltd	3.4
ENN	Elanor Investor Group	2.8
ASL	Ausdrill Ltd	2.7
VLW	Villa World Ltd	2.4
ASB	Austral Ltd	2.4
HLO	Helloworld Travel Ltd	2.1
RVR	Red River Resources Ltd	2.1
RXP	RXP Services Ltd	2.0
HPI	Hotel Property Investments	2.0
MTO	Motorcycle Holdings Ltd	1.9

Source: Bloomberg, as of 31 August 2017

SECTOR ALLOCATIONS

SECTOR	WEIGHT (%)
Materials	21.7
Financials Ex-REITs	12.3
Consumer Discretionary	11.7
Information Technology	11.3
Industrials	9.8
Health Care	8.6
REITs	5.8
Energy	3.8
Telecommunication Services	2.4
Utilities	1.9
Consumer Staples	0.0
[Cash]	10.9
[Futures]	0.0

Source: Bloomberg, as of 31 August 2017

performing to budget except the Gold Coast which continues to suffer from low turnover. **Catapult's**^ (-15.9%) FY17 result continues to show signs that the company is heading down the right track for their elite product. The launch into the Prosumer market will happen in FY18. We were hoping to get greater details this result, however it appears they will not be forthcoming until the end of FY18. The cost of establishing a retail brand continues to concern the market. **Gr Engineering**^ (-15.8%) saw Eastern Goldfields and Wolf Minerals both disputing payments to GR Engineering for a combined amount of \$9.5m. **Silver Chef's**^ (-14.5%) Gogetta business remains a problematical division. While there was no further impairment the company has tightened the lending criteria which will see slower growth in FY18.

PORTFOLIO OUTLOOK

The valuation gap that has opened up over the last 6 months between the large and small caps has started to narrow, as evidenced by the Small Cap index outperforming the Large Cap index in the last two months. The reporting period was benign at best with industrials experiencing more downgrades than upgrades. Despite this, the sector continues to outperform.

We expect recent investment themes to continue. They include ageing population and health needs, servicing the NBN, digitalization, food via "brand Australia", IT disruptors, tourism and leisure, vehicle electrification and battery storage, SMSF and choice within superannuation and mining via industrial minerals.

BENEFITS FROM INVESTING IN MICRO CAP STOCKS THROUGH CONTANGO MICROCAP

- **Sector diversification.** Most investors are unknowingly over-exposed to the Financials sector which is overrepresented in the ASX100.
- **Economic cycle diversification.** Micro-cap stocks behave differently to large cap stocks at different stages of the economic cycle.
- **Exposure to companies with relatively low debt.**
- **Exposure to a large number of companies** which offers a greater opportunity set in which to invest.
- **Access to IPOs and discounted capital raisings** that are usually out of reach of the individual investor.

WHO MANAGES CTN'S PORTFOLIO?

Contango Asset Management Limited (**CGA**) is CTN's portfolio manager via its subsidiary Contango Funds Management Limited. Bill Laister is the Senior Portfolio Manager for the MicroCap strategy and has over 33 years' industry experience. Bill is supported by a Deputy MicroCap Portfolio Manager and a large investment team lead by the Chief Investment Officer (CIO) George Boubouras. CGA's investment team has over 250 years' collective experience in the Australian equities market, the largest for a MicroCap manager in Australia. Further, **CGA** manages equity mandates for institutional, listed managed ETFs and LICs. As the manager, CGA is a high performing Australian funds management company that offers both core and

satellite portfolio solutions that cover the entire market capitalisation range. CGA is listed on the ASX.

HOW DOES CGA MANAGE THE PORTFOLIO?

CGA is a top-down and bottom-up manager. The manager uses a business cycle approach to generate alpha (persistent out-performance) by systematically incorporating economic, industry and stock specific factors into the portfolio construction process. The manager uses a proprietary research process developed over many decades with a proven long term track record.

CGA's investment strategy has been highly successful at delivering superior outcomes for clients over a long period of time and the company is proud of its long-term performance.

31 August 2017



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NOTES

* Gross performance does not reflect the impact from fees, taxes and charges. Past performance is not a predictor of future returns.

^ Denotes stocks not held in portfolio.

DISCLAIMER: This update has been prepared for information purposes only related to the underlying investment portfolio. It does not contain investment recommendations nor provide investment advice. CTN only provide NTA values via the monthly NTA statement that is released through the ASX. There may be errors in this document and the data provided within, you are to refer to audited statements and data officially released via the ASX. Investors in LICs should understand the distinction between Investment Portfolio Performance, NTA Performance and Share Price return. Contango Funds Management Limited (CFML) ABN 52 085 487 421 AFSL No. 237119 is the investment manager of CTN. Neither CTN, CFML nor their respective related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested within CTN or any associated product or Fund. You are strongly encouraged to obtain detailed professional advice and to read any relevant offer document in full before making any investment decision. CTN and any CFML investment fund identified in this document may not be suitable for your investment needs. This is not an offer to invest in any security or financial product.