

Contango Microcap Limited (CTN)

ABN 47 107 617 381

MONTHLY INVESTMENT REPORT AND NTA UPDATE

October 2017



KEY CHARACTERISTICS

1. Concentrated Small Cap Exposure with a Long Term Value Focus

CTN seeks to provide investors with exposure to high quality, undervalued small cap companies (market capitalisation generally >\$20 million to <\$1 billion) with an industrial bias in a concentrated structure.

2. Sustainable Growing Dividends

CTN's dividend policy is to build a sustainable stream of dividends franked to the maximum extent possible.

3. Focus on Quality of Companies Not Quantity or Size

Our primary focus is on developing a deep understanding and appreciation of the companies in our portfolio. We believe the best way to achieve this is to focus on a select number (target 0-20) of high quality investment ideas in order to capitalise on our 'long term information advantage' & 'liquidity advantage'.

4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions.

5. Significant Alignment of Interests with Shareholders

NAOS Directors have established initial shareholdings in CTN and intend to create meaningful positions, providing shareholders with a significant alignment of interests.

6. Environmental, Social and Governance (ESG) NAOS adopts an ESG Screen across all our investments.

Net Tangible Asset Value Breakdown as at 31 October 2017

Pre Tax NTA:	\$1.04
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.02
Post Tax NTA:	\$0.97
Share Price:	\$0.905

Investment Portfolio Performance & Market Insight

It is with great pleasure and excitement that I report to you on the first month's (part month) performance for the Contango MicroCap Fund (CTN) and also report to you as a fellow shareholder. NAOS has only been managing CTN for a couple of weeks but pleasingly significant progress has been made with minimal effect on the NTA of CTN. All decisions that the investment team has made and will make is with a clear focus on positioning the CTN portfolio as best we can to generate strong sustainable returns over the long term. The Pre-Tax Net Tangible Asset Backing (NTA) of CTN increased by \$0.01 over October to finish the month at \$1.04.

As investors will note, the investment portfolio performance that would normally be included has been removed temporarily from this report as well as several other key statistics that NAOS would normally provide within our Investment Reports (such as Standard Deviations and Equity Exposure Charts). Following an orderly transition of the investment portfolio we anticipate that from the 1st of December 2017 we will be able to provide all of the usual information that would be regularly found within the Investment Reports of NCC and NAC. If you wish to be added to the NAOS distribution list for this report please sign up via our website www.naos.com.au or email us directly at enquiries@naos.com.au

The NAOS investment philosophy is built around seven main pillars being 1) value focused 2) quality over quantity 3) invest for the long term 4) management alignment 5) ignore the index 6) pure exposure to industrials; and 7) environmental social and governance. As many investors would understand, and have conveyed to NAOS recently, a significant portion of the inherited CTN portfolio does not represent a clear reflection of the principles of the NAOS investment philosophy. To provide clear transparency for all shareholders, I can report that the number of portfolio holdings has decreased from 83 to 68 as at the end of October, with further progress being made already in November. It is important to note that this figure includes a small number of new positions that the Investment Team entered into in late October. The cash balance has also increased from circa 10% in September, to 34.50% by the end of October.

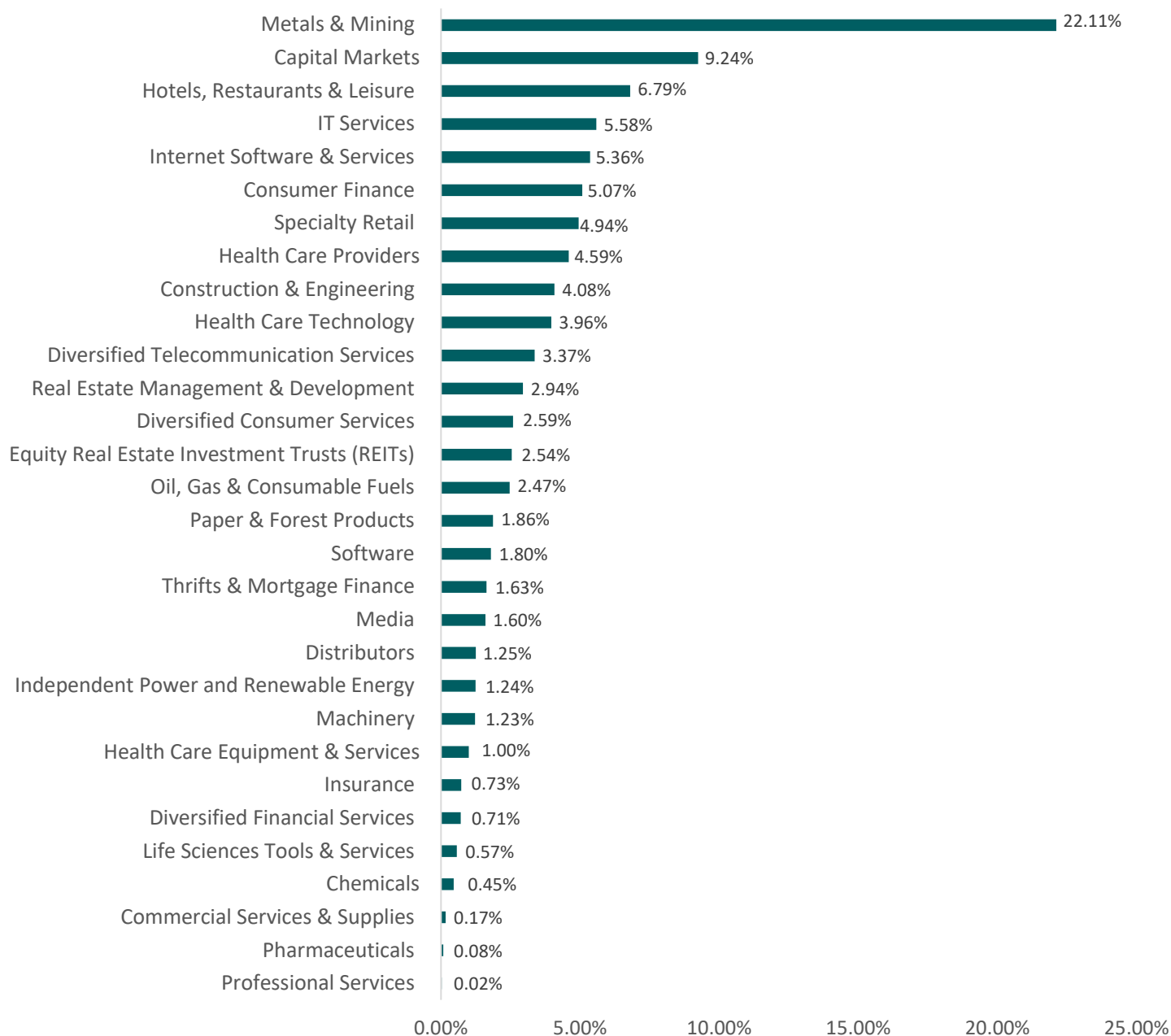
Looking forward, it is worth highlighting a number of notable developments that have occurred within the NAOS investment universe, some of which may represent excellent long-term investment opportunities for the CTN Investment Portfolio. Firstly, Enero Group (ASX: EGG) held its Annual General Meeting, and released a number of key items including long term financial targets, updates on potential acquisitions, as well as a dividend policy. Secondly, Billabong (ASX: BBG) has been mentioned as a potential suitor for competitor Rip Curl as well as online surf wear retailer Surf Stitch (ASX: SRF). If BBG were to acquire these two businesses it would mean that 3 out of the large 4 surf wear retailers were now owned by somewhat interlinked businesses i.e. BBG, Rip Curl and Quiksilver. Thirdly, Pro-Pac (ASX: PPG) announced the completion of its acquisition of Integrated Packaging Group. PPG now has a significant task on its hands to give the market evidence that it can grow the revenue base organically, as well as achieve the synergy targets the market expects to see. Finally, Moelis & Co (ASX: MOE) announced that it had acquired a strategic stake in listed aged care operator Japara (ASX: JHC); although still a minority interest we believe that JHC may well represent a foundation for MOE to build a much greater funds management exposure to the aged care sector, which has significant demographic tailwinds.

Finally, NAOS would like to thank all existing and new CTN shareholders who we have met with through our national roadshows over the past weeks. We look forward to meeting many more of you at future NAOS events. Thank you again for your continued support and I look forward to providing a further report on our progress within the November Investment Report.

Portfolio Positioning as at 31 October 2017 & 7 November 2017.

As at 31 October 2017, the portfolio's net equity exposure was 65.50% with a subsequent cash weighting of 34.50%. As at month end, the portfolio was comprised of 76 long positions and no short positions. As at 7 November 2017 the portfolio comprised of 48 long positions and no short positions with a net equity exposure of 57.75% and a subsequent cash weighting of 42.25%.

Net Industry Exposure



Company Meetings

The NAOS investment philosophy is based around the belief that for an emerging company to succeed and generate strong returns for shareholders it must be led by a motivated, proven and experienced management team. This is why the NAOS Investment Team has direct contact with many listed and unlisted emerging companies across a wide range of industries. A selection of the companies the team had contact with during the month were as follows:

- Money3 Corporation (MNY AU)
- Consolidated Operations Group (COG AU)
- Praemium Ltd (PPS AU)
- Enero Group Ltd (EGG AU)
- BSA Limited (BSA AU)
- Australian Ethical Investment Ltd (AEF AU)
- Pro-Pac Packaging Ltd (PPG AU)
- Tandem Corp Ltd (IPO)
- Australian Finance Group (AFG AU)
- WPP AUNZ Ltd (WPP AU)

Portfolio Characteristics – Summary Data as at 31 October 2017

As mentioned earlier in the report, below are a number of historical portfolio risk measures we will ordinarily provide in our monthly investment reports from 1 December 2017. Our aim in providing these metrics is to demonstrate to investors how CTN is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

Portfolio Weighted Average Market Capitalisation	\$184.20 million
Percentage of Positive Months (CTN)	N/A
Percentage of Positive Months (XSOAI)	N/A
Standard Deviation of Returns (CTN)	N/A
Standard Deviation of Returns (XSOAI)	N/A
Correlation of Returns to XSOAI	N/A
Sortino Ratio	N/A
Downside Deviation (CTN)	N/A
Downside Deviation (XSOAI)	N/A
Current Estimated Portfolio Beta (6 Month Historical)	N/A

Capital Structure – Summary Data as at 31 October 2017

Share Price	\$0.905
Premium/(Discount) to NTA (Pre-Tax)	(-12.98%)
Shares on Issue	168,995,806
CTN Directors Shareholding (Ordinary Shares)	155,400
Convertible Notes on Issue (CTNG)	265,000
Convertible Note Price	\$101.00

A Description of Statistical Terms/Glossary

Portfolio Average Market Capitalisation – The portfolio weight of each individual position multiplied by each company's respective market capitalisation.

Standard Deviation of Returns – A historical analysis of the volatility in monthly returns also known as historical volatility.

Correlation of Returns – A statistical measure of how two variables move in relation to each other. In this case the two variables are CTN and XSOAI. If the correlation is 1 then the two securities should have the same monthly returns and if the correlation is -1 and XSOAI had a return of -1.00% then CTN would be expected to have a return of +1.00%

Sortino Ratio – A modification of the Sharpe ratio that differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation. A large Sortino Ratio may potentially indicate that there is a low probability of a large capital loss. Returns less than that of the benchmark (Small Ordinaries Accumulation Index - XSOAI) are classified as negative asset returns.

Downside Deviation - A measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR). For our calculations, we use returns negative to zero for the calculation of portfolio downside deviation.

Portfolio Beta – A measure of the volatility, or systematic risk of a portfolio or security. A beta of 1 indicates a portfolio/security's price will move with the market. A beta of less than 1 indicated that a security/portfolio should be less volatile than the market.

XSOAI – Small Ordinaries Accumulation Index

Important Information:

This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

CORPORATE DIRECTORY

Directors

Trevor Carroll (Independent Chairman)
Adrian Fitzpatrick (Director)
Ken Poutakidis (Director)
Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Rajiv Sharma & Hari Morfis

Registered Office

Level 27
35 Collins Street
Melbourne VIC 3000

Share Registry

Computershare Investor Services Pty Ltd
452 Johnston Street
Abbotsford VIC 3067
Telephone: 1300 787 272

Investment Manager

NAOS Asset Management Limited
Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000
(AFSL: 273529)

Investment Team

Sebastian Evans (Chief Investment Officer)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)
Chadd Knights (Investment Analyst)

Chief Financial/Operating Officer

Richard Preedy

Senior Legal Counsel

Rajiv Sharma

Communications & Marketing

Megan Walker

Business Development Manager

Julia Stanistreet

ENQUIRIES

Julia Stanistreet
Telephone: (02) 9002 1576
Email: jstanistreet@naos.com.au

Megan Walker

Telephone: (02) 9002 1577
Email: mwalker@naos.com.au
Email: ctn@naos.com.au

www.naos.com.au