Contango MicroCap Limited
ABN 47 107 617 381

INVESTMENT COMMENTARY

Quarterly Update
December 2011

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Dear Fellow Shareholder

INVESTMENT UPDATE - DECEMBER QUARTER 2011

CHAIRMAN'S COMMENT

The value of the CTN portfolio increased by 1.5% over the December quarter. This compares to a rise of 1.9% for the All Ordinaries Accumulation Index and a fall of 0.6% for the Small Ordinaries Accumulation Index. Over the quarter, CTN's share price increased by 2.9% and traded in a range of $0.865 to $0.89. The NTA rose by 1.1% over the quarter.

After a promising start, the market reached 5000 in April only to pull back substantially over subsequent months reaching a low of 3890 in September. The market ended the year 5% off its lows. Quantitative easing by the US Fed supported markets in the early part of the year however confidence was undermined by the deterioration in the economic outlook for the US and China and heightened financial stresses in Europe.

By the final quarter, the economic data out of the US was surprising on the upside and there were clear signs that China was easing policy to stimulate the economy. Although the problems in Europe are deep seated, the ECB's most recent actions to provide liquidity support to banks has lessened the risks of a liquidity crisis. These moves have allowed markets to recover modestly. Whilst the European crisis is not behind us yet, there are signs that policies are moving in the right direction.

CTN has a resources orientated portfolio. Signs of improving conditions in US and China along with easier monetary conditions in Europe are welcome developments that should be supportive of the Australian resources sector.

OVERVIEW

Although global equity markets posted gains in the December quarter, this followed sharp falls in the September quarter and capped off a volatile and tough year for equities. Developments in Europe were again a key focus of the December quarter, with the sovereign debt concerns shifting to larger and more important economies, particularly Italy. On a more positive note, concerns about the US economy receded somewhat during the quarter, as the economic data proved more resilient than expected. This helped the US S&P 500 to record a strong gain in the December quarter.

Following a series of summits, eurozone nations agreed on several measures to aim to alleviate the sovereign debt crisis and the European Central Bank cut its policy interest rate to 1.0% and importantly expanded its funding support for banks. In addition, six major central banks lowered the cost of US dollar swap funding to reduce funding pressure on European banks.

Nevertheless, pressure still remains for Europe with Italy's 10-year bond yield rising to a level which has been associated with extreme funding difficulty for other sovereigns. Several prime ministers in the region were forced to resign, while Standard and Poor's put six AAA eurozone members on credit watch negative and Fitch lowered France's rating to a negative outlook. The Australian market underperformed global equities, as concerns about Chinese economic growth negatively influenced equities.

PERFORMANCE

Performance of underlying portfolio	1m %	3m %	6m %	1Yr %	2 Yrs %pa	3 Yrs %pa	5 Yrs %pa	Since Inception[1] %pa
CTN Investment Portfolio[1]	-3.5	+1.5	-14.3	-17.9	+1.7	+20.1	+4.1	+19.4
All Ords Accum. Index	-1.6	+1.9	-9.6	-11.4	-4.4	+8.5	-2.1	+6.8
Small Ords Accum. Index	-4.3	-0.6	-12.3	-21.4	-5.8	+11.8	-5.2	+5.5

Refer notes and disclaimer. Inception 25 March 2004. Past performance is no indication of future performance.

During the December quarter the underlying investment portfolio generated a return of +1.5%, in line with the ASX All Ordinaries Accumulation and outperforming the ASX Small Ordinaries Accumulation Index.

At 31 December the Net Tangible Asset (NTA) value of the investment portfolio was $1.22 per share, an increase of 1.08% as against the September 30 NTA of $1.207.

The CTN share price outperformed both the aforementioned ASX Indices, increasing by 2.9% from $0.865 to at $0.89.

The CTN discount to NTA narrowed from 28.3% to 27.0% during the quarter.

DIVIDEND INFORMATION

Proposed and undeclared dividends for FY12 remain 8.5 cents.

- 3.8 cents Interim Dividend proposed to be paid in March 2012
- 4.7 cents Final Dividend proposed for payment in October 2012
- Equivalent 12m Div Yield at 31.12.11 price is 9.55%

Further details of these proposed dividends will be made closer to the date including the level of Franking that will be attached to these dividends.

At the 2011 AGM the CTN Board was asked if it could bring forward its dividend payment dates. CTN is considering its position in relation to this and while shareholders would benefit from being paid their dividend sooner, bringing forward a dividend may impact the ability and/ or the volume of franking credits which can be attached to it.

The franking of CTN’s dividends depends on having sufficient franking credits sourced from either the dividends it receives from its investments or from paying tax on its profits.

Additionally, a recent ATO ruling provided an effective pre-requisite for franking being that a company pays such out of profits. This means that should CTN fail to make a profit, it could pay a dividend but that it may not be able to be franked. This ruling is currently under review and CTN will seek its own tax advice should such a scenario emerge.

Since declaring its first dividend in December 2004, CTN has paid a total of 54.7 cents per share in fully franked dividends to shareholders amounting to a total payout of over $51.8m.

PORTFOLIO STRUCTURE

There wasn't much change in the sector skews during the December quarter (following several changes in the previous quarter), although there were several stock changes. The Energy sector was added to slightly (from 11.6% to 13.6%) while the Materials sector was reduced slightly (from 35.9% to 34.5%). Most other sector weights were held steady.

Importantly, the cash weight of the portfolio was reduced from 6.0% in September to a nearly fully invested position of only 2.0% in December. Most of the market exposure was achieved through the increase in SPI futures contracts,

OUTLOOK

Global economic and financial market developments are continuing to influence the Australian equity market. The debt challenges in Europe will remain for some time, but recent policy initiatives look to have taken out some of the major downside risks. Nevertheless, global uncertainty remains elevated and European sovereign debt auctions early in 2012 will again test markets.

The US economic data has proven resilient and while we expect the US to grow at a sub-trend pace, the economy is still expected to grow solidly over the coming year. The outlook for China is mixed, but they have ample policy options to get economic growth improving again by the middle of 2012. This is also true for many other emerging economies (and Australia) which can loosen monetary policy to help offset some of the effects of a slower global economic backdrop.

In summary, while global economic conditions remain subdued and risks remain elevated, the ability of monetary policy to be loosened in emerging nations (and Australia) and remain low in developed economies should support global equity markets in 2012.

Yours sincerely

David Stevens

David Stevens
Chairman

Notes:
[1]CTN performance is of the underlying portfolio before fees, taxes and charges. Past performance is not necessarily indicative of future performance. All data is to 31 December 2011. Inception date 25/3/04.

Europe Under The Spotlight

Global Overview

Although global equity markets posted solid gains in the December quarter, this followed sharp falls in the September quarter and capped off a volatile and tough year for equity markets.

Developments in Europe were again a key feature of the December quarter, with the sovereign debt concerns shifting to larger and more important economies, particularly Italy.

Concerns about the US economy receded somewhat during the quarter, as the economic data proved more resilient than expected. This helped the S&P 500 to record a strong gain in the December quarter (11.2%) and round out the year flat (which meant it out performed other major markets).

Even European markets improved in the December quarter (the German index was up 7.2%), although this followed some significant falls in the previous quarter and they ended the year down. The quarterly rise was aided by some coordinated policy responses which took out some of the downside risks of the European sovereign debt concerns.

Asian markets generally fared poorly as the Chinese economy showed signs of easing and concerns about European economic growth weighed on prospects for Asian exports. This saw the Shanghai Composite decline 6.8%, while the Indian index was down 8.7%.

Global Indices	1 mth	3 mth	12 mth
ASX 300*	-1.4%	2.1%	-11.0%
Dow Jones Industrial	1.4%	12.0%	5.5%
S&P 500	0.9%	11.2%	0.0%
NASDAQ Index	-0.6%	7.9%	-1.8%
Nikkei 225 Index	0.2%	-2.8%	-17.3%
Hang Seng Index	2.5%	4.8%	-20.0%
Shanghai Composite Index	-5.7%	-6.8%	-21.7%
FTSE 100	1.2%	8.7%	-5.6%
German Aktien Index (DAX)	-3.1%	7.2%	-14.7%
France CAC40	0.2%	6.0%	-17.0%
India BSE 200 Index	-5.2%	-8.7%	-27.0%
MSCI World ex Aust (hedged)	0.7%	8.0%	-5.3%
MSCI World ex Aust (unhedged)	0.2%	2.0%	-5.3%

* Total Return

The Australian market (up 2.1%) underperformed global equities, as concerns about Chinese economic growth negatively influenced markets here.

Europe was again under the spotlight this quarter. Following a series of summits, eurozone nations agreed on measures which aimed to alleviate the sovereign debt crisis. These measures included a 9% bank core tier 1 ratio to be achieved by June 2012, 50% haircuts on private sector Greek debt holdings and they agreed to adopt tougher budgetary reforms.

Other positive developments were the European Central Bank (ECB) cutting its policy interest rate to 1.0% and, importantly, expanding its funding support for banks including 3-year liquidity tenders. In addition, six major central banks lowered the cost of US dollar swap funding to alleviate funding pressure on European banks.

Nevertheless, the pressures still remain for Europe. Italy’s 10-year bond yield rose steeply in October and November, breaking the 7% threshold which has been associated with extreme funding difficulty for other sovereigns. Several prime ministers in the region were forced to resign, while Standard and Poor’s put six triple-A eurozone members on negative credit watch and Fitch lowered France's rating to a negative outlook.

Turning to China, September quarter GDP grew by 9.1% over the year, coming in below expectations of 9.3%. After rising above the key level of 50 to 51.0 in October, the Markit manufacturing PMI finished at 49.0 in December. Combined with lower inflationary readings (CPI increased by 4.2% in the year to November, down from 6.3% in August), the more moderate economic readings provided the People’s Bank of China (PBoC) with justification to begin easing monetary policy. The PBoC cut its reserve requirement ratio in November by 50 basis points to 21% for large banks, the first cut since December 2008.

Also in China, the Ministry of Housing and Urban-Rural Development set an affordable housing starts target for 2012 of 7 million, down 30% from the 10 million target in 2011 and below consensus expectations of 8 million homes.

Global Interest Rates / Credit markets

The US 10-year bond yield was little changed over the fourth quarter, while Eurozone bonds were mixed. German 10-year bond yields declined 6 basis points, while French long rates increased 54 basis points.

The main focus of attention was Italy, where the benchmark rate increased 142 basis points in the December quarter. During the quarter, the rate broke through the 7% threshold on several occasions, which is associated with severe funding challenges. Spanish and Belgium bond yields also rose sharply during November, but returned to more sustainable levels at the end of the quarter.

Interest Rates	Level	1 mth	3 mth	12 mth
AUS UBS Composite Bond	6,917.77	0.8%	1.9%	11.4%
AUS UBS Bank Bill Index	7,441.71	0.4%	1.2%	5.0%
	%	*basis point change*		
AUS Cash Rate	4.25	-25	-50	-50
AUS 90 day Bank Bill rate	4.47	-5	-31	-49
AUS 10 year Bond yield	3.67	-27	-57	-184
US Federal Funds rate	0.25	0	0	0
US 30 year Bond yield	2.90	-18	-2	-144
US 10 year Bond yield	1.88	-21	-4	-141

The Australian 10-year bond yield fell in the December quarter (by 57 basis points), as it did in each of the three preceding quarters. This marks 2011 as the first year since 1995 where the benchmark long rate has declined in every quarter of the year. Indeed the 10-year bond yield hit a record low in December. Changes to short term interest rate expectations played a role in this and was helped by the two official Reserve Bank of Australia (RBA) interest rate cuts.

Exchange Rates

Despite better US economic data and the problems concerning Europe, the US dollar failed to significantly build on its strong third quarter. The US dollar shifted with market sentiment during the quarter, falling sharply amid stronger risk markets in October, only to recoup this ground by year end.

Exchange Rates	Level	1 mth	3 mth	12 mth
AUD/USD	1.0216	-0.7%	5.7%	-0.1%
AUD/YEN	78.549	-1.6%	5.5%	-5.4%
EURO/USD	1.2944	-3.7%	-3.4%	-3.3%
AUD/EUR	0.7893	3.2%	9.4%	3.3%
AUST TWI	75.8	1.6%	4.7%	0.0%

The euro was weaker over the quarter, ending below the US$1.30 mark for the first time since January 2011. It also breached its lowest level since December 2000 against the yen (closing levels), finishing at the low of ¥99.66.

The Australian dollar gained against the US dollar (by 5.7%), but this was from the low starting point of late September. For most of the fourth quarter the Australian dollar fluctuated around parity with the US dollar. The concerns in Europe drove the Australian dollar up by 9.4% against the euro.

Commodities

Commodity prices were mixed over the quarter, with a large rise in oil prices, a sharp decline in aluminium and broadly flat nickel prices.

Oil prices rose strongly over the quarter (25.9%) but most of the rise occurred early on and then it spent most of the quarter range bound with a downward bias. Spot Brent oil crossed the US$110 mark seven times (closing values) and supply appeared to be a support with the Brent curve staying in backwardation (spot above forward).

Despite a volatile market backdrop, the spot gold price was down in the December quarter (-3.7%). Weak investor demand was cited as a pressure, although ETF holdings grew strongly by 3.5 million ounces over the quarter.

Commodities	Level	1 mth	3 mth	12 mth
Gold (US$/oz)	1,563.70	-10.5%	-3.7%	10.2%
Oil WTI (US$/bbl)	98.86	-1.5%	25.9%	8.3%
Aluminium (USc/lb) LI	89.38	-0.3%	-10.7%	-19.9%
Copper (USc/lb) LME	342.64	2.0%	5.9%	-22.4%
Nickel (USc/lb) LME	829.17	7.9%	-0.1%	-26.8%
MG Metals Index	333.20	-0.7%	-2.3%	-23.0%

Base metals were mixed with copper (up 5.9%) recouping some of its third quarter losses, while aluminium was a clear laggard (-10.7%) and nickel was flat (-0.1%).

Spot iron ore caught up with the correction sustained by other industrial metals in the prior quarter (Tianjin 62% fines fell 19.1%), although its failure to stay below $120 per tonne was interpreted as showing that high-cost Chinese output may act as a floor around this level.

Drier conditions in South America reduced supply and increased prices of many soft commodities during the quarter, including corn (up 9.1%) and wheat (up 7.1%).

US Economic Developments

The US economic data releases generally showed an economy that was proving resilient, but still growing at a sub-par pace.

The Federal Open Market Committee lowered its GDP forecast range for 2012 from 3.3-3.7% to 2.5-2.9%. Looking at fiscal policy, the US congressional Super Committee failed to agree on a plan to cut the deficit by $1.2 trillion over 10 years, but Congress passed a $1.0 trillion spending package which averted a government shutdown and it extended a payroll tax cut for 2 months and extended other benefits.

The US economy grew by an annual rate of 1.8% in the September quarter and sentiment surveys were mixed, but generally better than had been anticipated. The ISM manufacturing index rose to 52.7 in November from 50.6 in August but the non-manufacturing index fell to 52.0 from 53.3.

Gains in non-farm payrolls totalled 430,000 from August to November, which helped the unemployment rate ease from 9.1% to 8.6%.

Annual CPI fell from 3.8% in August to 3.4% in November, but core CPI (excluding food and energy) rose from 2.0% to 2.2%.

Housing starts data was more positive towards the end of the quarter, recording the highest annualised level since April 2010.

The consumer sector remains solid in the US. The Conference Board consumer confidence index hit an eight-month high in December at 64.5 (well above expectations of 58.9). But retail sales grew less than expected in November at just 0.2% after gaining 0.6% in October.

US Sector Performance

The fourth quarter of 2011 saw the S&P 500 index rise strongly (up 11.2%), making back the majority of its loss in the third quarter and ending the year flat.

This was despite a high level of volatility, with the VIX index of implied volatility averaging 30 for the December quarter compared with 18 in the first half of the year and to the decade average of 22.

A firmer tone to economic data supported cyclical sectors such as Materials (+14.7%) and Industrials (+15.7%), although Financials (+10.2%) lagged for the fourth straight quarter.

US Sector Performance	1 mth	3 mth	12 mth
Energy	-1.1%	17.6%	2.8%
Materials	-2.4%	14.7%	-11.6%
Industrials	0.9%	15.7%	-2.9%
Consumer Discretionary	1.0%	12.0%	4.4%
Consumer Staples	2.4%	9.4%	10.5%
Health Care	2.8%	9.3%	10.2%
Financials	1.6%	10.2%	-18.4%
Information Technology	-0.9%	8.4%	1.3%
Telecommunication Servi	3.7%	6.4%	0.8%
Utilities	3.0%	7.2%	14.8%
S&P 500	0.9%	11.2%	0.0%

The Energy sector (17.6%) followed oil prices higher and Consumer Discretionary (12.0%) moved higher in the quarter. Laggards were the more defensive sectors of Telco Services (6.4%), Utilities (7.2%), Healthcare (9.3%) and Consumer Staples (9.4%), although all sectors recorded positive gains.

Domestic Economic Developments

Domestic economic conditions remain moderate outside of the mining sector.

The main policy development during the quarter was the change in course by the RBA. Having remained on hold for a year, the RBA cut its cash interest rate target in November and December, taking it to 4.25%, citing the risks posed by sovereign debt stress in Europe and the potential risk to the global and domestic economic outlook. In addition, the RBA's forecast for underlying inflation (trimmed mean) for the year to December 2012 fell markedly from 3.25% to 2.5%.

Employment growth remained moderate, with around 30,000 jobs added from August to November, while the unemployment rate remained steady at 5.3%.

Indicator	Outcome
Employment change, persons, mom, Nov	-6,300
Unemployment rate, %, Nov	5.3
Consumer confidence, index, Dec	94.7
NAB business confidence, index, Nov	+2
RBA cash rate, %, Dec	4.25
Credit growth, %, mom, Nov	0.3

The Australian economy expanded at a solid pace in the September quarter, with GDP up 2.5% over the year. This was driven primarily by investment activity (and within this particularly mining related). Reflecting this, gross fixed capital formation added 2.1 percentage points to the growth, the largest contribution on record.

The Westpac-Melbourne Institute consumer sentiment index was little changed over the quarter. The December reading ended below the important level of 100, while the NAB business confidence index rose to +2 in November from -9 in August.

Australian Equity Market

The ASX 300 recorded a modest gain during the quarter, ending up 2.1%. Despite this rise, the Australian market ended the year down 11.0%. The volatility and negativity that pervaded much of 2011 is evidenced by the fact that eight of the twelve months were negative for the Australian index.

Despite the rise in the broader index, the Resources index lagged (-2.5%) as concerns over Chinese growth intensified. Industrials (4.0%) performed better, while Small Ordinaries fell over the quarter (-0.6%).

Accumulated Australian Indices	1mth	3mth	12mth
ASX 200	-1.4%	2.1%	-10.5%
ASX 300	-1.4%	2.1%	-11.0%
ASX 300 Industrials	-0.1%	4.0%	-3.8%
ASX 300 Resources	-4.7%	-2.5%	-25.0%
All Ordinaries	-1.6%	1.9%	-11.4%
Small Ordinaries	-4.3%	-0.6%	-21.4%

Market volatility, concerns over global growth and in particular signs that China's momentum may be easing contributed to a sub-par showing from the mining-heavy Materials index (-2.9%).

However, Banks fared better as credit spreads eased from the end of September quarter highs, helping Financials to record a 5.3% increase.

Global uncertainty and equity market risk aversion saw the defensive sectors outperform. For example, Utilities (+8.3%), Telecommunications (+7.0%) and Health Care (+5.1%) all outperformed the index. Interestingly, this was the opposite of what happened in the US, with defensive sectors underperforming there.

The laggard sectors were Consumer Staples (-2.9%) and Consumer Discretionary (-0.6%), which both fell despite the interest rate cuts during the quarter. The retailing sector continues to get battered by a cautious consumer, online retailing and a shift in consumer preferences towards services.

Corporate news offered little to offset a difficult economic background. Annual general meeting commentary was mixed, with a number of companies lowering market expectations over the quarter as trading conditions remained difficult.

Australian Sector *	1 mth	3 mth	12 mth
Materials	-4.1%	-2.9%	-24.1%
Consumer Discretionary	-3.9%	-0.6%	-17.1%
Consumer Staples	-1.3%	-2.9%	-0.4%
Energy	-5.1%	1.9%	-20.8%
Financial	0.0%	5.3%	-4.4%
Financial (ex LPT's)	0.6%	5.5%	-5.0%
Healthcare	1.7%	5.1%	-9.1%
Industrials	-0.9%	6.4%	-7.8%
Information Technology	-0.9%	0.9%	-24.9%
Property Trusts	-2.6%	3.8%	-1.6%
Telecoms	5.1%	7.0%	29.2%
Utilities	3.8%	8.3%	9.5%
S&P/ASX300	-1.4%	2.1%	-11.0%

*As at 31 December 2011. Source: Iress * Total return*

Australian Equity Market – Outlook

Global economic and financial market developments are dominating the Australian equity market.

The debt challenges in Europe will remain for some time, but recent policy initiatives look to have taken out some of the major downside risks. Nevertheless, global uncertainty remains elevated and European sovereign debt auctions early in 2012 will again test markets.

Although European developments have dominated the headlines, the US economic data has proven resilient and we expect the US to grow solidly over the coming year.

The recent economic data for China has been mixed, but China has ample policy options to promote stronger economic growth in 2012. This is also true for many other emerging economies which can loosen monetary policy to help offset some of the effects of a slower global economic backdrop.

Although the RBA has eased monetary conditions to a more neutral setting, the positive impact on the economy may be muted by the ongoing global uncertainty and cautious nature of Australian consumers.

In summary, while global economic conditions remain subdued and risks remain elevated, the ability of monetary policy to be loosened in emerging nations (and Australia) and remain low in developed economies, should support global equity markets.

MicroCap Overview

Smaller companies (-0.6%) underperformed larger companies (+2.3%) for the quarter. For the calendar year, smaller companies (-20.4%) underperformed larger companies (-9.8%) by a significant margin.

Given the underperformance of smaller cap and microcap companies over the year, we find valuations incredibly supportive currently. PEs of companies in the sector are cheap compared to the broader market.

In Resources, many microcap companies are currently trading at around a 50% discount to their net present values (NPVs).

Our preferred commodities continue to be in the industrial minerals such as mineral sands, titanium dioxide, zircon and chrome. Gold stocks have increased in our preferred rankings, mainly due to the fact that they were sold off aggressively in December and are consequently showing good value.

The improving US economic data released during the quarter causes us to have a favourable view on oil and gas as commodities (the portfolio is overweight this sector now compared to the previous quarter end).

Having reached close to US$180/tonne a few months ago, the iron ore price eased back to about US$135/tonne in the last couple of months of 2011 where it has stabilised. We view the supply/demand dynamic as favourable for iron ore pricing out to 2016 currently, and hence are quite comfortable with this commodity.

The weaker and uncertain environment meant that like the previous quarter, there were very few equity raisings in the December quarter.

Macro issues, particularly out of Europe, continue to dominate headlines and are influencing investor behaviour and the pricing of assets. Our prevailing view is not an exceedingly bearish one, and within that backdrop, we see the microcap space as cheap with potential to deliver good returns going forward.

Portfolio Overview

The Contango MicroCap portfolio (+1.5%) outperformed the Small Ordinaries return of (-0.6%), but underperformed the All Ordinaries return of (+1.9%) in the December quarter. The calendar year performance of the portfolio is -17.9% versus -21.4% for the Small Ordinaries return and -11.4% for the All Ordinaries.

Period (% p.a)	Contango MicroCap Portfolio	All Ords Accum	Small Ords Accum
1 Month	-3.5%	-1.6%	-4.3%
3 Months	1.5%	1.9%	-0.6%
6 Months	-14.3%	-9.6%	-12.3%
1 Year	-17.8%	-11.4%	-21.4%
2 Years pa	1.7%	-4.3%	-5.8%
3 Years pa	20.1%	8.5%	11.8%
5 Years pa	4.1%	-2.1%	-5.2%
Since Inception pa	19.4%	6.8%	5.5%

NB Inception March 2004. Data is of the underlying investment portfolio. CTN performance is a gross number which does not adjust for fees, cost or tax paid. Past performance provides no certainty of future outcomes.

There wasn't much change in the sector skews during the December quarter (following several changes in the previous quarter), although there were several stock changes. The Energy sector was added to slightly (from 11.6% to 13.6%) while the Materials sector was reduced slightly (from 35.9% to 34.5%). Most other sector weights were held steady. Importantly, the cash weight of the portfolio was reduced from 6.0% in September to a nearly fully invested position of only 2.0% in December. Most of the market exposure was achieved through the increase in SPI futures contracts,

Sector Weightings (%)	Sep-11	Dec-11
Energy	11.6%	13.6%
Materials	35.9%	34.5%
Industrials	24.8%	24.6%
Consumer Discretionary	4.2%	4.2%
Consumer Staples	0.0%	0.0%
Healthcare	0.6%	0.9%
Financials	6.7%	5.3%
Information Technology	2.6%	2.8%
Telecommunications	1.9%	1.5%
Utilities	0.7%	0.6%
SPI	5.0%	9.8%
Cash	6.0%	2.0%

Notable new names added to the portfolio over the quarter included Red Fork Energy, Northern Iron, Panoramic Resources, Perilya, Stanmore Coal, Ausenco, and iProperty Group.

Red Fork Energy is an exciting energy story in its early phase, with operations in Oklahoma. Northern Iron was reintroduced into the portfolio post a discounted capital raising at a cheap valuation. Other discounted raisings that the portfolio participated in included Perilya to fund the company's growth aspirations, and Stanmore Coal to increase the portfolio's exposure to coal. Panoramic Resources was introduced to increase the portfolio's exposure to nickel (Poseidon Nickel being the only other nickel company in the portfolio).

Non-resource companies added to the portfolio included Ausenco as we believe the company can generate suitable growth in 2012, similar to levels back in 2007. This is primarily due to higher activity levels in their consultancy business and potentially more project work. Finally, iProperty Group, an internet based real estate portal focussed in Asia, was introduced to the portfolio. We've followed the company for some time and feel that continued growth over recent several consecutive quarters has de-risked the investment case with excellent growth prospects in capturing market share and revenue going forward.

Grange Resources and McMillan Shakespeare were existing stocks in the portfolio to which we increased our active position meaningfully.

Several holdings were also completely sold out of the portfolio during the quarter including Horizon Oil, African Iron, Anvil Mining, WPG Resources, Decmil Group, Watpac, Talent2 International, Thorn Group, Treasury Group, and Vocus Communications.

Anvil Mining was sold on-market following a takeover bid for the company. WPG Resources was exited post-realisation of an asset sell down to Onesteel. Both Decmil Group and Watpac were exited following softer trading and our revised expectations for the companies which were below market expectations. Talent2 International was sold after the company advised the market of a substantial downgrade to earnings.

We exited Thorn Group during the quarter post the announcement of the National Credit Management acquisition. Although the deal compliments its financial services division it also increases the risks substantially.

Given the cautious outlook for the Australian equity market along with corresponding flows into the asset class, the profitability of Treasury Group is expected to be subdued going forward which led us to exit the stock over the past quarter.

We exited Vocus Communications during the quarter as the industry dynamics for data centres deteriorates. Within 12-18 months we believe a glut in data centre capacity will materialise as existing/new players continue to build new centres. Accordingly, the economics of the data centre model will be put under significant pressure.

IPOs and Placements

In a quiet period for placements and IPOs, the portfolio participated in four placements and no IPOs.

Company Name	Price	Performance*
Placement		
Perilya Limited	$0.42	-21.4%
Stanmore Coal	$0.74	0.0%
Red Fork Energy	$0.69	21.7%
Tox Free Solutions	$2.00	8.5%

**From placement date to end of quarter.*

Portfolio Details

As at 31 December 2011 there were 81 securities in the portfolio. The tables below show the breakdown of these positions within the portfolio.

Position Weight	# of stocks	% of portfolio
> 2%	6	15.3%
1% - 2%	35	50.4%
0.5% - 1%	27	20.0%
< 0.5%	12	3.6%

Position Weight	# of stocks	% of portfolio
$1b+	1	0.44%
$350m- $1b	15	17.8%
$100m-$350m	42	49.2%
$0m - $100m	22	21.8%

NB: these tables do not include the holding of CCQ nor the assets held within CCQ

Top 20 Stock Weights as at 31 December 2011
(as a percentage of the total CTN investment portfolio)

Company Name	Code	Weight
Contango Capital Partners	CCQ	7.24%
Aurora Oil & Gas	AUT	3.98%
NRW Holdings Limited	NWH	2.21%
McMillan Shakespeare	MMS	2.15%
Intrepid Mines	IAU	2.02%
Ausdrill	ASL	1.89%
Austin Engineering	ANG	1.85%
Forge Group	FGE	1.82%
Troy Resources NL	TRY	1.80%
Grange Resources.	GRR	1.79%
Saracen Mineral	SAR	1.75%
Slater & Gordon	SGH	1.73%
Reckon	RKN	1.72%
IDM International	IDM	1.61%
Tox Free Solutions	TOX	1.61%
Base Resources	BSE	1.59%
Northern Star	NST	1.57%
Austbrokers Holdings	AUB	1.55%
Mastermyne Group	MYE	1.53%
MACA Limited	MLD	1.51%

These top 20 represent 42.8% of the portfolio.

Attribution of 5 Best and 5 Worst holdings for December quarter.

Company Name	Code	Attribution
Aurora Oil & Gas	AUT	1.22
Northern Star Resources	NST	0.817
Drillsearch Energy	DLS	0.648
Grange Resources	GRR	0.529
Senex Energy	SXY	0.52
Ampella Mining	AMX	-0.27%
Anvil Mining	AVM	-0.32%
Nucoal Resources	NCR	-0.41%
IDM International	IDM	-0.54%
Talent2 International	TWO	-0.73%

Aurora Oil & Gas (AUT)
Aurora Oil & Gas is an oil and gas exploration, development and production company with operation in North America. Its main asset is the situated some 20km south of the burgeoning Eagle Ford Shale trend in Texas. The company holds interests in three separate project areas within the Sugarkane Field with a combined net land position of 15,600 acres. This includes Sugarloaf Area (16%), Longhorn Area (32%) and Ipanema Area (36%). The company recently increased its equity interest in each of these blocks and added exposure to the adjacent Excelsior block (9%).

The company's current reserves are 83mmboe (on a proved, probable and potential basis). We expect the company to generate $135m in FY12.

NRW Holdings (NWH)
NRW Holdings is a Western Australian based provider of services to the resources sector. The company provides civil contracting services including rail formation, bulk earthworks, mine development, road and tunnel construction and a range of contract mining services. Blue chip clients among others include Rio Tinto, BHP Billiton and Fortescue Metals Group.

McMillan Shakespeare (MMS)
McMillan Shakespeare is a provider of workplace benefits administration in Australia. Services include the administration of salary packaging services and fleet management (covering procurement of motor vehicles and finance, and arrangement of related services such as insurance). The company acquired Interleasing in March 2010, positioning the company well to increase its opportunities particularly within the private sector. Scale benefits allows the company to drive a higher margin advantage over its competitors, with this forecast to improve further over time as the company demonstrates double digit growth.

Intrepid Mines (IAU)
Intrepid Mines is 80% owner of the exciting Tujuh Bukit project in East Java, Indonesia. The project is at an advanced exploration stage and is suspected to host a number of copper-gold porphyrys. The main porphyry copper-gold zone of the Tumpangpitu area contains an inferred resource of 1.7 billion tonnes at 0.4% copper and 0.5g/t gold. This equates to 15 billion pounds of copper and 25 million ounces of gold. The ore body remains open and is comparable to other world class porphyry systems. Additionally, the company plans to drill into the nearby Salakan anomaly, which has similar traits to Tumpangpitu, but is closer to surface and larger.

Ausdrill (ASL)
Ausdrill Limited (ASL) is a diversified mining and service company engaged in providing services to mining, earthmoving, manufacturing, logistics, telecommunications, and automotive industries with operations in Australia, Africa and United Kingdom. In FY10, the company derived 68% of its revenue from Australia, 31% from Africa and 1% from UK. The group's revenue is dominated by major blue chip companies like Rio Tinto, BHP Billiton, Barrack, Gold Fields, Newmont, KCGM, FMG etc. We expect the company to grow profitability by 15% in FY12.

Austin Engineering (ANG)
Austin Engineering is an engineering company with manufacturing facilities in Australia, USA and the Middle East. The Australian and USA facilities provide fabrication facilities servicing the mining, oil, gas and industrial sectors. The Middle East operation provides specialised products and services for the aluminium smelter industry. Austin owns rights to welding processes and robotic applications to suit product lines, general fabrications and any repetitive production processes. Austin has become a leading supplier to the truck body market globally, initially in Australia via its business JEC mining and earthmoving, then globally by consolidating its former licensor Westech allowing Austin to exploit the South American and Canadian markets amongst others.

Forge Group (FGE)
Forge Group Limited is a Western Australian based engineering and construction company. It operates three wholly owned subsidiaries specialising in industrials services to the resources sector. Cimeco provides civil and concrete, mechanical, electrical and maintenance services. Abesque Engineering specialises in the provision of engineering design, construction and project management services for the implementation of projects involving processing facilities and associated infrastructure. Webb Construction (West Africa) also provides comprehensive construction services to the resources sector yet, with over 15 years of operational experience in the West African region the company is well recognised for its ability to perform in remote and difficult environments.

Troy Resources (TRY)
Troy Resources is a profitable explorer/ developer/producer operating in Argentina and Brazil. The company poured its first gold at its recently developed Casposo Mine, Argentina late 2010 and despite some earlier commissioning issues is now running at full production rates. Additionally, its second but smaller gold mine in Brazil is running well. The company produced 71koz in FY11 and expects this to lift to 140koz in FY12. Exploration prospectively is high, particularly around the Casposo area.

Grange Resources (GRR)
Grange Resources owns and operates iron ore mining and pellet production business located in the NW region of Tasmania, Australia. GRR focuses on magnetite exploration in two main areas, namely, Savege River Mine Operations and Southdown Development Project.

Saracen Mineral Holding (SAR)
Saracen Minerals is an emerging gold producer in the South Laverton region, WA containing a 3.6Moz resource and 0.83Moz reserve. Currently operating in the Carosue Dam and Porphyry Districts the company produced 111koz in its first year of production in 2011. Production will gradually increase to 250koz pa by 2015 as Red October and Safari Bore Districts come into production. The company raised $66m in September 2011 to fast track its exploration/development projects, which we believe to be compelling.

Slater & Gordon (SGH)
Slater & Gordon is a law firm specialising in personal injury, commercial, and family law. The firm is well known for it's "no win no fee" arrangement where if a claim made by its client is unsuccessful, the client does not pay any legal fees. If the claim is successful however, the client is charged legal fees which may include a success fee. Aside from its initial operations in Victoria, the company has made two substantial EPS-accretive acquisitions focussed on Queensland and NSW over 2010 and 2011.

Reckon (RKN)
An IT company involved in the development, distribution and support of accounting software products to Small and Medium sized Enterprises SMEs and accounting/legal firms in Australia, New Zealand and the UK. Brands include QuickBooks, Quicken, ReckonElite and APS. Within the accounting software market in Australia, a duopoly exists between Reckon and MYOB with the two companies addressing 90% of the market. The two main divisions within Reckon are the Business division which consists of accounting software for individuals/SMEs sold off the shelf or online, and the Professional division which is software aimed at larger accounting and legal firms. Apart from the favourable competitive structure, a key attraction of Reckon's business model is its recurring revenue through license fees which provides for great earnings certainty.

Industrial Minerals (IDM)
The company is developing their southern Oregon mineral sands deposit in the United States. The principal product will be chromite which offers the foundry industry the ability to reduce emissions as well as cost by significantly reducing the need for binder or resin .the plant is due to come on stream in the June quarter. The plant has the flexibility to produce between 500kt to 1500ktpa and dependent upon grade is targeting around the 75ktpa of chromite. Along with the super grade chromite the plant will produce other products such as zircon, hi iron ilmenite and garnet. The project has a mine life of ten years with a significant resource position of 20-30 years.

Tox Free Solutions (TOX)
An integrated waste management and environmental service provider in Australia. The company focuses on the provision of industrial and hazardous waste treatment, contaminated site remediation and industrial services. The company also provides industrial maintenance services through its subsidiaries strategically located throughout Western Australia. Recent acquisitions include the purchase of a recycling business Greenchip in Victoria and the industrials services business Barry Brothers (from Programmed Maintenance Services). We expect the company to grow profit by around 30% in 2012.

Anvil Mining (AVL)
A copper producer focusing on exploration, development, operation and acquisition of mining projects in the Democratic Republic of Congo. The company currently has two main projects, namely, Kinsevere, which recently came into copper production and the Mutoshi projects. The company has recently received a takeover bid from Minmetals, at C$8.00/s in cash.

Base Resources (BSE)
An exploration company with projects in the mid-west region of Western Australia, prospecting mainly for iron ore, base metals, gold and uranium. The company is also developing a world-class mineral sands project in Kenya, East Africa which is in an advanced stage, prospecting for industrial minerals such as ilmenite, rutile and zircon. The company has one of the few advanced projects world-wide that will be in production in two years & the current resource in Kenya supports a mine life of 10+ years.

Northern Star (NST)
A resources exploration company with a focus on gold projects in the regions of Ashburton, West Pilbara, Murchison and Kimberley, Western Australia. Other NST's projects include: Golden Crown Project; Range Project; Emull Project; and U3O8 East Kimberley JV Project.

Austbrokers Holdings (AUB)
Holds equity interests in 40 insurance broking businesses around Australia. In addition to its core general insurance broking business, Austbrokers cross markets other financial products and services suitable for its client base, including premium funding, life insurance and investment products. The recent formal alliance with the IBNA Group (a buying group of insurance brokers) provides further long-term growth initiatives as the industry continues to consolidate. Austbrokers only generates fees & commissions & does not take on any underwriting risk.

Mastermyne Group (MYE)
Mastermyne is a specialist provider of services to the Australian coal mining industry. The company is a market leader in underground coal mining services in Queensland's Bowen basin and recently extended its service offering in the Hunter Valley in New South Wales. We expect the company to grow profit by more than 50% in the current financial year on the back of stronger revenue as well as better margins. This company remains a highly appealing investment since it trades on a near 20% discount to the prevailing small companies sector.

MACA (MLD)
An Australian based mining service company which offers integrated drilling & blasting, loading & haulage and crushing & screening services. The advantage for the client is a single contractor on site between the mine and the processing plant. The company has a diversified customer and commodity list. The largest customers include Crosslands Resources, Atlas Iron, Western Areas, Regis Resources, Barrick Gold and Sinosteel. By commodity, the significant contracts are exposed to iron ore, gold and base metals. MACA takes risk on delivering contracted volumes, employment numbers and equipment utilisation/availability and type.

KEY INVESTMENT INDICES	31/12/2011	Month	Quarter	6 Months	Financial Year to Date	12 Months
Accumulated Australian Indices						
ASX 200	30,879.12	-1.4%	2.1%	-9.7%	-9.7%	-10.5%
ASX 300	30,766.57	-1.4%	2.1%	-9.8%	-9.8%	-11.0%
ASX 300 Industrials	52,395.01	-0.1%	4.0%	-4.6%	-4.6%	-3.8%
ASX 300 Resources	22,039.74	-4.7%	-2.5%	-20.8%	-20.8%	-25.0%
All Ordinaries	30,833.37	-1.6%	1.9%	-9.6%	-9.6%	-11.4%
Small Ordinaries	5,108.86	-4.3%	-0.6%	-12.3%	-12.3%	-21.4%
ASX 300 Accumulated GICS Sector Indices						
Materials	68,675.54	-4.1%	-2.9%	-20.7%	-20.7%	-24.1%
Consumer Discretionary	8,168.48	-3.9%	-0.6%	-12.4%	-12.4%	-17.1%
Consumer Staples	53,727.92	-1.3%	-2.9%	-4.6%	-4.6%	-0.4%
Energy	87,614.32	-5.1%	1.9%	-15.2%	-15.2%	-20.8%
Financial	34,176.51	0.0%	5.3%	-6.1%	-6.1%	-4.4%
Financial (ex LPT's)	37,971.09	0.6%	5.5%	-6.4%	-6.4%	-5.0%
Healthcare	40,402.96	1.7%	5.1%	-5.1%	-5.1%	-9.1%
Industrials	25,986.78	-0.9%	6.4%	-4.4%	-4.4%	-7.8%
Information Technology	3,710.48	-0.9%	0.9%	-10.6%	-10.6%	-24.9%
Property Trusts	18,875.34	-2.6%	3.8%	-4.6%	-4.6%	-1.6%
Telecoms	11,304.04	5.1%	7.0%	19.5%	19.5%	29.2%
Utilities	41,009.24	3.8%	8.3%	6.9%	6.9%	9.5%
Global Indices						
Dow Jones Industrial	12,217.56	1.4%	12.0%	-1.6%	-1.6%	5.5%
S&P 500	1,257.60	0.9%	11.2%	-4.8%	-4.8%	0.0%
NASDAQ Index	2,605.15	-0.6%	7.9%	-6.1%	-6.1%	-1.8%
Nikkei 225 Index	8,455.35	0.2%	-2.8%	-13.9%	-13.9%	-17.3%
Hang Seng Index	18,434.39	2.5%	4.8%	-17.7%	-17.7%	-20.0%
Shanghai Composite Index	2,199.42	-5.7%	-6.8%	-20.4%	-20.4%	-21.7%
FTSE 100	5,572.28	1.2%	8.7%	-6.3%	-6.3%	-5.6%
German Aktien Index (DAX)	5,898.35	-3.1%	7.2%	-20.0%	-20.0%	-14.7%
France CAC40	3,159.81	0.2%	6.0%	-20.7%	-20.7%	-17.0%
India BSE 200 Index	1,850.89	-5.2%	-8.7%	-20.0%	-20.0%	-27.0%
MSCI World ex Aust (hedged)	2,066.11	0.7%	8.0%	-8.1%	-8.1%	-5.3%
MSCI World ex Aust (unhedged)	2,866.47	0.2%	2.0%	-6.2%	-6.2%	-5.3%
S&P 500 US GICS Sector Indices						
Energy	520.81	-1.1%	17.6%	-6.9%	-6.9%	2.8%
Materials	211.71	-2.4%	14.7%	-13.9%	-13.9%	-11.6%
Industrials	292.32	0.9%	15.7%	-9.2%	-9.2%	-2.9%
Consumer Discretionary	308.58	1.0%	12.0%	-2.9%	-2.9%	4.4%
Consumer Staples	335.54	2.4%	9.4%	4.0%	4.0%	10.5%
Health Care	401.90	2.8%	9.3%	-2.2%	-2.2%	10.2%
Financials	175.23	1.6%	10.2%	-15.3%	-15.3%	-18.4%
Information Technology	409.93	-0.9%	8.4%	-0.2%	-0.2%	1.3%
Telecommunication Services	129.82	3.7%	6.4%	-3.4%	-3.4%	0.8%
Utilities	182.98	3.0%	7.2%	7.6%	7.6%	14.8%
Commodities						
Gold (US$/oz)	1,563.70	-10.5%	-3.7%	4.2%	4.2%	10.2%
Oil WTI (US$/bbl)	98.86	-1.5%	25.9%	4.0%	4.0%	8.3%
Aluminium (USc/lb) LME	89.38	-0.3%	-10.7%	-21.5%	-21.5%	-19.9%
Copper (USc/lb) LME	342.64	2.0%	5.9%	-18.8%	-18.8%	-22.4%
Nickel (USc/lb) LME	829.17	7.9%	-0.1%	-21.0%	-21.0%	-26.8%
MG Metals Index	333.20	-0.7%	-2.3%	-21.7%	-21.7%	-23.0%
Interest Rates						
AUS UBS Composite Bond Index	6,917.77	0.8%	1.9%	6.6%	6.6%	11.4%
AUS UBS Bank Bill Index	7,441.71	0.4%	1.2%	2.5%	2.5%	5.0%
	%	basis point change				
AUS Cash Rate	4.25	-25	-50	-50	-50	-50
AUS 90 day Bank Bill rate	4.47	-5	-31	-49	-49	-49
AUS 10 year Bond yield	3.67	-27	-57	-154	-154	-184
US Federal Funds rate	0.25	0	0	0	0	0
US 30 year Bond yield	2.90	-18	-2	-148	-148	-144
US 10 year Bond yield	1.88	-21	-4	-128	-128	-141
Exchange Rates						
AUD/USD	1.0216	-0.7%	5.7%	-4.7%	-4.7%	-0.1%
AUD/YEN	78.55	-1.6%	5.5%	-9.0%	-9.0%	-5.4%
EURO/USD	1.2944	-3.7%	-3.4%	-10.7%	-10.7%	-3.3%
AUD/EUR	0.7893	3.2%	9.4%	6.8%	6.8%	3.3%
AUST TWI	75.80	1.6%	4.7%	-2.6%	-2.6%	0.0%