

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Contango MicroCap Ltd (CTN)



www.contangomicrocap.com.au

Company Overview

CTN provides the market with a listed investment company focusing on small/micro cap stocks. The fund is managed by Contango Asset Management Ltd, who currently have around \$1B of funds under management across their suite of investment funds.

Investment Objective

CTN aims to achieve a return above the benchmark index (All Ordinaries Accumulation Index) and pay regular dividends to investors through investment in a portfolio of ASX listed small/micro cap stocks. There tends to be increased risk levels when investing in small/micro cap stocks, however, the upside potential can be considerable.

Style and Process

CTN uses a combination of top down and bottom up fundamental analysis to identify attractive investment opportunities in the small/micro cap universe. The manager focuses on stocks that have a market cap of between \$10M and \$450M. There is often a lack of research on small/micro cap stocks. CTN endeavours to take advantage of this situation to identify market inefficiencies. When the economy is growing strongly, the fund focuses on companies that can grow their businesses rapidly, while in more difficult times, it focuses on companies with more stable earnings.

Portfolio Characteristics

CTN holds a diversified portfolio of small/micro cap stocks with the manager aiming to have between 60 to 120 stocks in the portfolio. Given the risk associated with the investment universe, the manager does not tend to take large positions in companies and reduces risk through portfolio diversification. The three major sector allocations of the company are to Resources, Energy and Industrials with 40% of the portfolio allocated to the Resource sector as at 30 June 2011.

Independent Investment Research Comments

CTN provides investors with the opportunity to gain exposure to a professionally managed diversified portfolio of small/micro cap stocks, a universe in which there is limited research available. We stress that there tends to be greater risk involved with smaller cap stocks, however the upside potential can be considerable. During the June quarter, CTN's portfolio value (pre-tax NTA plus dividends) declined 12.5%, significantly underperforming the benchmark index (All Ords Accumulation Index), which fell 4.8%. Despite the negative performance over the quarter, CTN has performed strongly over the 12-months to 30 June 2011, significantly outperforming the broader Australian market. As at June-end, CTN was trading at a discount to pre-tax NTA of 20.9%, narrowing from the previous quarter discount of 25.5%. We view CTN as well managed and an attractive addition to an investment portfolio at the current discount; however, investors should take the time to understand the risks associated with the fund and be prepared to tolerate volatility.

Rating



LMI TYPE

Listed investment company

INVESTMENT AREA

Australia

INVESTMENT ASSETS

Listed companies

INVESTMENT SECTORS

Diversified

Key Investment Information

Price as at 12 August 2011	\$1.06
Market cap (\$M)	155.3
Shares on issue (M)	146.4
Shares traded (\$M p.a)	57.8
12-month L/H (\$)	0.85/1.40
Listing date	March 2004

Fees

Management Fee (%)	1.25
Performance incentives* (%)	15.0*

*15% of outperformance of the All Ords Accum Index subject to exceeding high water mark

Pre-tax NTA performance analytics (including dividends)

	1 Yr	All Ords Acc 3 Yr (p.a.)
Excess Per. (%)	12.67	(0.94)
TE (%)	10.57	13.65

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend yield	(%)
FY09	0.0ff
FY10	9.52ff
FY11*	3.79ff

* The dividend yield reflects dividends paid for the respective FY. Final dividends for FY11 are yet to be paid so FY11 dividend yield does not include these dividends.

Substantial shareholders	(%)
UBS	6.08

As at 30 June 2011

Board of Directors

David Stevens	Chairman (Exec)
Ian Ferrer	Director (Non-Exec)
Mark Kerr	Director (Non-Exec)
Glenn Fowles	Director (Non-Exec)

Other Data

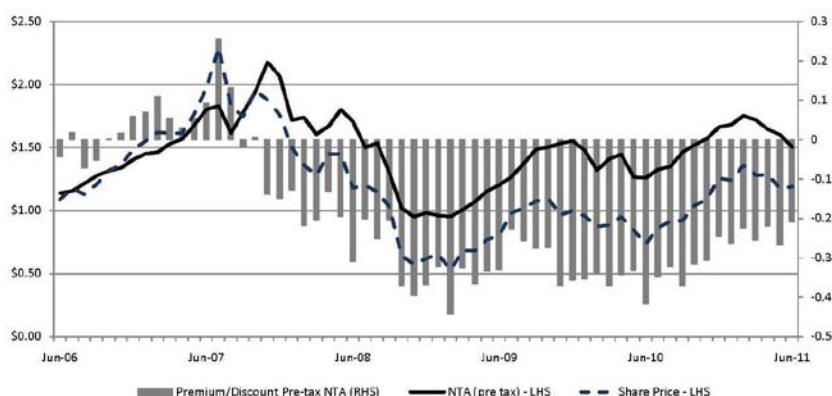
- ◆ **Options** – None on issue
- ◆ **Dividend policy** – CTN aims to pay annual dividends that amount to a 6.0%pa yield on the NTA value per share as at the beginning of the financial year.
- ◆ **Capital management policy** – CTN can buy back its shares at the funds discretion.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes

CTN's Portfolio (Top 10) weighting

Stock	Portfolio (%)
AUT	4.2
IDM	2.9
IAU	2.6
NWH	2.5
ANG	2.4
MMS	2.2
FGE	2.2
WPG	1.9
ASL	1.9
EHL	1.8
	24.7

Source all figures: CTN/Independent Investment Research/IRESS
All data as at 30 June 2011 unless otherwise specified

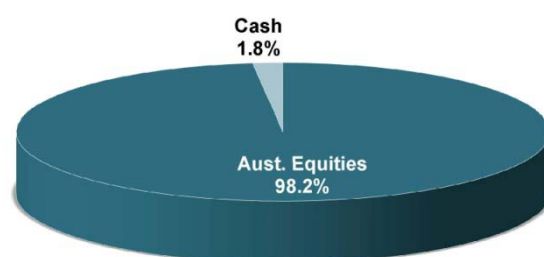
NTA & Share Price Performance



Sector Breakdown

Sector	(%)
Energy	18.7
Materials	39.7
Industrials	25.5
Consumer Discretionary	4.6
Consumer Staples	0.0
Healthcare	0.5
Financials (ex Property)	4.6
Property	1.5
Information Technology	2.1
Telecommunication Services	2.1
Utilities	0.6

Asset Weighting



Size Weighting



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