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The Manager
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By e-Lodgement

INVESTMENT MANAGER'S MONTHLY PORTFOLIO UPDATE AS AT 31 MAY 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 May 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

INVESTMENT MANAGER'S MONTHLY PORTFOLIO UPDATE

AS AT 31 MAY 2017

BILL LAISTER, SENIOR PORTFOLIO MANAGER

CONTANGO ASSET MANAGEMENT LIMITED



MONTHLY UPDATE

Global growth momentum softened over the past month with both the US and China indicators declining. Europe, however, continues to surprise to the upside. There is also evidence of a loss of upward price pressure, partly because of declining energy prices. The core CPI measures in the US have all fallen by around 0.2-0.3% to the 1.5-1.8% range while the headline inflation number in Europe was sitting at 1.4% in May after reaching 2% in February. Consequently, the calls for more hawkish central banks have receded, taking bond yields lower as a result.

In Australia, official updates on the current economic environment and outlook were provided by the RBA in its May Statement on Monetary Policy (SoMP) and from the Government in the form of the 2017-18 Budget. The official view is that the Australian economy is projected to pick up to a real growth rate of around 3% or more over 2017 and 2018, which is slightly above trend or "potential" growth. The Federal Budget for 2017-18 also projected a return to surplus (\$7.4 billion in 2020-21), although this was largely

predicated on a lift in wages growth from the current 1.9% rate to 3.75%, a heroic assumption in our view.

The 2017-18 Budget, primarily a political document, represented an attempt to draw closure on past budget initiatives held up in the Senate and has provided the opportunity for a "reset" of government priorities. It attempted to recast the government as a "fair" government, targeting the banks and housing investors while providing funding for the NDIS and expanding infrastructure spending. From an economic perspective, the key will be whether it assists in unleashing "animal spirits" and whether it provides a boost to business and consumer confidence. Early responses are not encouraging, with ongoing weakness in wages growth undermining consumer confidence and household spending. Meanwhile dwelling approvals have slumped 17% over the past year, albeit from near-record levels.

PORTFOLIO UPDATE

The performance of the CTN portfolio was -2.9% over the month versus the benchmark return of -2.1% resulting in underperformance of -0.8%

The Small Ordinaries (-2.1%) Index outperformed the S&P/ASX100 Index (-2.8%) driven by strong performance from Small Resources Index (1.6%) which outperformed the S&P/ASX 100 Resources Index (1.0%) and the Small Industrial Index (-2.8%) which outperformed the S&P/ASX100 Industrials Index (-3.5%).

Strong performing sectors were, Information Technology (+3.4%), Industrials (+2.5%), and Materials (+0.7%). The weakest sectors were, Healthcare (-14.3%), Utilities (-6.4%), Financials EX Reits (-4.4%) and Consumer Discretionary (-3.2%).

Key positive contributors to the portfolio for the month included: **Esports** (21.4%), **HUB24** (19.2%), **Emerchants** (18.7%), **Oreobre** (16.5%), **Emefcy** (16.3%), **Service Stream** (+15.1%) and **Cogstate** (+10.9%). Key detractors over the

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month were: **Murray River Organics** (-65.0%), **Apiam Healthcare** (-43.3%), **Havilah's** (-33.0%), **Blackham** (-24.3%), **Boss Energy** (-28.0%) and **Catapult** (-21.9%).

PORTFOLIO OUTLOOK

The pressure that we have witnessed in the small cap part of the market has seen the discount start to widen, between the top 50 stocks and the Small Ordinaries Index. The Small Cap Industrials are now trading at around a 5-10% discount to the large cap Industrials, which compares with parity at the end of the Dec 2016 quarter. We would argue that once a lot of this forced selling of the Small Industrials starts to dissipate, we will see the sector start to outperform again.

Resources have suffered a similar fate to the Small Industrials and while China growth risk has increased we remain overweight as we still see Chinese growth positively impacting demand for most commodities in 2017/2018. Our preference remains for those commodities which are in deficit i.e. Zinc, Lithium and Copper.

KEY DETAILS	
Report Date:	31 May 2017
ASX Code:	CTN
Listed on ASX:	25 March 2004
Investment Manager:	Contango Asset Management Limited
Benchmark:	Small Ordinaries Index
Max cash position:	50%
Stock universe:	Market cap \$30m-350m
Portfolio size:	\$197.1 million
Shares on issue:	168.5 million
No. of stocks held:	99*
NTA (Pre-tax):	\$0.999 (ex-div)
NTA (Post-tax):	\$0.948 (ex-div)
Share Price:	\$0.900

(*INCLUDES UNLISTED STOCKS)

BENEFITS FROM INVESTING IN MICRO CAP STOCKS VIA CTN INCLUDE:

- **Sector diversification** as most investors are unknowingly over-exposed to the Financials sector which is overrepresented in the ASX100.
- **Economic cycle diversification** as 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** which are usually out of reach of the individual investor.

PERFORMANCE

PERFORMANCE	CTN PORTFOLIO	ASX SMALL ORDS	ADDED VALUE
3 Months	-8.1%	0.3%	-8.4%
6 Months	-12.2%	2.7%	-14.9%
1 Year	-5.9%	3.5%	-9.4%
3 Year pa	4.3%	6.0%	-1.7%
Since Inception (Mar 2004) pa	14.0%	5.0%	9.0%

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT (%)
EML	EML PAYMENTS LTD	3.9
ENN	ELANOR INVESTOR GRP	3.5
VLW	VILLA WORLD LTD	2.8
ASL	AUSDRIILL LTD	2.7
ASB	AUSTAL LTD	2.7
PEA	PACIFIC ENERGY LTD	2.5
HUB	HUB24 LTD	2.4
HPI	HOTEL PROPERTY INVTS	2.4
XIP	XENITH IP GROUP LTD	2.4
RVR	RED RIVER RESOURCES LTD	2.4

Source: Bloomberg

PORTFOLIO CHARACTERISTICS

May 2017	MICRO CAP FUND	ASX SMALL ORDS
Price to Earnings Ratio (x)	15.8	17.0
Dividend Yield (net) (%)	4.6	4.2
Dividend Yield (gross) (%)	6.0	5.2
EPS Growth (%)	16.5	8.3
Return on Equity (%)	14.4	15.0
Beta	0.9	1.0

Source: Bloomberg (next twelve months)

The Portfolio Characteristics table illustrates Contango MicroCap is targeting higher earnings growth upside vs the ASX Small Ords Index over the next year while targeting a lower P/E multiple.

SECTOR ALLOCATIONS

SECTOR	WEIGHT %
Consumer Discretionary	10.8
Consumer Staples	0.7
Energy	4.4
Financials Ex-REITs	11.3
Health Care	9.2
Industrials	11.1
Information Technology	8.5
Materials	21.8
REITs	8.6
Telecommunication Services	2.3
Utilities	2.3
[Cash]	3.4
[Futures]	5.7

Source: Bloomberg

HOW DOES CGA MANAGE THE FUND?

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 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.

WHO MANAGES CTN'S PORTFOLIO?

Contango Asset Management Limited (**CGA**) is CTN's portfolio manager. 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.

NOTES

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

The Company will normally pay annual dividends amounting to a minimum 6%pa yield on the Net Tangible Asset value per share prevailing at the beginning of each financial year payable via (two) semi-annual dividend payments. CTN may have declared a Dividend prior to you reading this document. Only refer to official ASX Announcements. All dates, dividend amounts & any franking which may be attached to possible future dividends are indicative only until formally declared.

DISCLAIMER:

Contango MicroCap Ltd (CTN) has prepared this update 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. Neither CTN nor its 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. Contango Asset Management Limited (CAML) ABN 52 085 487 421 AFSL No. 237119 is the investment manager of CTN. We strongly encourage you to obtain detailed professional advice and to read any relevant offer document in full before making any investment decision. CTN and any CAML investment fund identified in this document may not be suitable for your investment needs. This is not an offer to invest in a fund or product.