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INVESTMENT MANAGER'S MONTHLY PORTFOLIO UPDATE AS AT JUNE 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 30 June 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 (CTN)

INVESTMENT MANAGER'S MONTHLY PORTFOLIO UPDATE

30 JUNE 2017

BILL LAISTER, SENIOR PORTFOLIO MANAGER

CONTANGO ASSET MANAGEMENT LIMITED



MONTHLY UPDATE

Despite some recent softer inflation outcomes in both the US and in Europe, both the Fed and ECB appear to be signalling their intention to normalise interest rate settings. The normalisation will be gradual, with the Fed well ahead of the ECB. The official view seems to be that the lower inflation numbers are temporary, partly driven by lower oil and that tightening labour markets will eventually lead to higher wages growth and attainment of their 2% inflation targets.

In Australia, there has been a great deal of pessimism around the current state and outlook for the domestic economy, however this view is not currently backed up by data nor is it consistent with the most recent projections from the RBA and the Treasury. Low wages growth and high levels of household debt are at the core of the downside scenario but are not the base case, which is for continued, but sub-par economic growth. The recent stronger employment and retail sales data and elevated business conditions over the past few months would ordinarily be associated with an RBA tightening bias. Clearly, the RBA focus is on the low levels of wages growth and inflation as well as the downside risks to growth associated with the high level of household debt.

Global equity markets managed to post a modest gain in June after a string of strong monthly returns. After leading markets, higher over recent months, European equity markets lagged the global benchmark in June, largely because of ECB President Mario Draghi's declaration of victory against deflation. In a speech at a conference in Portugal Draghi hinted that the ECB might slow down, halt or even reverse elements of the quantitative easing program. The German market ended the month down almost 4.8% off its highs while the euro surged 2.6% against the USD towards the end of the month. Meanwhile, a slightly more hawkish Bank of England prompted a decline in the FTSE and a rise in the pound from 1.26 to 1.30.

The global economic recovery appears to be intact, supported by evidence of stronger PMI readings. This, together with the more hawkish signals from central banks has supported equities at the expense of bonds and interest rate sensitive sectors of the equity market. Earnings revisions remain positive for equity markets while liquidity conditions are also consistent with PE multiple expansion.

PORTFOLIO UPDATE

The performance of the CTN portfolio was 1.7% over the month.

The Small Ordinaries (2.0%) Index outperformed the S&P/ASX100 Index (+0.03%) driven by strong performance from the Small Industrials Index (+2.4%) which outperformed the S&P/100 Industrials Index +0.5%. The Small Resources Index (-0.01%) outperformed the S&P/100 Resources Index (-2.4%).

Strong performances came from Consumer Staple (+7.0%), Health Care (+5.0%), Consumer Discretionary (+3.4%) and Industrials (+3.2). The weakest sectors were Utilities (-13.5%), Energy (-2.9%), Telecommunications (-1.6%) and REITS (-1.1%).

Key positive contributors to the portfolio for the month included: Catapult (44.7%), West African Resources (+31.5%), Ausdrill (27.4%), Imdex (+18.0%), Nearmap (+17.5%) Motorcycle Holdings (14.5%) and Cogstate (+11.8%).

Key detractors over the month were: Impression Healthcare (-31.1%), Galaxy (-27.4%), Havilah (-23.2%), Yowie (-19.2%) and Tawana (-18.8%).

PORTFOLIO OUTLOOK

The pressure that we have seen on 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 due to the fact 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:	30 June 2017
ASX Code:	CTN / CTNG
Listed on ASX:	25 March 2004
Investment Manager:	Contango Funds Management Ltd
Benchmark:	Small Ordinaries Index
Max cash position:	50%
Stock universe:	Market cap \$30m-350m
Portfolio size:	\$198.2 million
Shares on issue:	168.3 million
No. of stocks held:	93
NTA (Pre-tax):	\$1.016
NTA (Post-tax):	\$0.960
Share Price:	\$0.900

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
1 Months	1.7%
3 Months	-6.3%
1 Year	-6.1%
Since Inception (Mar 2004) pa	14.0%

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT (%)
EML	EML PAYMENTS LTD	3.7
ASL	AUSDRILL LTD	3.4
ENN	ELANOR INVESTOR	3.3
ASB	AUSTAL LIMITED	2.7
VLW	VILLA WORLD LTD	2.7
CAT	CATAPULT GRP INT	2.5
PEA	PACIFIC ENERGY LTD	2.5
RVR	RED RIVER RESOURCES	2.5
HPI	HOTEL PROPERTY I	2.4
VEE	VEEM LIMITED	2.3

Source: Bloomberg

PORTFOLIO CHARACTERISTICS

June 2017	MICRO CAP FUND	ASX SMALL ORDS
Price to Earnings Ratio (x)	15.6	17.1
EPS Growth (%)	17.4	8.6
Return on Equity (%)	14.7	15.5
Beta	0.7	1.0

Source: Bloomberg (next twelve months)

SECTOR ALLOCATIONS

SECTOR	WEIGHT %
Consumer Discretionary	10.5
Consumer Staples	0.5
Energy	4.0
Financials Ex-REITs	10.8
Health Care	8.9
Industrials	9.9
Information Technology	9.9
Materials	21.4
REITs	7.4
Telecommunication Services	2.0
Utilities	2.7
[Cash]	7.9
[Futures]	4.1

Source: Bloomberg

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 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.

NOTES

* Past performance is not a predictor of future returns.

DISCLAIMER:

Contango Microcap Ltd (CTN) has prepared this update for information purposes only related to the underlying investment portfolio. The NTA information in this document is unaudited and approximate. This document does not contain investment recommendations nor provide investment advice. 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. Contango Funds Management Limited 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 may not be suitable for your investment needs. This is not an offer to invest in any financial product.