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INVESTMENT MANAGER'S MONTHLY PORTFOLIO UPDATE AS AT 31 JULY 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 July 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

31 JULY 2017

BILL LAISTER, SENIOR PORTFOLIO MANAGER

CONTANGO ASSET MANAGEMENT LIMITED



MONTHLY UPDATE

In the major economic regions, we are seeing growth picking up but with little or no evidence of rising inflation. Annual inflation rates have fallen in many countries since reaching highs in February this year. While improved, economic growth has underpinned the perception that more central banks were likely to tighten policy by increasing interest rates or moderating asset purchases the recent lower inflation numbers suggest that interest rate tightening is likely to be more limited and cautious.

Global equity markets continued to advance in July, largely on the back of strong corporate earnings, improved economic growth and steady bond yields. With bond yields remaining relatively low, the relative value of equities against bonds has continued to attract investors to equities. European equity markets have performed well, particularly the peripheral markets of Spain and Italy. Economic growth in Europe has surprised to the upside, political risk has diminished and although the ECB is expected to begin to slow down, halt or even reverse elements of its quantitative easing program over the next 12 months, the lack of any serious near term inflation threat is likely ensure that any change in policy will be slow and gradual.

The Australian equity market was essentially flat in July while the year to date return is just 3.2%, broadly in line with global equity unhedged returns. After outperforming global equities in the early part of the year, the Australian market has struggled to participate in the earnings driven rally in global markets.

The recent underperformance is largely a reflection of the differences in sector exposures with Australia having little exposure to the IT sector, which, for example, has a 22% weighting in the US market. Australia's poor performance also reflects the increased risks attached to the domestic economic outlook because of high and rising household debt against a backdrop of very modest wages growth.

PORTFOLIO UPDATE

The performance of the CTN portfolio was 2.0% versus the Small Ordinaries (S&P/ASX Small Ordinaries index) of 0.3%, resulting in an outperformance of +1.7%. The Small Ordinaries index modestly outperformed the S&P/ASX 100 which reported a return of -0.02%.

The best performing sectors were Energy (+5.8%), Utilities (+5.0%), Industrials (+3.3%) and Financials (+2.0%). The weakest performing sectors were Healthcare (-4.9%), Telecommunications (-3.8%), Real Estate (-2.4%) and Information Technology (-1.8%).

Key positive contributors to the portfolio for the month included: **Nearmap** (+22%), **RXP Services** (+17%), **Mt Gibson Iron** (+34%), **Oceania Healthcare** (+14%), **Australian Ethical Funds Management** (+20%), **Praemium** (+20%), **Silver Chef** (+12%), **Tawana Resources** (+12%), **Avanco Resources** (+17%) and **Red River** (+6.6%).

Key detractors in the portfolio over the month relative to the Small Ordinaries Index were: **Blackham Resources** (-32%), **Catapult** (-13%), **Pacific Energy** (-9%), **Range** (-33%), **Beadell Resources** (-14%), **Programmed Maintenance**[^] (+62%) (received a very generous takeover offer from offshore), **A2 Milk**[^] (+10%), **Metcash**[^] (+11%), **Australia Oil and Gas** (-18%), and **Mineral Resources**[^] (+13%).

PORTFOLIO OUTLOOK

We are seeing encouraging signs of stronger industrial commodities prices and the portfolio was well positioned for this improvement holding such names as **Red River** (zinc), **MOD** (copper), **Avanco** (copper/some gold), **Panoramic** (nickel), **Galaxy** (Lithium), **Battery Minerals** (Lithium), **Havilah** (Copper/gold), **Clean TeQ** (Nickel/cobalt), and **Ausdrill** (mining services). Improved prices supported an improved performance in these names and resources more generally. The forced selling due to fund manager transitions/departures appears to have abated and changes to gold ETF'S have also settled down (had been putting pressure on some smaller names). The portfolio also benefitted from some upgrades from recently purchased stocks such as **Service Stream**, **Ruralco** and **Helloworld**.

Areas of investment focus for the portfolio include the ageing population and health, servicing the NBN, digitalization, food via brand Australia, IT disruptors using hard won Australian expertise, tourism and leisure, Auto electrification and storage, SMSF /choice within superannuation and mining via industrial minerals.

KEY DETAILS

Report Date:	31 July 2017
ASX Code	CTN / CTNG
(shares / convertible notes):	
Listed on ASX:	25 March 2004
Investment Manager:	Contango Funds Management Ltd
Benchmark:	Small Ordinaries Index
No. of stocks held:	88
Max cash position:	50%
Stock universe:	Market cap \$30m-350m
Portfolio size:	\$200.5 million
Shares on issue:	168.088 million
NTA (Pre-tax):	\$1.033
NTA (Post-tax):	\$0.971
Share Price:	\$0.940

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
1 Months	1.9%	0.3%	1.6%
3 Months	0.8%	0.2%	0.6%
1 Year	-11.5%	-1.1%	-10.4%
Since Inception (Mar 2004) pa	14.1%	5.1%	8.9%

TOP 10 HOLDINGS

CODE	STOCK	WEIGHT (%)
EML	EML PAYMENTS LTD	3.0
ENN	ELANOR INVESTOR	2.6
ASL	AUSDRILL LTD	2.4
RVR	RED RIVER RESOURCES	2.2
VLW	VILLA WORLD LTD	2.1
ASB	AUSTAL LIMITED	2.1
XIP	XENITH IP GROUP LTD	1.9
RXP	RXP SERVICES LTD	1.9
HPI	HOTEL PROPERTY	1.9
HUB	HUB24 LTD	1.8

Source: Bloomberg

SECTOR ALLOCATIONS

SECTOR	WEIGHT %
Consumer Discretionary	9.6
Consumer Staples	6.7
Energy	3.8
Financials Ex-REITs	11.9
Health Care	8.2
Industrials	9.4
Information Technology	11.5
Materials	16.2
REITs	6.7
Telecommunication Services	2.0
Utilities	0.6
[Cash]	8.3
[Futures]	5.1

Source: Bloomberg

PORTFOLIO CHARACTERISTICS

Jul-17	MICRO CAP FUND	ASX SMALL ORDS
Price to Earnings Ratio	15.2	16.9
Dividend Yield (net)	4.0	4.1
Dividend Yield (gross)	5.1	5.1
Return on Equity (%)	16.5	15.0
Beta	0.7	1.0
Tracking Error (Ex ante)	6.7	

Source: Bloomberg (next twelve months)

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 a 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.
^ Denotes stocks not held in portfolio

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.