



Contango MicroCap Limited

ABN 47 107 617 381

INVESTMENT COMMENTARY

**Quarterly Update
December 2013**

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Managing Director's Comment

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Distribution Update

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Dear Fellow Shareholder

INVESTMENT UPDATE – DECEMBER QUARTER 2013

MANAGING DIRECTOR'S COMMENT

As we approach the 10th anniversary of CTN's listing we are able to reflect on some of its milestones and look to the future where a larger company, operating under enhanced Corporate Governance guidelines operates to generate strong capital growth and reliable dividends for shareholders.

Since CTN listed on 25 March 2004 the size of its investment portfolio has grown from \$27 million to \$193 million and it has provided shareholders with \$76 million in dividend payments.

In the December Quarter, the managers of the CTN investment portfolio generated an investment return of 2% for shareholders¹. In this time, the NTA value of the company fell by -0.16%, from \$1.234 to \$1.232. This compares to the ASX Small Ordinaries Accumulation Index returning -0.25% and the S&P/ASX Emerging Companies Index -3.8% during the same period.

The following table notes performance in each month of the quarter.

Performance since 30 September 2013	October	November	December
CTN Investment Portfolio¹	3.8%	-3.0%	1.3%
ASX Small Ordinaries Accum. Index	2.7%	-5.2%	2.5%
S&P/ASX Emerging Co's Accum. Index	3.2%	-6.2%	-0.6%

Gross returns. Past performance is no guarantee or predictor of future performance.

Of the 71 stocks held through the quarter, 42 of them, representing 62% of the total investment in stocks, generated a contribution to performance of around 8%. Detracting from this were 37 stocks (38% of portfolio value) generating a negative contribution to performance of just under 6%.

Major contributors included BT Investment Management (which returned 36% in the quarter), Slater and Gordon (33%), iProperty Group Ltd (19%), NearMap (43%), Corporate Travel (23%) Village Roadshow (22%) and NIB Holdings (26%).

Of the 127 stocks held through the year, 71 of them, representing 73% of the total investment in stocks, generated a contribution to performance of around 35%. Detracting from this were 56 stocks (for 27% of the portfolio value) which generated a negative contribution to performance of 15%.

Major positive contributors over the 12 months included Slater and Gordon (which returned 134% in the year), Iproperty Group Ltd (115%) BT Investment Management (153%), Mayne Pharma (145%) Village Roadshow (107%) and G8 Education (101%).

The long term performance of the CTN investment portfolio is 17.6% per annum since inception in March 2004. This ranks CTN's investment portfolio performance amongst the best performing Australian Shares portfolios over the corresponding time period².

% return As at 31.12.13	1Yr %	2 Yrs % pa	3 Yrs % pa	4 Yrs % pa	5 Yrs % pa	7 Yrs % pa	Inception %pa (25/03/04)
CTN Investment Portfolio	19.3%	10.9%	0.3%	6.2%	16.3%	6.0%	17.6%
Emerging Companies Accum. Index	-13.3%	-10.9%	-15.3%	-6.5%	8.4%	-4.20%	3.1%
ASX Small Ordinaries Accum. Index ASX	-0.8%	2.8%	-6.0%	-1.5%	8.1%	-3.0%	5.0%

Since 2004 Contango Asset Management Ltd (CAML) have demonstrated that they possess the skills and ability to successfully manage a microcap portfolio and manage it within a closed ended company structure. We look forward to the continuation of such performance.³

SHARE VALUE PERFORMANCE

December also concluded calendar year 2013 which saw CTN generate a Total Return⁴ for shareholders of 13.9%, substantially outperforming both the ASX Small Ordinaries Accumulation Index and S&P/ASX Emerging Companies Index.

Over the last 5 years the CTN share price has delivered total returns to shareholders as follows.

% return As at 31.12.13	CTN Total Shareholder Return	S&P/ ASX Emerging Companies Accum	S&P/ASX Small Ords Accum
1 Year	13.9%	-13.3%	-0.8%
2 years pa	17.0%	-10.9%	2.8%
3 years pa	0.9%	-15.3%	-6.0%
4 years pa	8.0%	-6.5%	-1.5%
5 years pa	17.0%	8.4%	8.1%

Past performance is no guarantee of future returns

As can be seen, the Total Shareholder Return has substantially outperformed the return of the S&P/ASX Small Ordinaries Accumulation Index and ASX Emerging Companies Index.

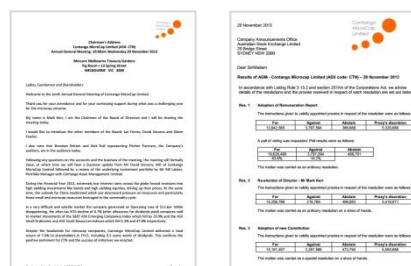
On another note, CTN shareholders may recall that Contango Asset Management Limited offered to list a Mid-Cap Income fund last year. In its 17 months of operation the strategy has returned 33.7%. This and the performance of other CAML funds is further evidence of their asset allocation and stock selection skills.¹

ASX ANNOUNCEMENTS IN THE QUARTER

During November the Company released:

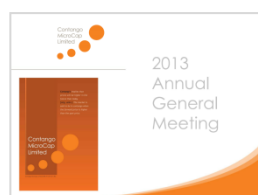
- Chairman's AGM Address
- Results of voting at AGM
- AGM Shareholders' Presentation

These documents can be found on the CTN Website⁵



CTN ANNUAL GENERAL MEETING

The 2013 Annual General Meeting was held on Wednesday 20 November in Melbourne. A record number of votes were cast by shareholders and we also thank those who were able to attend in person.



All resolutions were carried including moving from 49.99% to 100% ownership of the manager of the CTN investment portfolio.

NEW: CTN PHONE APP IS NOW AVAILABLE FOR FREE DOWNLOAD

We are also pleased to announce to shareholders that in December the CTN app was made available.



CTN wants to keep shareholders and interested parties up-to-date with information they need so we have developed a dedicated iPhone, iPad App and Android App for phones and tablets that you can download for free.

It uses push technology to notify you the moment an announcement, report or news item has been added to the CTN web site. You can quickly check updated share prices, market charts, news and research. Our Investor Centre App is now available to download from iTunes or the Google Play store.

DIVIDEND INFORMATION

Since declaring its first dividend in December 2004 CTN has paid a total of 71 cents per share in dividends to shareholders amounting to a total payout of over \$76m. The Company's dividend policy is to pay annual dividends amounting to a minimum 6% pa of the company NTA prevailing at the commencement of the Financial Year.

In line with the Dividend Policy, CTN is able to provide an *indication* of future dividends. Please note that this is not a formal declaration of dividend. Shareholders and investors should only rely on the Formal Declaration for confirmation of the dividend amount and relevant dates including what level of Franking may be attached to any dividends declared.

Indicative⁶ Dividend Information as at 01.01.2014

		Amount
FY14 Interim	March 2014: Proposed[#]	3.0 cents p/s
FY14 Final	October 2014: Proposed[#]	3.3 cents p/s
	Share Price as at 01.01.2014	\$1.055
	Proposed Dividend Yield [^]	6.0%

CTN DIVIDENDS NOW ELECTRONIC PAYMENT ONLY

Shareholders are advised that the dividend which the Company paid to shareholders in September was the last dividend that included the option to receive payment by cheque. From this point on, all CTN dividends will be paid directly into the shareholder's nominated bank account.

Coming into line with the process undertaken by many listed companies, this continues CTN's focus on cost minimisation, efficiency and best practice. Not only will shareholders receive their dividend payment much sooner, this will reduce the potential for loss or theft of your dividend cheque in the postal process. In addition, this will save CTN considerable processing and mailing costs each year, which directly benefits shareholders.

Shareholders should ensure that Computershare have your bank account and Tax File Number details.

In addition, shareholders who currently do not participate in the Company's Dividend Reinvestment Plan (DRP) may wish to consider taking up this opportunity. CTN's DRP issues new shares at a 3% discount to effective Share Price at the time of issue.

Information about the DRP can be found on the Dividends Page on the Company website⁷.

MARKET OVERVIEW

With relatively few macro shocks to disturb markets in 2013, global equities rallied a strong 29.2% over the year. Markets were driven by ultra-low interest rates and central bank asset purchases which supported the major developed economies. The main underperformer for the year was the Chinese market which was weighed down by moderating economic data and fluctuating financial markets.

Global long dated bonds generally sold off over the year as growth slowly improved in key developed economies and the Fed hinted it would start tapering its asset purchases. For the most part, markets handled the expected reduction in QE well with only relatively short bursts of volatility in June and December.

Over the year, the Nikkei was the standout performer up a very strong 56.7% on the back of BoJ easing. The US markets also performed well with the NASDAQ up 38.3%, the S&P 500 up 29.6% and the DOW up 36.5%. China was the key laggard with the Shanghai Composite down 6.7%, followed by the Hang Seng up 2.9% and the Indian BSE 200 up 4.4%.

The local ASX 300 Index increased a solid 19.7% in 2013, its best year since 2009. However, the local index underperformed its global peers weighed down by AUD selling, the partial unwinding of the carry trade and exposure to Resources and a moderating China. Australia's lag versus the world (in common currency terms) was the biggest since 1997.

In the December quarter, markets became more volatile as speculation and uncertainty regarding the Fed's tapering of QE drove sentiment. The prospect of tapering was first raised by the Fed in May when Bernanke said it could start as early as one of the "next few meetings". However, the Fed appeared to back away from this in subsequent months and it was not until the December meeting that the FOMC finally announced that purchases would drop by \$10 billion per month starting in January.

Markets generally responded well to the Fed's announcement with the S&P 500 up 2.4% in December. Markets took heart that the pace of tapering would be data-dependent and not on a pre-set course. The Fed also reinforced guidance that the funds rate would remain around zero until sometime after the jobless rate had fallen below 6.5%.

Over the quarter, Industrials (3.8%) continued to outperform Resources (1.7%) led by the more defensive sectors of Telcos (5.7%), Healthcare (5.4%) and Financials (5.1%). However, in the month of December, Resources (2.6%) outperformed Industrials (0.4%) for the first time in three months.

PORTFOLIO STRUCTURE

Over the December quarter there was minimal change to the portfolio's sector weightings. The most significant was a reduction in the overall energy weighting from 12.4% to 8.5% and this was mainly due to the acceptance of the takeover bid of Miclyn by Champ.

Oakton, a company which provides IT services and business consulting services space, was added and offers domestic cyclical exposure to the portfolio. Attila Resources, a coking coal developer in Alabama, USA was also added. Villa World and Cedar Woods were both increased further as we continue to like exposure to the domestic residential building market.

The purchases were funded from a number of stock specific sell downs. In addition to Miclyn Challenger Diversified, Cash Converters, Perilya and Crowe Howath exited the portfolio.

We participated in three new IPOS over the quarter, Affinity Education Group, Life Health Group and also iBuy.

OUTLOOK

The global economy continues to slowly heal, led mostly by the US and supported by monetary policy and reduced fiscal drag. With growth expected to remain robust in the US over 2014, we anticipate the Fed will continue to slowly taper QE throughout the year.

Fed tapering is a milestone event which marks the beginning-of-the-end of unprecedented central bank stimulus. Although rates will remain low for a while yet, tapering signals a shift in direction for the global economy with improved growth prospects and higher interest rates. These themes will continue to be key drivers of markets over the next 12 months.

Given the outlook, we expect bond yields will continue to normalise over the coming year towards 3.5%-4%. But given the Fed's commitment to keeping the Fed funds rate low for an extended period, we don't expect bond yields will selloff aggressively. Rather, the selloff in long dated yields will be capped by zero short rates, investors demand for yield and the Fed's commitment to the economic recovery.

Growth in Europe should be positive in 2014 but relatively subdued. The latest PMI data is consistent with growth of around 1% with solid growth in Germany and Spain partly offset by continued weakness in France and Italy. On the positive side, the ECB remains committed to the recovery demonstrated by its willingness to cut rates in late 2013. The key risk for the region remains deflation and another round of fiscal crises.

The outlook for China is relatively modest with the latest PMI's hovering only slightly in expansionary territory. The improvement in global growth will support exports in 2014 but legacy issues with excess credit and the need for rebalancing will weigh on activity in 2014. As a result, China's growth may not be as commodity intensive as in previous years.

Domestically, growth is expected to be sub-trend in 2014 as the economy slowly transitions towards the non-mining economy. However, there are some encouraging signs that the RBA's rate cuts and the lower AUD are starting to impact on housing and consumer spending. If the AUD remains below 90 cents, we believe the RBA will not need to cut rates further. But if the AUD rebounds back towards 1.00 USD and disrupts the non-mining recovery, then we believe the RBA will be forced to cut rates again.

Despite global interest rates moving higher, they remain at record low levels which will continue to support equity markets over the coming year. We expect returns will increasingly come from positive earnings revisions on the back of improved economic conditions and continued cost cuts.

Domestically, we expect a solid return for the market in 2014 of around 10%. However, companies will need to innovate and drive efficiencies to generate earnings and free cash flow rather than rely on top-line growth. We favour companies with solid growth profiles and high free cash flow yields while avoiding low growth defensives and pure yield companies.

Yours sincerely



David Stevens
Managing Director

¹ Performance is of the underlying investment portfolio identified is before fees, taxes and charges. Past performance is not necessarily indicative of future performance. All data is to 31 December 2013.

² Performance returns as per Mercer Australian Shares survey.

³ Not to be read as providing a prediction of future market performance or provision of investment advice.

⁴ Total Shareholder return also includes those dividends paid in each period.

⁵ http://www.contango.com.au/ctn_contango_microcap_investor_centre.php

⁶ Please note that this is not a formal declaration of dividend. Shareholders and investors should only rely on a Formal Declaration for confirmation of any dividend including amount, relevant dates and what level of Franking may be attached to any dividends declared.

[#] Based on Dividend Policy announcement of 16 April 2010 - applied to the NTA prevailing on 1 July 2013 being \$1.052.

[^] Based on the share price at 1 January 2014 (\$1.055) - applied to those dividends proposed to be paid in the next 12 months

⁷ DRP Information available from www.contango.com.au/ctn_contango_microcap_dividend_history.php

QUARTERLY INVESTMENT COMMENTARY

Global Overview

With relatively few macro shocks to disturb equity markets in 2013, global equities rallied a strong 29.2% over the year. Markets were driven by ultra-low interest rates and central bank asset purchases which supported the major developed economies. The main underperformer for the year was the Chinese market which was weighed down by moderating economic data and fluctuating financial markets.

Global long dated bonds generally sold off over the year as growth slowly improved in key developed economies and the Fed hinted it would start tapering its asset purchases. For the most part, markets handled the expected reduction in QE well with only relatively short bursts of volatility in June and December.

Over the year, the Nikkei was the standout performer up a very strong 56.7% on the back of BoJ easing. The US markets also performed well with the NASDAQ up 38.3%, the S&P 500 up 29.6% and the DOW up 36.5%. China was the key laggard with the Shanghai Composite down 6.7%, followed by the Hang Seng up 2.9% and the Indian BSE 200 up 4.4%.

The local ASX 300 Index also rallied in 2013 rising a solid 19.7%, its best year since 2009. However, the local index underperformed its global peers weighed down by AUD selling, the partial unwinding of the carry trade and exposure to Resources and a moderating China. Australia's lag versus the world (common currency terms) was the biggest since 1997.

Towards the end of the year, markets became more volatile as speculation and uncertainty regarding the Fed's tapering of QE drove sentiment. Despite finishing up 3.4% in the December quarter, the local index was down around 6% from its peak, before posting a solid recovery late in the month of December.

In the December quarter, the standout performers were the Nikkei (12.7%) followed by the German DAX (11.1%) and the Indian BSE 200 (10.9%).

The Chinese Shanghai Composite continued to underperform, down 2.7% on the back of subdued economic data.

Global Indices	1 mth	3 mth	12 mth
ASX 300*	0.8%	3.4%	19.7%
Dow Jones Industrial	3.0%	9.6%	26.5%
S&P 500	2.4%	9.9%	29.6%
NASDAQ Index	2.9%	10.7%	38.3%
Nikkei 225 Index	4.0%	12.7%	56.7%
Hang Seng Index	-2.4%	2.0%	2.9%
Shanghai Composite Index	-4.7%	-2.7%	-6.7%
FTSE 100	1.5%	4.4%	14.4%
German Aktien Index (DAX)	1.6%	11.1%	25.5%
France CAC40	0.0%	3.7%	18.0%
India BSE 200 Index	2.7%	10.9%	4.4%
MSCI World ex Aust (hedged)	2.1%	8.6%	29.2%
MSCI World ex Aust (unhedged)	4.4%	13.2%	48.0%

* Total Return

US Economy

Over the year, US monetary and fiscal policy were key drivers of market sentiment. On monetary policy, the Fed retained the Fed funds rate at close to zero throughout the year and kept the rate of its asset purchases at \$85 billion per month.

The prospect of tapering was first raised by the Fed in May when Bernanke said it could start as early as one of the "next few meetings". However, the Fed appeared to back away from this in subsequent months and it was not until the December meeting that the FOMC finally announced that purchases would drop by \$10 billion per month starting in January.

Markets generally responded well to the Fed's announcement with the S&P 500 up 2.4% in December. Markets took heart that the pace of tapering would be data-dependent and not on a pre-set course. The Fed also reinforced guidance that the funds rate would remain around zero until some time after the jobless rate had fallen below 6.5%.

On fiscal policy, the US Government shutdown for the first time since 1996 in October as the House and Senate failed to agree on the budget. The shutdown lasted 16 days with roughly 800 000 government employees furloughed.

In the end, House Republicans agreed to pass a temporary budget to fund spending until mid-January and suspend the Government's debt ceiling until February.

On the data front, US GDP accelerated throughout the year from an annual rate of just 0.1% in the fourth quarter of 2012 to 4.1% in the third quarter of 2013, the biggest quarterly increase since the fourth quarter of 2011.

Non-farm payrolls grew 2.07 million over the year to November compared to 1.97 million in the previous year. The unemployment rate fell 0.9% over the year to a five year low of 7.0% in November.

The ISM manufacturing index produced solid gains throughout the year rising from 50.2 in December 2012 to 57.3 in November 2013. The ISM non-manufacturing index remained firmly in expansionary levels throughout the year, peaking in August at 58.6 and finishing the year at 53.9. The University of Michigan consumer sentiment index increased from 72.9 in December 2012 to 82.5 in December 2013. The index peaked at 85.1 in July.

During the December quarter, the data generally continued to improve with payrolls up 578 thousand in the three months to November compared to 499 thousand in the prior three months. The University of Michigan consumer sentiment index rose to 82.5 in December from 77.5 in September. However, business sentiment was mixed as the ISM manufacturing PMI increased to 57.3 in November from 56.2 in September, but the ISM non-manufacturing index slipped back to 53.9 from 54.4 in September.

US Equity Market

The US market rode out key challenges in 2013 including fiscal policy deadlock and the prospect of QE tapering to finish the year up 29.6%, its best year since 1997. The US VIX index averaged only 14.2 in 2013, the lowest since 2006.

Sector leadership was mixed with Consumer Discretionary (41.0%) and Industrials (37.6%) among the cyclical winners while some defensive sectors lagged (Utilities 8.8%, Telcos 6.5%). Materials (22.7%) and Healthcare (38.7%) also performed well.

China

Activity in China moderated in 2013 but to a lesser extent than some had initially feared. The HSBC manufacturing PMI declined from 51.9 in December 2012 to 50.5 in December 2013. On the other hand, the official PMI actually increased slightly from 50.6 in December 2012 to 51.0 in December 2013. China's GDP growth ended the year at roughly the same rate as it started (around 7.8%) but had a weaker patch in the June quarter with growth slowing to 7.5%.

Inflation remained relatively subdued at around 2.5% for most of the year before picking up to around 3% by years end. Food inflation was the key driver of CPI volatility with food prices rising around 6% over the year. Loan growth moderated slightly from 15% in December 2012 to 14.2% in December 2013 but remained above nominal GDP growth which slowed from 9.7% in December 2012 to around 9.4% in November 2013.

On the policy front, the People's Bank of China kept the benchmark lending rate at 6% throughout the year and also kept the banks' reserve requirement ratio at 20%. In June, the PBoC appeared to signal a harder line on credit growth when it delayed injecting funds into a tight interbank market. The PBoC also announced the easing of lending rate controls in a step towards interest rate liberalization.

In the December quarter, the Communist Party Central Committee held its 3rd Plenary Session which approved a range of reforms including loosening the one-child policy, a greater role for market mechanisms and market-based pricing for some utility services.

Data releases were generally supportive in the December quarter as GDP growth picked up from 7.5% to 7.8% in September. Trade activity surprised to the upside with export growth (12.7%) higher than expected and import growth (5.3%) coming in lower than expected. This boosted the trade surplus to \$34 billion in November, well above expectations of \$21 billion.

House price growth continued to be broad based in the December quarter with 94.3% of the cities in the NBS index posting month-on-month price increases in November and 92.9% in October. On the downside, both the HSBC and official PMI's moderated slightly over the quarter but remained above 50.

Europe and Japan

In Europe, financial conditions slowly stabilized in 2013 as the region finally exited recession after six consecutive quarters of negative growth. However, 2013 was far from smooth sailing for the region as Cyprus entered into a €10 billion bailout with the Troika (IMF/EU/ECB) and, for the first time in a eurozone bailout, depositors faced losses as the country's second-largest bank collapsed.

On growth, Eurozone GDP grew by 0.3% in the second quarter of 2013 after six quarters of contraction, though growth eased to 0.1% in the third quarter. The Markit composite PMI improved over the year rising from 47.2 in December 2012 to 52.7 in December 2013, but the PMIs remain weak in France and Italy.

Inflation remained low over the year rising only 0.7% in October which raised concerns about potential deflation. The soft outlook for inflation led the ECB to cut its main refinancing rate by 50 basis points with 25 basis point cuts in May and November.

On the political front, Angela Merkel secured a third consecutive term as German Chancellor but fell short of an outright majority.

In Japan, the Prime Minister, Shinzo Abe, approved a US\$117 billion stimulus program which is the country's biggest since the financial crisis. In addition, the Bank of Japan agreed to support the administration's 2% inflation target with more aggressive monetary policy including asset purchases. This saw the Yen depreciate around 18% over the year.

PM Abe also committed to a hike in the national sales tax despite fears the increase could stall economic growth. To partly offset the blow, the PM announced a stimulus package of USD \$50 billion.

Global Interest Rates / Credit markets

Global bonds initially rallied in 2013 before selling off aggressively on improved growth and the prospect of Fed tapering.

US Treasuries rallied to a record low of 1.63% in May before rising 140 basis points to finish the year up 127 basis points. The Aussie 10-year followed suit, reaching a low of 3.03% in early May

before selling off 118 basis points to finish the year up 97 basis points.

The domestic yield curve also steepened during the year as the RBA delivered 50 basis points of cuts and the long end sold off. The 10-year spread to the cash rate touched a 4 year high of 184 basis points in December.

In other domestic developments, the Australian government priced its first 20-year maturity, and the largest AUD issue ever (\$5.9 billion), at a coupon of 4.5% with the issue oversubscribed.

Yields on long German Bunds also rose over the year but yields in the eurozone periphery fell as debt concerns eased in Spain (-111 basis points) and Italy (-37 basis points)

Interest Rates	Level	1 mth	3 mth	12 mth
AUS UBS Composite Bond	7,492.55	-1.1%	0.4%	2.8%
AUS UBS Bank Bill Index	7,852.62	0.2%	0.8%	3.3%
	%	basis point change		
AUS Cash Rate	2.50	0	0	-50
AUS 90 day Bank Bill rate	2.60	2	4	-44
AUS 10 year Bond yield	4.24	1	43	97
US Federal Funds rate	0.25	0	0	0
US 30 year Bond yield	3.98	16	29	103
US 10 year Bond yield	3.04	29	42	127

Exchange Rates

The AUD depreciated sharply against most major currencies over 2013, down 14.2% against the USD and 17.6% against the EUR. The Aussie broke 89 US cents in December for the first time since August 2010.

The depreciation was driven by a stronger USD but also weaker domestic conditions, a surprise RBA rate cut in May and declining terms of trade. The broader RBA trade weighted index fell 10.6% over the year.

In addition to the RBA rate cut, the RBA communicated a clear preference for a lower exchange rate throughout the year with the Governor quoted as saying that 85 cents was closer to fair value than 95 cents.

The USD saw mixed fortunes over the year as weakness against the Euro (-4.2%) was offset by strength against the JPY (+21.9%) which was weighed down by the BoJ's massive stimulus programme.

Exchange Rates	Level	1 mth	3 mth	12 mth
AUD/USD	0.89201	-2.1%	-4.3%	-14.2%
AUD/YEN	93.8945	0.7%	2.5%	4.2%
EURO/USD	1.3748	1.1%	1.7%	4.2%
AUD/EUR	0.6488	-3.2%	-5.9%	-17.6%
AUST TWI	68.9	-1.3%	-3.2%	-10.6%

Commodities

Most commodities ended 2013 lower as demand from China moderated. However, the more US sensitive West Texas Intermediate (oil index) was the main standout rising 7.5% over the year as the economic outlook improved.

On the other hand, Brent crude ended the year down 1.0%, averaging \$109 per barrel and trading within a tight range for most of the year. Brent was impacted by volatile geopolitical events (civil war in Syria, sanctions on Iran and unrest in South Sudan) and increased production in North America.

Spot gold fell 28.0% over the year, with the weakness skewed to the first half (-26.3%), to record its first annual decline since 2000. Low inflation across the developed world and the prospect of tapering weighed on investor demand. The price declined 2.5% on December 19 alone when the FOMC finally announced tapering. ETF holdings are down nearly 28 million tonnes over the year.

Moderating demand from China drove base metals (-8.5% LME index) and iron ore lower but the iron ore price had a second half bounce with the benchmark Tianjin 62% fines price reaching a low of \$110 in May before ending the year at \$134.2 (-7.4%).

In the December quarter, commodity prices showed some resilience with most rebounding somewhat except gold which continued its decline.

Crude oil prices were mixed over the quarter (Brent +1.5%, WTI -3.7%) on firmer economic data from the US and supply side risks including news that Libyan rebels refused to hand over control of three oil ports to the government and unrest in South Sudan.

WTI began closing the gap to Brent late in December as US data showed larger-than-expected draws on inventory. This came despite

US domestic oil production hitting 8.11mbpd during the month, the highest rate since 1988.

Spot gold continued to fall in the December quarter (-9.3%) as tepid inflation in the US and Europe, buoyant stock markets and the Fed's decision to taper weighed on bullion.

The benchmark spot iron ore contract, Tianjin 62% fines, was little changed over the quarter, albeit at a high level (averaging \$134.8). Resilient Chinese steel production helped to support demand in the quarter as crude steel output rose 9.8% over the year to November. However, prices softened somewhat towards the end of the quarter as Chinese port inventory reached 2013 highs of 81 million tonnes and steel mills reported tight cash flows.

Commodities	Level	1 mth	3 mth	12 mth
Gold (US\$/oz)	1,205.33	-3.7%	-9.3%	-28.0%
Oil WTI (US\$/bbl)	98.59	6.3%	-3.7%	7.5%
Aluminium (US\$/lb) LME	80.04	3.1%	-2.1%	-13.5%
Copper (US\$/lb) LME	335.41	5.2%	1.4%	-6.6%
Nickel (US\$/lb) LME	633.67	4.1%	0.8%	-18.2%
MG Metals Index	327.85	5.3%	1.6%	-7.7%

Domestic Economic Developments

The Australian economy moderated slightly over 2013, with GDP growth slowing from 2.8% in December 2012 to 2.3% in September 2013. Underlying inflation remained modest, averaging below the midpoint of the RBA's target of 2.5%.

As a result, the RBA cut the cash rate by 50 basis points (25 basis points in May and August) leaving it at a record low of 2.50%. Minutes from the May and August board meetings revealed that low inflation and slowing economic growth provided scope for easing. Throughout the year, the RBA also expressed a view that the exchange rate was too high and needed to depreciate to support the economy's transition from mining to non-mining.

On the political front, Tony Abbott became Australia's new Prime Minister as the Liberal-National Coalition won 90 of the 150 House of Representatives seats in September's Federal election. However, it will not have control of the Senate.

Soon after being elected, the government acknowledged that it will not meet its target of a

budget surplus within four years. Instead, the government forecast an increase in the deficit for 2013/14 from \$18 billion in May to \$47 billion (-3.0% of GDP).

The federal government debt limit was scrapped in favour of regular reporting on debt to Parliament after the government reached a deal with the Greens.

Following the clear election result, NAB's index of business sentiment bounced to a high of +12 in September. However, the bounce was short lived with the index falling back to end the year at +5. Similar to the business confidence series, the Westpac-Melbourne Institute's consumer confidence index hit a trough in May of 97.6, bounced to 110.3 in November on the back of the election result, but then gave back ground in December to 105.3 (+5% over the year).

On the labour market, the unemployment rate edged higher over the year from 5.4% in December 2012 to 5.8% in November 2013. Employment growth remained subdued at around 7 000 new jobs per month, well below the 20 000 required to hold the unemployment rate steady. Over the same time, the participation rate fell from 65.1% to 64.8% as discouraged workers left the labour force and as the baby boomers begin to retire. The employment to population ratio fell to an 8-year low.

Also on the labour market, Holden added to the downbeat employment backdrop announcing it will close its Australian manufacturing operations by 2017. Holden cited high labour costs, the sustained strength of the Australian dollar and the small domestic market.

The housing market was one of the standout performers in 2012, driven by the RBA's rate cuts and improving confidence. Building approvals increased steadily over the year to reach 170 000 in October compared to 150 000 a year earlier. However, much of the growth has come from apartment construction (+47% over the year to October) which is potentially less stimulatory to the labour market and broader economy than traditional housing.

Private sector credit remained subdued over the year, increasing only 3.8% over the year to November. Personal credit was the weakest subcomponent increasing only 0.8% over the year.

This was reflected in moderate growth in retail sales which averaged only 2.8% over the year.

Capex held up better-than-expected in 2013, with a positive September quarter reducing the year on year decline from -4.5% to -0.7%. The capex profile looks to be flattening rather than collapsing as some had feared, with the intentions survey pointing to better-than-expected outcomes in 2013-14.

Indicator	Outcome
Employment change, persons, mth	3 400
Unemployment rate, %	5.8
Consumer confidence, index, Dec	105.3
NAB business confidence, Nov	+5
RBA cash rate, %	2.50
Credit growth, %, yoy, Nov	3.8

Australian Equity Market

The ASX 300 Accumulation Index returned 0.8% in December, capping off another year of strong returns for the Australian equity market. The index is up 19.7% over the calendar year and 3.4% over the December quarter.

Top performing sectors for the year included Consumer Discretionary (40.7%) led by Media (66.3%) and Retail (34.6%), Diversified Financials (55.9%), Banks (36.1%) and Telcos (28.7%). RBA rate cuts supported the more cyclical consumer sectors while low bond yields helped the interest rate sensitive sectors.

The corporate activity scene was active in the year with 54 IPO's totalling \$5.9 billion. Highlights included Nine Entertainment, Ozforex, Virtus Health, Dick Smith, demergers from Brambles and Amcor and a proposed restructuring of the Westfield group. One setback on the deal front was the Government's blocking of ADM's bid for Graincorp.

The August 2013 earnings season was characterized by sluggish top-line growth and a continued focus on streamlining operations. Some companies did, however, note that conditions were not worsening or even pointed to green shoots in consumer spending and housing.

AGM statements and other updates suggested that the bounce in business sentiment following the Federal election had been short-lived as

companies remarked that economic conditions in Australia remain subdued.

Accumulated Australian Indices	1mth	3mth	12mth
ASX 200	0.8%	3.4%	20.2%
ASX 300	0.8%	3.4%	19.7%
ASX 300 Industrials	0.4%	3.8%	26.7%
ASX 300 Resources	2.5%	1.7%	-1.4%
All Ordinaries	0.9%	3.4%	19.7%
Small Ordinaries	2.5%	-0.2%	-0.8%

As at 31 December 2013. Source: Iress * Total return

During the December quarter, the local market reached its 2013 high before retreating almost 7% by 12 December. The index then rallied into year end, including its best four days (4.5%) since December 2011.

Australian Sector *	1 mth	3 mth	12 mth
Materials	2.3%	5.0%	-2.0%
Consumer Discretionary	1.9%	3.3%	40.7%
Consumer Staples	1.5%	1.2%	17.8%
Energy	3.3%	-3.1%	11.5%
Financial	-1.0%	4.2%	30.3%
Financial (ex LPT's)	-1.0%	5.1%	34.8%
Healthcare	1.2%	5.4%	25.0%
Industrials	2.6%	0.7%	16.0%
Information Technology	0.7%	1.2%	21.7%
Property Trusts	-1.3%	-1.4%	7.3%
Telecoms	4.3%	5.7%	28.7%
Utilities	1.2%	-0.6%	8.0%
S&P/ASX300	0.8%	3.4%	19.7%

As at 31 December 2013. Source: Iress * Total return

Over the quarter, Industrials (3.8%) continued to outperform Resources (1.7%) led by the more defensive sectors of Telcos (5.7%), Healthcare (5.4%) and Financials (5.1%). However, in the month of December, Resources (2.6%) outperformed Industrials (0.4%) for the first time in three months. But over the year, Resources have significantly underperformed Industrials (-1.4% vs 26.7%).

In the month of December, Energy (3.3%) performed well thanks to a stronger oil price (WTI spot 6.3%), with BPT (6.3%), CTX (5.3%), STO (4.5%) and WPL (4.0%) all outperforming. But OSH (1.4%) and ORG (0.9%) lagged their peers. Energy delivered a positive return for the 2013 calendar year (11.5%) but underperformed the broader market.

Metals & Mining also enjoyed a stronger month despite a weaker gold and iron ore price as BHP (1.6%), RIO (3.2%) and FMG (2.5%) outperformed

the broader market. Gold performed well driven by NCM (1.4%) but was weighed down by ILU (-1.6%), RRL (-2.7%), and LYC (-3.3%).

Financials (-1.0%) underperformed in the month primarily due to a very poor month in Insurance (-10.3%), although REITs (-1.3%) were also down. Meanwhile Banks (-0.0%) were flat, and Diversified Financials (3.2%) outperformed for the fourth consecutive month. For the calendar year, Diversified Financials and Banks were the standouts, up 55.9% and 36.1% respectively, while Insurance (16.4%) and REITS (7.3%) lagged the market due to their weaker performance in the latter part of the year.

All Insurance stocks underperformed in December with QBE (-26.5%) the key detractor after announcing a ~30% downgrade to FY13 guidance. IAG (-3.8%) shares fell after it announced a \$1.2 billion institutional placement to fund the acquisition of WES's insurance assets, while AMP (-5.8%) and SUN (-0.7%) were also weaker.

REITS underperformed for the sixth consecutive month in December as investors continued to rotate out of yield stocks. WDC (-3.0%), SGP (-3.1%), WRT (-2.6%), GPT (-2.2%), CFX (-1.8%) and CQR (-1.7%) drove sector underperformance, while MGR (1.4%) and LLC (0.8%) bucked the trend, as did CPA (0.8%) on news that DXS has upped its bid.

PTM (11.3%), HGG (9.7%) and PPT (8.0%) led the Diversified Financials, with HGG the top-performing ASX 100 stock in 2013 (up a massive 110%). ASX (-0.9%) underperformed after a disappointing Monthly Activity Report that revealed a 12% fall in average daily interest rate futures volumes.

WBC (-1.5%) had the weakest performance out of the Big 4 Banks this month, offset by strength from ANZ (1.0%) and NAB (0.7%), while CBA (-0.0%) was flat. BEN (4.4%) continued its strong run, outperforming BOQ (-0.1%).

There were a number of standouts in the broader Materials sector, with steel stocks ARI (11.1%) and BSL (7.0%) continuing their strong run from November and SGM (6.5%) also doing well. ARI and BSL were among the top Materials performers for 2013 up 97.8% and 68.7% respectively. JHX (3.9%) was another strong performer in December, while domestic-focused building peers BLD (-1.0%) and FBU (-5.7%) were weaker.

Capital Goods (8.2%) had a very strong month in December, reversing much of November's losses with the beaten-up Mining Services names among the best performers. FGE (132.0%), ASL (32.1%), BLY (28.3%), RCR (22.8%), MAH (20.8%), NWH (16.1%), UGL (13.3%) and MND (12.7%) were all standouts, while AAX (-40.9%) fell sharply after it resumed trading following its 4 for 11 accelerated non-renounceable entitlement offer. TSE (-21.1%) substantially underperformed its peers despite reiterating FY13 guidance, as did LEI (-0.9%).

Despite a strong finish to the year, the large majority of Mining Services stocks were substantial underperformers over the course of 2013 including BLY (-79.0%), FGE (-61.1%), ASL (-59.4%), MAH (-35.6%), UGL (-29.2%) and NWH (-20.2%).

Retail (-0.6%) stocks underperformed in December, driven by MYR (-3.5%), SUL (-2.9%) and HVN (-2.2%). Small-cap retailer WTF (-36.6%) was the sector disappointment after it downgraded its first half 2014 guidance by ~20%. BRG (7.1%), JBH (5.4%), PMV (4.5%) and DJS (1.7%) all bucked the trend. JBH, KMD and HVN were the three top retail performers for the year (114.7%, 112.2% and 71.1% respectively), while WTF, ORL and WEB were the substantial losers (-43.1%, -28.8% and -24.5% respectively).

A strong performance from Media (4.6%) meant that Consumer Discretionary (1.9%) outperformed despite Retail's weak performance. SKT (8.5%), SXL (7.6%), FOX (7.1%), FXJ (6.7%) and SWM (5.9%) all had a strong finish to the year and were all among the top Media performers in 2013. FOX and SXL the standouts 78.5% and 69.5%, respectively.

Defensive sectors generally outperformed this month, led by Telcos (4.3%), Staples (1.5%), Healthcare (1.2%) and Utilities (1.2%). A strong performance by TLS (3.7%) drove outperformance in the Telcos space, with IIN (5.5%) and MTU (6.6%) also doing well.

Consumer Staples was driven by WES (2.6%) on news it will sell its insurance assets to IAG, as well as MTS (6.7%) with the market responding positively to its 1H14 result and announcement of a strategic review. Meanwhile, TWE (-1.8%), GNC (-2.5%) and WOW (0.5%) underperformed.

In Healthcare a strong performance from RHC (11.7%) was tempered by SHL (-0.1%), CSL (0.3%), and COH (0.7%). CSL was the standout in the Healthcare space in CY2013 climbing 66.3%.

Australian Equity Market – Outlook

The global economy continues to slowly heal, led mostly by the US and supported by monetary policy and reduced fiscal drag. With growth expected to remain robust in the US over 2014, we anticipate the Fed will continue to slowly taper QE throughout the year.

Fed tapering is a milestone event which marks the beginning-of-the-end of unprecedented central bank stimulus. Although rates will remain low for a while yet, tapering signals a shift in direction for the global economy with improved growth prospects and higher interest rates. These themes will continue to be key drivers of markets over the next 12 months.

Given the outlook, we expect bond yields will continue to normalise over the coming year towards 3.5%-4%. But given the Fed's commitment to keeping the Fed funds rate low for an extended period, we don't expect bond yields will selloff aggressively. Rather, the selloff in long dated yields will be capped by zero short rates, investors demand for yield and the Fed's commitment to the economic recovery.

Growth in Europe should be positive in 2014 but relatively subdued. The latest PMI data is consistent with growth of around 1% with solid growth in Germany and Spain partly offset by continued weakness in France and Italy. On the positive side, the ECB remains committed to the recovery demonstrated by its willingness to cut rates in late 2013. The key risk for the region remains deflation and another round of fiscal crises.

The outlook for China is relatively modest with the latest PMI's hovering only slightly in expansionary territory. The improvement in global growth will support exports in 2014 but legacy issues with excess credit and the need for rebalancing will weigh on activity in 2014. As a result, China's growth may not be as commodity intensive as in previous years.

Domestically, growth is expected to be sub-trend in 2014 as the economy slowly transitions towards the non-mining economy. However, there are some encouraging signs that the RBA's rate cuts and the lower AUD are starting to impact on housing and consumer spending. If the AUD remains below 90 cents, we believe the RBA will not need to cut rates further. But if the AUD rebounds back towards 1.00 USD and disrupts the non-mining recovery, then we believe the RBA will be forced to cut rates again.

Despite global interest rates moving higher, they remain at record low levels which will continue to support equity markets over the coming year. We expect returns will increasingly come from positive earnings revisions on the back of improved economic conditions and continued cost cuts.

Domestically, we expect a solid return for the market in 2014 of around 10%. However, companies will need to innovate and drive efficiencies to generate earnings and free cash flow rather than rely on top-line growth. We favour companies with solid growth profiles and high free cash flow yields while avoiding low growth defensives and pure yield companies.

MicroCap Overview

For the month of December, the Small Ords index posted a gain of 2.5% which outperformed the large cap benchmark (0.7%) this month to derail its three month losing streak. Resources (+3.3%) had a rare win against industrials (2.4%) outperforming by 90bps. Over the year, smaller companies finished lower (-0.8%) compared with larger caps (+21.5%). Resources (-42.3%) remained firmly out of favour compared with industrials (+18.4%).

The key feature of the quarter was the ongoing battle within the FOMC regarding tapering of economic stimulus. The market had previously wavered at the hint of tapering but in December, once the announcement was made that tapering would commence in January 2014, euphoria lifted the market as if finally, there was a realisation that improving economic activity was actually a good thing despite the inevitable implications for the existing quantitative easing program. The market had come a long way from earlier in the quarter when the US Government shut down and fears of failure to raise the debt ceiling. Domestically, a lower exchange rate and an expectation of further

falls following the commencement of tapering led to significant outflow by offshore holder leading to some weakness (particularly in November). This seems to have abated to a degree with the Australian dollar stabilising around \$0.90 USD – for the year the currency has fallen -14.2% against the greenback.

Over the quarter base metals fared well reflecting an improved global growth outlook stemming from Europe, US and China. Precious metals bore the brunt of the US dollar strengthening over the period with gold and silver down around -10%. Oil sold off (-3.7%) as geopolitical tensions emanating from Syria (chemical weapons) and Iran (nuclear development) calmed following agreements with the international community.

Over the month the weaker performers were dominated by guidance downgrades. Financial planning and accountancy group Crowe Horwath (-42.0%) announced that it expects normalised 1H14 EBITA to be ~A\$5m lower than the prior corresponding period of A\$15.8m due to weak demand for discretionary business advisory services and principal departures. Finance group Silver Chef (-29.8%) expects FY14 profit to be 10-15% lower than previous guidance of A\$13m due to the slower asset acquisition rate for the GoGetta business. Codan* (-29.8%) issued its second downgrade since June 2013, reducing 1H14 profit expectations from ~A\$10m to A\$4-5m with depressed trading conditions continuing for gold detection products in Africa. Wotif.com (-36.6%) revealed downgraded expectation for the current financial year of ~20% stemming from increased competition and higher costs.

In the capital goods sector, Ausenco (-40.9%) slid further after completing a deeply discounted rights issue to overcome short term funding difficulties emanating from poor trading conditions which led to the downgrade announced in November. Transfield Services (-21.2%) remained weak despite reconfirming guidance for the full year; the market focus though was on commentary that suggested a softer first half followed by a rapid recovery in the second together with estimates that debt will be higher namely, \$700m compared with a market cap of \$500m!

Capital goods fared poorly throughout 2013 on the back of weakening industry conditions. Interestingly despite soft outlook statements by a

number of companies in the sector, the group (excluding the entities named in the previous paragraph) came in for some value support including: Forge Group (+132% for the month -67% for the quarter), Ausdrill (+32.1%), Boart Longyear (+28.3%), Sedgman (+23.6%) and Macmahon Holdings. Contract wins assisted Decmil Group (+33.3%) to rally given that budget and forecast revenues are now secured for the current financial year.

Global dairy interest Fonterra (-9%) fell after the company announced that margins have been squeezed by a lag in product (casein and cheese) prices increase leading to the company paying lower farm gate prices and a cut to its dividend. REA Group (-6.8%) announced the resignation of their long serving CEO Greg Ellis. This followed the resignation of the CFO in November leading some in the market to speculate about the outlook for the business. We believe the company's recent growth initiatives (e.g. increase listing vendor pay/revenue) will lead to outperformance over time.

*denotes stocks held in the portfolio

Portfolio Overview

The Contango MicroCap portfolio return of 2.0% outperformed the Small Ordinaries return of -0.2% in the December quarter.

Period	Contango MicroCap Portfolio %	Small Ords Accum %	Emerging Co's Accum %
1 Month	1.3	2.5	-0.6
3 Months	2.0	-0.2	-3.8
6 Months	27.6	14.7	19.7
1 Year	19.3	-0.8	-13.3
2 Years pa	10.9	2.8	-10.9
3 Years pa	0.3	-6.0	-15.3
5 Years pa	16.3	8.1	8.4
Inception pa	17.6	5.0	3.1

NB Inception March 2004. Past performance is no guarantee or predictor of future performance. As at 31.12.13

Over the December quarter there was a significant reduction in the overall energy weighting from 12.4% to 8.5% and this was mainly due to the acceptance of the takeover bid of Miclyn by Champ. Unfortunately the announcement from Buccaneer where they lost their joint venture partner and subsequently now looking for a new partner, as well as a deeply discounted rights issue,

has seen this stock underperform significantly and has detracted from the fund's performance over the quarter.

Oakton was added and offers domestic cyclical exposure to the IT services and business consulting services space. Business confidence and conditions have been low for the last several years, resulting in low business spend on IT services and infrastructure spend. There are still yet to be any tangible signs of an improvement, however business confidence and conditions may have bottomed and improve post 2013 Federal election and businesses may look to spend on IT. When they do, OKN will be leveraged to the uplift.

Attila Resources, a coking coal developer in Alabama, USA, was also added. What we like about this company is it has an existing underground mine with rail and port solutions already in place. So we see this project being low capex versus a number of the developments in Australia. This will provide it with a competitive edge once they complete their bankable feasibility study this year.

We participated in three new IPOS over the quarter, **Affinity Education Group**, **Life Health Group** and also **Ibuy**. Affinity is an early stage G8 Education lookalike and offers an attractive valuation versus G8 so we have increased the weight post the listing further. It was partly funded by the small reduction in the fund's G8 holding. Ibuy is looking to online sales throughout South East Asia and with the stock trading around the issue price of 0.34c we have increased the weighting further. Life Health Group is a specialist high end medical device distributor in Australia and New Zealand. The stock opened around issue and we have continued to increase the weight within the portfolio.

Villa World and **Cedar Woods** were both increased further as we continue to like exposure to the domestic residential building market. Villawood announced a recent placement and we used the opportunity to add to the position. They continue to grow their residential property business in Victoria.

The purchases were funded from a number of stock specific sell downs. As mentioned previously **Miclyn** was exited from the portfolio after accepting the takeover bid from Champ. **Challenger Diversified** was sold as it was outside

of the Microcap portfolio definition for the fund. **Cash Converters** suffered a profit downgrade and over the last six months has faced a number of regulatory changes which we were concerned about so the stock has been sold. **Perilya** was sold into the takeover bid from its largest Chinese investor and this was used to fund the move into **Attila**. **Crowe Howe**, a financial planning/accounting practice was sold prior to their most recent profit downgrade, the stock has had a number of downgrades and changes of management and we became concerned after their disappointing full year result in September.

Sector Weightings (%)	Sept 13	Dec 13
Energy	12.4%	8.5%
Materials	13.0%	13.7%
Industrials	11.5%	12.9%
Consumer Discretionary	20.3%	21.5%
Consumer Staples	0.9%	0.9%
Healthcare	7.3%	6.7%
Financials	19.8%	19.8%
Information Technology	9.3%	10.8%
Telecommunications	1.0%	1.1%
Utilities	1.3%	1.4%
SPI	0.3%	0.1%
Cash	3.0%	2.7%

IPOs and Placements

The portfolio participated in the following placements & IPOs during the December quarter.

Code	Company	Price
PLACEMENTS		
AWK	Australasian Wealth Investments	\$0.35
AYA	Attila Resources Limited	\$0.60
BCC	Buccaneer Energy Limited	\$0.04
CLX	CTI Logistics Limited	\$1.85
EPD	Empired Ltd	\$0.62
EPW	ERM Power Limited	\$2.53
FNP	Freedom Foods Group Limited	\$2.10
GEM	G8 Education Limited	\$3.10
HUB	HUB24 Limited	\$1.30
MDL	Mineral Deposits Limited	\$2.00
NEU	Neuren Pharmaceuticals Limited	\$0.12
ORE	Orocobre Limited	\$2.10
RFE	Red Fork Energy Limited	\$0.43
SEH	Sino Gas & Energy Holdings	\$0.20
TGP	360 Capital Group	\$0.59
TGS	Tiger Resources Limited	\$0.34
TTI	Traffic Technologies Ltd.	\$0.08

IPOs

AFJ	Affinity Education Group	\$1.00
IBY	iBuy Group Limited	\$0.32
LHC	Lifehealth Group Limited	\$2.00

Portfolio Details

As at 31 December 2013 there were 70 securities in the portfolio. The tables below show the breakdown of these positions within the portfolio.

Position Weight	# of stocks	% of portfolio
> 2%	18	48.6%
1% - 2%	21	31.3%
0.5% - 1%	17	14.0%
< 0.5%	14	3.6%

Market Cap	# of stocks	% of portfolio
\$1b+	2	5.3%
\$350m- \$1b	20	43.7%
\$100m-\$350m	34	43.0%
\$0m - \$100m	14	5.5%

Attribution – 5 Best and 5 Worst

Company Name	Attribution
BEST	
BTT	BT Investment Mgmt 0.92%
SGH	Slater & Gordon 0.78%
IPP	Iproperty Group 0.61%
NEA	Nearmap Ltd 0.59%
CTD	Corporate Travel Mgmt 0.49%

Company Name	Attribution
WORST	
BCC	Buccaneer Energy Ltd -1.91%
CDA	Codan Limited -0.40%
SXE	Southern Cross Elect. Engineering Ltd -0.36%
WEB	Webjet Limited -0.30%
RFE	Red Fork Energy Ltd -0.28%

Top 20 Stock Weights as at 31 December 2013 (as a percentage of the total CTN investment portfolio)

Code	Company Name	Weight
IPP	iProperty Group Limited	3.6%
SGH	Slater & Gordon Limited	3.5%
TGS	Tiger Resources Limited	3.3%
BTT	BT Investment Management Ltd	3.2%
GEM	G8 Education Limited	3.2%
MYX	Mayne Pharma Group Limited	3.1%
AUB	Austbrokers Holdings Limited	3.1%
CWP	Cedar Woods Properties Limited	2.8%
VRL	Village Roadshow Limited	2.6%

INA	Ingenia Communities Group	2.4%
AHE	Automotive Holdings Group Limited	2.4%
PRT	Prime Media Group Limited	2.3%
VLW	Villa World Limited	2.2%
SFW	Sfg Australia Limited	2.2%
GBT	GBST Holdings Limited	2.1%
MDL	Mineral Deposits Limited	2.1%
NHF	NIB Holdings Limited	2.0%
BDR	Beadell Resources Limited	2.0%
MLD	MACA Limited	1.9%
ORE	Orocobre Limited	1.9%

iProperty Group (IPP)

iProperty Group is the largest operator of real estate classified and advertising portals in South East Asia, holding market leading positions in Malaysia, Indonesia and Hong Kong and the number two position in Singapore. The company earns income from subscriptions and display advertisements from real estate agents, property developers, banks and insurance companies. The maturity of online classifieds in the region is very early stage, but growing strongly, and IPP's market leading positions offers exposure to this growth.

Slater & Gordon (SGH)

An Australian law firm specialising in personal injury insurance claims, commercial, and family law. SGH operates over 45 offices throughout Australia. SGH is currently the market leader in personal injury with 20% market share, with a 30-35% market share target over time through organic through and bolt-on acquisitions. The firm is well known for its "no win no fee" arrangements 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.

Tiger Resources (TGS)

One of the lowest cash copper producers listed on the Australian market and operates an open cast copper mine in the Congo, Africa. The company is now moving onto stage 2 which is a more robust SXEW operation starting in 2014 and will ramp up to over 50kt at its peak production.

BT Investment Management (BTT)

Is an equities, fixed interest, cash and multi-asset class strategy funds manager with A\$62.5bn in funds under management (Dec 2013) and investor clients in Australia, Europe and the US. Following its October 2011 acquisition of J O Hambro Capital Management (Hambro), BTT now has approximately 30% of its funds in international mandates. Hambro is a successful London-based active equity investment manager with 15 funds across strategies including UK (~38% total FUM), European (~28% FUM), Global (~26%), Emerging Market (~6%) and Asia (~2%).

G8 Education (GEM)

Operates child care centres in Australia and Singapore. Currently, over 230 centres exist including eight brands in Australia: Early Learning Services, World of Learning, Community Kids, Casa Bambini, Holiday Club, Kindy Patch, Headstart and KinderHaven. The company is exposed to strong underlying demand for its services due to factors such as increased participation of women in the workforce. Has a clear strategy of acquiring centres cheaply in a highly fragmented market, while ensuring that debt levels are managed and a high ROE is delivered.

Mayne Pharma Group (MYX)

Mayne Pharma is a specialist pharmaceutical company with an intellectual property portfolio built around the optimisation and delivery of oral dosage form drugs. The businesses are divided into the categories of drug delivery, product, services and manufacturing.

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 and commissions and does not take on any underwriting risk.

Cedar Woods Properties (CWP)

Cedar Woods is an Australian property developer with a focus on residential communities in Western Australia and Victoria. CWP should benefit from a pickup in domestic housing short term interest rates remain low in the medium term. The quality of projects currently being developed is of a high standard and progressing well. CWP also has a proven ability in executing well on residential developments and managing capital through tough environments.

Village Roadshow (VRL)

An entertainment and media services company. Its divisions include theme parks, cinema exhibition, film distribution, and it has a 47.6% stake in the film production business called Village Roadshow Entertainment Group (VREG). Theme parks are a substantial volume growth story with several theme parks set to open. Sydney opened in late 2013 and so far we are comforted by the level of patronage during the Christmas break. Cinema exhibition is effectively a duopoly with Hoyts in Australia. The VREG business is currently underappreciated by the market despite a growing film library (~75 films with 6-8 films produced

annually, including a successful start into the production of Chinese films for their market).

Ingenia Communities Group (INA)

Previously known as the ING Real Estate Community Living Group, owns, manages and develops a diversified portfolio of seniors living communities across Australia. Its real estate assets are valued at \$224 million and include rental villages, deferred management fee villages, Manufactured Home Estates (MHE) and three New Zealand student accommodation buildings.

Automotive Holdings (AHE)

Automotive Holdings has grown to become the largest motor vehicle dealer group within Australia, with franchises covering 10 out of the top 11 passenger vehicle brands. The group's primary markets are Western Australia and Queensland, although recent acquisitions have given AHE a presence in metropolitan Sydney. AHE also operates a logistics division comprised of a refrigerated transport business, cold storage, warehousing and distribution.

Prime Media Group (PRT)

Prime operates television broadcasting, radio broadcasting and online media throughout Northern & Southern NSW and Victoria, with the bulk of its group revenues coming from the television division. PRT has had a long affiliation agreement with free-to-air market leader Channel Seven where PRT leverages Seven's strong programming schedule (and consequently ratings). While the advertisement market has been weak and subdued in recent years, PRT's market leading position and management's strong cost focus has seen earnings grow in the period. The stock has also offered an attractive yield.

Villa World Limited (VLW)

Villa World Limited is a residential property developer. The Company has two major residential development brands: Villa World Homes and GEO Developments. Villa World's strategy is to grow the core residential communities development business within Queensland, New South Wales and Victoria.

SFG Australia Limited (SFW)

SFG Australia provides wealth management and accounting services to high net worth and affluent clients in the Australian market place. As at 31 December 2012, SFW had \$11.6bn in funds under advice, \$10.0bn in funds under administration and \$4.7bn in funds under management. SFW is the consolidation of Shadforths Financial Group, Snowball Group and more recently Lachlan Partners – an integrated accounting, tax and financial advice group. SFW is currently in confidential discussions with the listed WHK Group (WHG) about a merger of equals. The merger proposal is subject to a number of conditions

including mutual due diligence, agreeing on a merger scrip ratio and formulating a timetable.

GBST Holdings Limited (GBT)

GBST Holdings Limited is a provider of securities transaction and fund administration software to the financial services industry. Following company success and global expansion, three new business units have been set up; Capital Markets, Wealth Management and Financial Services.

Mineral Deposits Ltd (MDL)

The company is in the process of building its mineral sands operation in Senegal, Africa. The company will operate in a joint venture structure with Eramet. First production is expected in 2014 and will be operating at around the 50mtpa dredging operation to produce both zircon (used in the ceramic tile industry and ilmenite, which is used in the pigment, paints industry. The project is fully funded and longer term the ilmenite feed will be upgraded through its jointly owned with Eramet smelting facility in Norway.

NIB Holdings Limited (NHF)

A national provider of private health insurance, life insurance, travel insurance and related health care activities to more than 900,000 people nationwide. NHF's strategy is to provide innovative, low cost health insurance products.

Beadell Resources (BDR)

One of the lowest gold producers listed in Australia and now fully operational from their open cut mine in Brazil. Producing over 200k ozs of gold currently with two mines in operation and the potential for them to also receive a revenue stream from the iron ore means this will save them a further \$US100-150/oz operating cost saving.

MACA (MLD)

MACA is a mining and civil construction company with over a thousand employees. They offer contract mining, civil earthworks, crushing and screening and material haulage solutions, to a diverse number of clients both in the mining and non-mining industry. While we have been underweight mining service providers, we remain comfortable with MACA's business model and reliable earnings growth over the medium term.

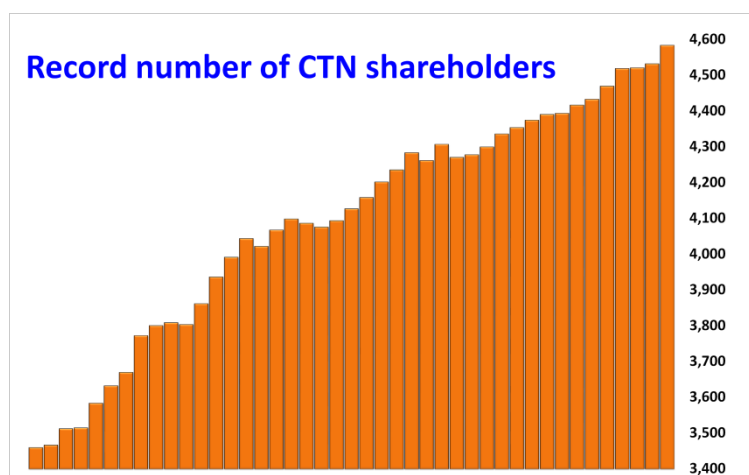
Orocobre Limited (ORE)

A minerals exploration company focusing on lithium-potassium brine at Olaroz Project in Argentina. Through its 85%-owned subsidiary, South American Salar Minerals Pty Ltd, the company also has interests in other pipelines of salar (salt), lithium and potash projects in Argentina.

KEY INVESTMENT INDICES	31/12/2013	Month	Quarter	6 Months	Financial Year to Date	12 Months
Accumulated Australian Indices						
ASX 200	44,635.11	0.8%	3.4%	14.0%	14.0%	20.2%
ASX 300	44,088.78	0.8%	3.4%	14.0%	14.0%	19.7%
ASX 300 Industrials	84,925.64	0.4%	3.8%	12.7%	12.7%	26.7%
ASX 300 Resources	21,769.51	2.5%	1.7%	19.4%	19.4%	-1.4%
All Ordinaries	43,845.01	0.9%	3.4%	14.6%	14.6%	19.7%
Small Ordinaries	5,403.42	2.5%	-0.2%	14.7%	14.7%	-0.8%
ASX 300 Accumulated GICS Sector Indices						
Materials	69,125.48	2.3%	5.0%	22.2%	22.2%	-2.0%
Consumer Discretionary	14,033.64	1.9%	3.3%	18.3%	18.3%	40.7%
Consumer Staples	80,178.64	1.5%	1.2%	6.5%	6.5%	17.8%
Energy	97,163.10	3.3%	-3.1%	10.5%	10.5%	11.5%
Financial	57,716.77	-1.0%	4.2%	13.3%	13.3%	30.3%
Financial (ex LPT's)	66,062.99	-1.0%	5.1%	16.0%	16.0%	34.8%
Healthcare	74,532.36	1.2%	5.4%	11.6%	11.6%	25.0%
Industrials	33,471.83	2.6%	0.7%	13.3%	13.3%	16.0%
Information Technology	5,591.04	0.7%	1.2%	9.4%	9.4%	21.7%
Property Trusts	26,888.28	-1.3%	-1.4%	-1.3%	-1.3%	7.3%
Telecoms	20,685.48	4.3%	5.7%	13.4%	13.4%	28.7%
Utilities	54,079.91	1.2%	-0.6%	4.8%	4.8%	8.0%
Global Indices						
Dow Jones Industrial	16,576.66	3.0%	9.6%	11.2%	11.2%	26.5%
S&P 500	1,848.36	2.4%	9.9%	15.1%	15.1%	29.6%
NASDAQ Index	4,176.59	2.9%	10.7%	22.7%	22.7%	38.3%
Nikkei 225 Index	16,291.31	4.0%	12.7%	19.1%	19.1%	56.7%
Hang Seng Index	23,306.39	-2.4%	2.0%	12.0%	12.0%	2.9%
Shanghai Composite Index	2,115.98	-4.7%	-2.7%	6.9%	6.9%	-6.7%
FTSE 100	6,749.09	1.5%	4.4%	8.6%	8.6%	14.4%
German Aktien Index (DAX)	9,552.16	1.6%	11.1%	20.0%	20.0%	25.5%
France CAC40	4,295.95	0.0%	3.7%	14.9%	14.9%	18.0%
India BSE 200 Index	2,530.58	2.7%	10.9%	8.9%	8.9%	4.4%
MSCI World ex Aust (hedged)	3,082.96	2.1%	8.6%	15.4%	15.4%	29.2%
MSCI World ex Aust (unhedged)	4,843.34	4.4%	13.2%	19.7%	19.7%	48.0%
S&P 500 US GICS Sector Indices						
Energy	651.67	3.0%	7.7%	12.6%	12.6%	22.3%
Materials	291.64	4.6%	10.1%	20.7%	20.7%	22.7%
Industrials	452.46	4.0%	12.9%	22.3%	22.3%	37.6%
Consumer Discretionary	530.10	2.1%	10.4%	18.5%	18.5%	41.0%
Consumer Staples	442.62	0.2%	7.9%	8.0%	8.0%	22.7%
Health Care	642.30	0.7%	9.6%	16.5%	16.5%	38.7%
Financials	294.71	2.0%	9.8%	12.5%	12.5%	33.2%
Information Technology	585.48	4.1%	12.8%	19.7%	19.7%	26.2%
Telecommunication Services	155.52	-0.3%	4.2%	-1.5%	-1.5%	6.5%
Utilities	193.21	0.5%	1.8%	0.9%	0.9%	8.8%
Commodities						
Gold (US\$/oz)	1,205.33	-3.7%	-9.3%	-2.3%	-2.3%	-28.0%
Oil WTI (US\$/bbl)	98.59	6.3%	-3.7%	2.3%	2.3%	7.5%
Aluminium (US\$/lb) LME	80.04	3.1%	-2.1%	1.9%	1.9%	-13.5%
Copper (US\$/lb) LME	335.41	5.2%	1.4%	9.5%	9.5%	-6.6%
Nickel (US\$/lb) LME	633.67	4.1%	0.8%	2.1%	2.1%	-18.2%
MG Metals Index	327.85	5.3%	1.6%	7.7%	7.7%	-7.7%
Interest Rates						
AUS UBS Composite Bond Index	7,599.57	0.5%	0.4%	1.4%	1.4%	2.0%
AUS UBS Bank Bill Index	7,959.77	0.2%	0.6%	1.4%	1.4%	2.9%
	%			basis point change		
AUS Cash Rate	2.50	0	0	-25	-25	-50
AUS 90 day Bank Bill rate	2.60	2	4	-19	-19	-44
AUS 10 year Bond yield	4.24	1	43	47	47	97
US Federal Funds rate	0.25	0	0	0	0	0
US 30 year Bond yield	3.98	16	29	47	47	103
US 10 year Bond yield	3.04	29	42	55	55	127
Exchange Rates						
AUD/USD	0.8920	-2.1%	-4.3%	-2.4%	-2.4%	-14.2%
AUD/YEN	93.89	0.7%	2.5%	3.6%	3.6%	4.2%
EURO/USD	1.37	1.1%	1.7%	5.7%	5.7%	4.2%
AUD/EUR	0.65	-3.2%	-5.9%	-7.6%	-7.6%	-17.6%
AUST TWI	68.90	-1.3%	-3.2%	-3.5%	-3.5%	-10.6%

MICROCAP DISTRIBUTION UPDATE

During the December quarter we continued promoting CTN to investors, shareholders and brokers across Australia. Our objective is to make as many investors aware of CTN and familiar with the benefits of owning shares in the company. The flow on of this is to enable the share price to most fully reflect the value of the company.



CTN is pleased to announce that at 31 December 2013 it recorded its highest ever number of shareholders to that date with 4,583. New shareholders are attracted through various campaigns undertaken to increase awareness of CTN. Channels include Stock Brokers, Financial Advisers, SMSF Trustees, Investor Groups and Associations, Financial Media and individual investors.

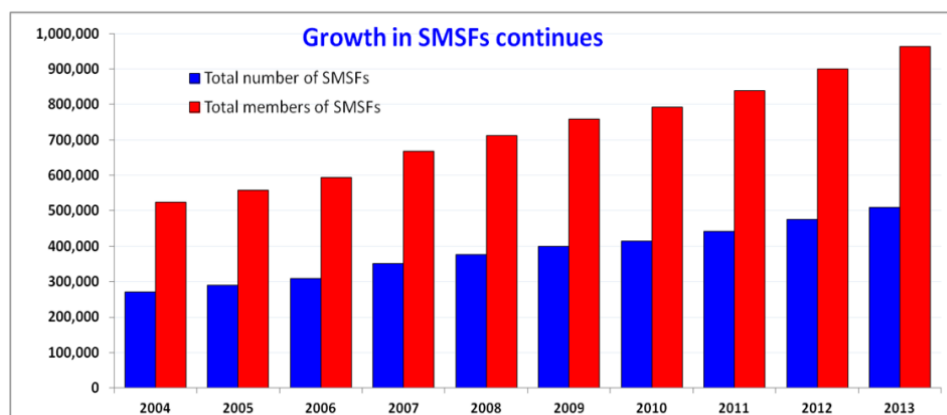
It is our pleasure to welcome new shareholders to CTN as well as those reading this newsletter for the first time.

This growth in shareholders reflects developments in the Australian investment landscape where the growth in the number of Self Managed Superannuation Funds (SMSFs) shows no sign of slowing down. The Chart “Growth in SMSFs continues” (below) shows that around 1 million Australians are a member of their own SMSF. (Data source ATO¹)

CTN’s share register indicates that around 40% of shareholders (holding approx. 50% of CTN shares) are in a Superannuation Fund.

Self-directed investors are known to prefer investing directly into equities over managed funds.

Looking forward, it is not expected that this trend will slow. Listed Investment Companies (LICs) can expect to reap the benefits through increased demand, as more investors acquire them in their SMSFs.



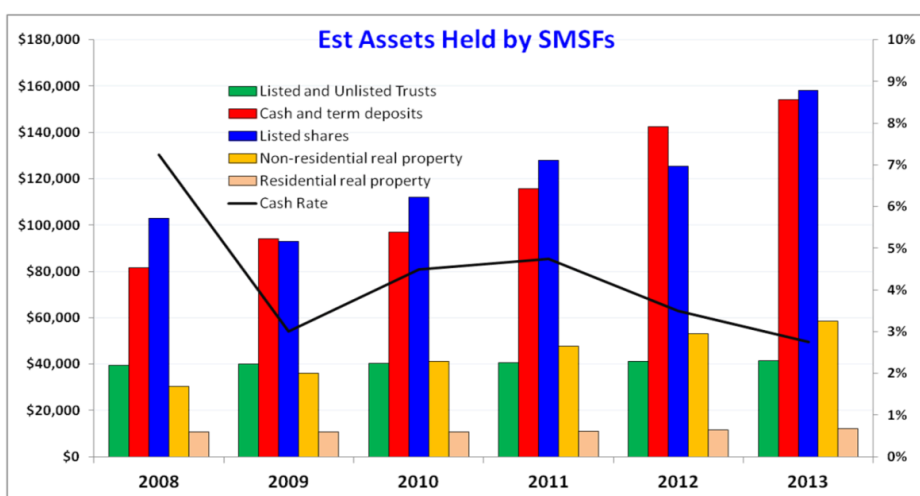
While fund managers have not given up on gaining a foothold in the SMSF space the sector is proving difficult for them to penetrate.

Supporting this evolution in investor preferences, the Chief Executive of one of Australia’s largest fund managers announced at the company AGM that in a bid to attract SMSF trustees, the Fund Manager will re-adjust its managed fund product offering to incorporate more self-directed investment capability. He said “It’s not that people are against managed funds; they just tend to do what they can do themselves” He further said “SMSFs are never likely to take up managed funds in “a big way” since the main attraction of running a do-it-yourself fund is the ability to invest directly” As a result, his company will not be promoting its core Australian equities products to SMSFs, the article explained.

He further went on to say that Income products with low volatility appear to be on the radar, with the company announcing that over the past year it has established a dedicated product solutions group aimed at product development based on sustained interest in products that can deliver a regular and attractive level of income without high levels of capital volatility.²

The evolution in products offered by traditional fund managers is not surprising considering that LICs are regarded by many as a structurally superior investment vehicle than Unit Trusts. According to William Spraggett- Senior Analyst at Bell Potter Securities- there are many reasons these investors prefer to hold shares directly. These include control over investment, ease of access and lower cost, the ability to manage income stream through reliable dividends and the transparency of the underlying investment. In addition to these features the desirability of franking and other tax benefits make equities the more desirable investment.

The chart “*Estimated Assets held by SMSFs*” (below) looks into SMSFs accounts² to identify where their preferred investment classes are. Clearly trustees want to hold shares in their portfolios, and hold them directly.



A company such as CTN, which offers investors diversified exposure to a portfolio of microcap stocks and possesses a clear dividend policy, is well poised to benefit from the growth in SMSFs and maximise value for its shareholders.

As investment managers are aware, part of the enormous cash holdings held within these SMSFs and other investment portfolios, will eventually find their way into the sharemarket.

While we cannot be sure when this will occur, CTN will continue to develop its profile and shareholder base, while enhancing relationships with SMSF investors, sharebrokers and financial advisers.

As we come to our 10th anniversary as a company CTN will continue to work hard to see CTN included in more investors portfolios and maximise value for shareholders.

ENGAGING THE INVESTMENT COMMUNITY

Providing transparency in the company and regular information about the investment portfolio is a priority of the CTN Board. These are contributing factors to ensuring that share price best reflects the value of the company.

For information on CTN whereabouts, including having CTN present to your investor group or conference, please visit the [Events](#)³ page on the CTN website.

RESEARCH

In the December quarter CTN retained formal ratings (as distinct from Broker reports) which can all be obtained from the [Research page](#)⁴ on the CTN website, from:

- Morningstar
- Zenith Investment Partners
- Independent Investment Research (IIR)



(Readers will need to recognise the terms of use, limitations and disclaimer within each document.)

KEEP UP TO DATE WITH THE LATEST INFORMATION

There is much information available through the [Investment Centre](#)⁵ on the CTN website. CTN produces articles and papers relevant to Microcaps and LICs which are often published in various industry magazines and websites. Where possible, these are loaded onto the CTN website.

Commentaries and research conducted in CTN by stockbrokers and researchers can be found there. Shareholders should keep an eye on the [Articles](#)⁶ and Events tabs on the CTN Investor Centre website.

CTN WEBSITE RESOURCES

CTN engages its shareholders through providing ongoing information relating to the underlying investment portfolio as well as other important operational matters.

Our [web site](#)⁷ is comprehensive and provides information on the company, the investment portfolio and microcap sector.

SUBSCRIBE TO CTN COMMUNICATIONS

Shareholders and interested investors can use the [subscription](#)⁸ feature on our web site to receive notification when this and other important documents have been released to the ASX.

COMPANY PROMOTION AND ACTIVITY

CTN has a commitment to increase the company's visibility and profile. CTN continues to make public presentations about the company and Microcap investing, as well as provide articles and materials on microcaps in the media.

CTN ALWAYS ACCESSIBLE TO SHAREHOLDERS

As always, if shareholders or interested parties have any questions, suggestions or requests - such as speaking at an investor group event, please feel welcome to contact me at any time on 03 9222 2333 or directly on 0459 233 600.

Boyd Peters
Distribution and Shareholder Communication Manager
Contango MicroCap Limited

NEW: CTN PHONE APP IS NOW AVAILABLE FOR FREE DOWNLOAD



CTN wants to keep you up-to-date with information you need as a shareholder or interested party. So we have developed a dedicated iPhone, iPad and Android App for phones and tablets that you can download for free.

It uses push technology to notify you the moment an announcement, report or news item has been added to the CTN web site. You can quickly check updated share prices, market charts, news and research.

Our Investor Centre App is now available to download for free from iTunes or the Google Play store.

CTN App

Why you should Download the Contango App

- Notifications and Announcements are 'pushed' to your phone's homescreen as they are released
- Access updated Share Price Information from the ASX (on delay). Track your shareholding value
- Latest News, Reports, Research and Articles are pushed to your phone as they are released
- Regular market and portfolio commentary from Contango investment personnel
- Easily access important contact details, phone numbers, email and sms

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Hyperlink references:

- www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/SMSF/Self-managed-super-fund-statistical-report---June-2012/
- Comments from Fund Manager in article
http://www.ifa.com.au/news/12616-btim-revamps-managed-fund-offering?utm_source=IFA&utm_campaign=IFA_Bulletin09_12_2013&utm_medium=email
- CTN Events www.contango.com.au/ctn_contango_microcap_events_and_dates.php
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Disclaimer:

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