# Contango MicroCap Limited

**ABN 47 107 617 381**

# INVESTMENT COMMENTARY

## Quarterly Update
## March 2014

## *10th Anniversary Edition*

***"…Since CTN listed on 25 March 2004 the size of its investment portfolio has grown from $27 million to $196 million and the company has provided shareholders with over $82 million in dividend payments…"***

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Dear Fellow Shareholder

# INVESTMENT UPDATE – MARCH QUARTER 2014

## MANAGING DIRECTOR'S COMMENT

On the 25th of March Contango MicroCap Limited (ASX: CTN) celebrated its 10 year anniversary as a listed company. Since its inception, the performance of the underlying investment portfolio ranks as one of the best performing Australian Equity investment funds offered by an Australian fund manager.

As Australia's first and highly successful listed microcap investment manager it has been our pleasure to have discovered and invested in many outstanding companies that have grown and contributed to the employment, innovation and technological developments of the Australian economy. Many of these companies have delivered strong returns and shareholders can be proud of their contribution to the development and success of many new companies in the Australian marketplace.

Through its recent acquisition of Contango Asset Management Limited (CAML), CTN has strengthened the resources it can commit to finding those MicroCap companies which we hope are poised to become successful small and eventually large cap companies.

We recognise our shareholders contribution to the Australian Microcap sector and the Australian economy, and note that at 31 March 2014 CTN recorded its highest ever number of shareholders being 4,694.

CTN is well positioned for its next decade as a larger company, continuing to operate under the constantly enhanced Corporate Governance guidelines 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 $196 million. In this time it has provided shareholders with over $82 million in dividend payments.

## CTN INVESTMENT PORTFOLIO PERFORMANCE

In the March Quarter, the CTN investment portfolio generated an investment return of 3.02%.

In this time the ASX Small Ordinaries Accumulation Index rose by 0.9% and the S&P/ASX Emerging Companies Index rose by 1.1%.

The following table notes performance for each month and the quarter.

| | January | February | March | Quarter |
|---|---|---|---|---|
| **CTN Investment Portfolio*** | **-2.60%** | **3.53%** | **2.16%** | **3.02%** |
| ASX Small Ordinaries Accum. Index | -2.76% | 4.97% | -1.16% | -0.89% |
| S&P/ASX Emerging Co's Accum. Index | 0.83% | 0.95% | -0.65% | 1.13% |

** CTN investment portfolio reflects the gross returns of the underlying investment portfolio and is before the impact of fees, taxes and charges. Past performance is no guarantee or predictor of future performance.*

Major contributors over the quarter included Iproperty Group (which returned 61%), G8 Education (61%), Mayne Pharma Group (27%), BT Investment Management (27%) and Capitol Health (27%).

Positive contributors over the 12 months included Iproperty Group Ltd (which returned 246%), BT Investment Management (140%), G8 Education (150%), Mayne Pharma (96%), Slater and Gordon, (79%), Icar Asia (180%), Village Roadshow (53%), Capitol Health (245%), GBST Holdings (123%) and Nearmap Ltd (126%).

The following table identifies the performance of the underlying investment portfolio since inception.

| | 1Yr % | 2 Yrs % pa | 3 Yrs % pa | 4 Yrs % pa | 5 Yrs % pa | 7 Yrs % pa | 10 Yrs % pa | Inception %pa (25/03/04) |
|---|---|---|---|---|---|---|---|---|
| **CTN Investment Portfolio** | **13.1%** | **15.5%** | **-0.9%** | **6.9%** | **17.0%** | **17.4%** | **17.5%** | **17.5%** |
| Emerging Co's Accum. Index | -8.2% | -18.0% | -15.7% | -5.3% | 6.4% | -5.2% | 3.0% | 3.1% |
| ASX Small Ords Accum. Index | -1.5% | -3.7% | -5.3% | -0.9% | 8.8% | -3.8% | 4.9% | 4.9% |

*As at 31.03.14. Gross returns. Past performance is no guarantee or predictor of future performance*

The long term performance of the CTN investment portfolio is 17.5% 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 period.

## CTN Share Value Performance

After making adjustment for the 4.0 cent dividend which went ex-dividend on the 7th of March, CTN generated a Total Return for shareholders of 0.95% over the quarter.

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

| % return | CTN Total Shareholder Return | S&P/ ASX Emerging Companies Accum | S&P/ASX Small Ords Accum |
|---|---|---|---|
| 1 Year | 4.2% | -8.2% | -1.5% |
| 2 years pa | 1.9% | -18.0% | -3.7% |
| 3 years pa | -0.3% | -15.7% | -5.3% |
| 4 years pa | 11.1% | -5.3% | -0.9% |
| 5 years pa | 15.0% | 6.4% | 8.8% |

*As at 31.03.14. Total Return includes impact of Dividends paid. 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.

When comparing returns of an LIC with Index returns, it is important to recognise that an LIC's NTA and shareholder returns identify an after-expenses and after-tax number - while the returns of ASX Indices identify gross returns before the impact of any fees or taxes.

## ASX Announcements in The Quarter



During the March Quarter the company released:

- December, January and February NTA statements
- December Quarter Investment Commentary
- Declaration of FY14 Interim Dividend

These documents can be found on the CTN Website www.contango.com.au.

## Dividend Information

On 24 February 2014 the company advised an INCREASE in the FY14 Interim Dividend from the proposed amount of 3.0 cents per share to 4.0 cents per share. Dividend information related to the March quarter was:

- Shares traded ex-dividend on Friday 07 March 2014 ("Ex-date").
- The dividend was 25% Franked (1.0 cent per share)
- Those shareholders recorded in the register at the close of business on Friday 14 March 2014 were entitled to receive the dividend ("Record Date").
- The payment of dividend and issue of shares under the Dividend Reinvestment Plan occurred on Monday 31 March 2014. ("Payment Date").
- The Price at which the company Dividend Reinvestment Plan ("DRP") issued new shares to participating shareholders was $1.003 per share.

## CTN OFFERS A FIRM DIVIDEND POLICY

In the NTA statement released to the ASX on the 2nd of April, CTN provided investors with an *indication* of the next dividend proposed to be paid as per the company dividend policy:

| ***Indicative* Dividend Information as at 2 April 2014**[1] | | **Amount** |
|---|---|---|
| *FY14 Final* | October 2014: *Proposed* | 3.3 cents p/s |

***Since declaring its first dividend in December 2004, CTN has declared a total of 75.0 cents per share (cps) in dividends to shareholders amounting to a total payout of over $82.3m.***

## CONTANGO ASSET MANAGEMENT LIMITED

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.

Contango's most recent new fund is the *Contango MidCap Income Fund* which, since inception in July 2012, has returned 31.8% pa. We continue to see this to be an attractive strategy for investors requiring income with less than market volatility.

This outperformance against market indices is repeated in other funds managed by CAML as seen in the following table, demonstrating further evidence of the asset allocation and stock selection skills of the investment manager.

| | 1Yr % | 3 Yrs % pa | 5 Yrs % pa | Inception % pa | Inception Date |
|---|---|---|---|---|---|
| **CAML Australian Equities funds** | | | | | |
| **Large Cap** | 15.7 | 9.3 | 12.8 | 9.6 | 8 Apr 1999 |
| **Small Cap** | 11.8 | 2.6 | 14.8 | 10.3 | 28 Feb 2005 |
| **Microcap Portfolio** | 13.1 | -0.9 | 17.0 | 17.5 | 25 Mar 2004 |
| **Income Generator** | 17.3 | 18.0 | 17.8 | 7.8 | 31 Oct 2004 |
| **MidCap Income** | 20.8 | | | 31.8 | 31 July 2012 |
| **CAML International Equities funds** | | | | | |
| **Global Value Fund** | 36.9 | 21.5 | 28.0 | 13.7 | 31 Dec 2007 |
| ***ASX Indices performance*** | | | | | |
| ***All Ordinaries Accumulation Index*** | *13.2* | *7.7* | *13.6* | | |
| ***All Small Ordinaries Accumulation Index*** | *-1.5* | *-5.3* | *8.8* | | |
| ***Emerging Companies Accumulation Index*** | *-8.2* | *-15.7* | *6.4* | | |

*As at 31.03.14. Gross Returns. Past performance is no guarantee of future returns.*

## INVESTMENT COMMENTARY

We are pleased to provide our quarterly investment commentary which includes an overview of current economic conditions and a comprehensive review of CTN's investment portfolio.

Yours sincerely



David Stevens
**Managing Director**

# QUARTERLY INVESTMENT COMMENTARY

## Global Overview

Global equity markets ended the quarter slightly higher which was a solid result, given the volatile economic and geopolitical landscape. The news flow featured the Federal Reserve's tapering of QE, Emerging Market volatility and capital outflows, Russia's annexation of Crimea and economic sanctions, weather disruptions in the US, and concerns surrounding China's outlook and debt levels.

Given the uncertain environment, markets had a volatile start to the year with the MSCI World-ex Australia Index down 3.2% in January, up 4.2% in February and up 0.2% in March. The best performing markets over the quarter included the French CAC40 (2.2%), S&P 500 (1.3%) and the German DAX (0.0%). The main underperformers were the Nikkei (-9.0%), Hang Seng (-5.0%) and Shanghai Composite (-3.9%). In USD terms, Russia ended the quarter down 15.1%.

The local market outperformed most of its peers in local currency terms over the quarter up a solid 2.0%. Sector performance was somewhat mixed with no clear pattern. The outperformers were Utilities (4.2%), IT (4.1%) and Financials ex-REITS (3.8%). The underperformers were Consumer Staples (-0.7%), Materials (-0.3%) and Telcos (0.2%).

| Global Indices | 1 mth | 3 mth | 12 mth |
|---|---|---|---|
| ASX 300* | 0.2% | 2.0% | 13.0% |
| Dow Jones Industrial | 0.8% | -0.7% | 12.9% |
| S&P 500 | 0.7% | 1.3% | 19.3% |
| NASDAQ Index | -3.1% | 0.5% | 28.5% |
| Nikkei 225 Index | -0.1% | -9.0% | 19.6% |
| Hang Seng Index | -3.0% | -5.0% | -0.7% |
| Shanghai Composite Index | -1.1% | -3.9% | -9.1% |
| FTSE 100 | -3.2% | -2.2% | 2.9% |
| German Aktien Index (DAX) | -0.8% | 0.0% | 22.6% |
| France CAC40 | -0.1% | 2.2% | 17.7% |
| India BSE 200 Index | 7.5% | 6.0% | 17.2% |
| MSCI World ex Aust (hedged) | 0.2% | 1.0% | 18.8% |
| MSCI World ex Aust (unhedged) | -3.4% | -2.4% | 34.7% |

* Total Return

Two prominent news items during the quarter were the volatility in emerging markets and the Russian annexation of Crimea.

The trigger for the emerging market selling appeared to be the Federal Reserve's tapering of QE and the subsequent tightening of financial conditions. Some of the hardest hit markets included Turkey, Argentina and South Africa.

The situation in the Ukraine started to intensify around mid-quarter when pro-European protesters marched on parliament demanding constitutional reform. Subsequently, the pro-Russian president, Mr Yanukovych, fled the country seeking refuge in Russia as the parliament voted in new leaders including an interim president.

Following the upheaval, Russia sent unidentified troops to the peninsula region of Crimea which houses its Black Sea Navy Fleet. Russia's actions were condemned by Ukraine and the West with the US threatening and then imposing economic and political sanctions. Following the threats, the Russian Ruble and equity market sold off aggressively. However, the threats were relatively benign and Russia formally annexed the Crimea region with little incident.

Domestically, the RBA left the cash rate on hold during the quarter at a record low 2.5%, but moved to a more neutral stance in February citing a period of "stability in interest rates". This put upward pressure on the exchange rate which moved back above 90 US cents.

*US Economy*

During the quarter, Janet Yellen was officially confirmed as Fed Chair, becoming the first Democratic nominee to take the role since Paul Volcker in 1979.

In each month of the quarter, the Fed announced a reduction of QE asset purchases by $10 billion. In remarks to the Senate Banking Committee, Yellen said that "if there is a significant change in the outlook…we would be open to reconsidering the pace of withdrawal but I wouldn't want to jump to conclusions."

Also on the Fed, at the FOMC meeting in March, the members' median interest rate forecast for end 2015 increased by 25 basis points to 1.0% and for end 2016 by 50 basis points to 2.25%. However, Yellen tried to play down the significance of this shift which captured the markets attention.

On government policy, legislation to raise the debt ceiling through March 2015 was passed by both houses of Congress with little fanfare as opposed to previous attempts.

US economic data was solid in the latter part of 2013 but eased in the new year largely due to abnormally cold weather. We learned fourth quarter 2013 GDP grew at a solid rate of 2.6%, following a very strong 4.1% in the third quarter. However, the more timely data painted a different picture.

Nonfarm payrolls surprised to the downside in the quarter with growth of only 84 000, 129 000 and 175 000 in the three months to February. However the unemployment rate held steady at 6.7% as the participation rate remained around record lows.

Consumer sentiment measures were mixed with the University of Michigan survey declining 2.5 points from December to March (80.0) whilst the Conference Board measure rose 4.8 points to 82.3.

The ISM manufacturing PMI slowed from 56.5 points in December to 51.3 in January before recovering somewhat to 53.2 in February. The ISM non-manufacturing PMI was also weak, falling to 51.6 in February from 53.0 in December.

*US Equity Market*

Despite the weak economic data, the S&P 500 hit new closing highs in each month of the quarter and ended up 1.3%. The Banks (7.1%) and Utilities (9.0%) were the clear winners while Consumer Discretionary (-3.2%) and Telecoms (-0.7%) underperformed.

According to JPM estimates, fourth quarter 2013 earnings season saw 65% of companies beat expectations with index EPS growth of around 8% over the year.

*China*

In China, concerns over the outlook and credit situation captured investors' attention during the quarter.

Of note, a coal mining company defaulted on a USD $500 million loan leading to a bailout of its lender (a trust vehicle). The quarter also saw China's first onshore bond default of modern times as a solar-cell maker, Shanghai Chaori, failed to pay interest on its bonds.

The People's Bank of China continued on its reform agenda during the quarter and widened the daily trading range for the RMB from 1% to 2%. The PBOC said that it wanted to let market forces play a greater role in setting the exchange rate but there was also an assumption that the PBOC wanted to dampen speculative flows into the RMB.

On the data, GDP growth came in at a slightly higher-than-expected 7.7% in the fourth quarter, easing slightly from 7.8% in the third quarter. But the monthly indicators continued to point to ongoing weakness. The HSBC manufacturing PMI weakened to 48.1 in March from 50.5 in December and the official PMI weakened from 51.0 to 50.2.

CPI inflation moderated to 2.0% in February compared to 2.5% in December and the PPI continued to fall with the rate at -2.0% in February from -1.4% in December.

*Europe and Japan*

The news flow from Europe and Japan took a back seat to emerging market news during the month.

In Europe, the ECB decided to keep rates on hold at a record low of 0.25% during the quarter despite continued risks of deflation.

CPI inflation came in at a subdued 0.7% over the year to February and GDP growth rose only 0.5% in the fourth quarter of 2013. On a slightly more positive note, the eurozone composite PMI printed at 53.2 in March, up from 52.1 in December, pointing to a modest recovery in the region. The weak data is encouraging the ECB to consider some form of QE but it is yet to formally adopt any measures.

In Japan, the BoJ decided to keep its monetary policy unchanged over the quarter. BoJ Governor Haruhiko Kuroda expressed confidence that the central bank would achieve its 2 per cent inflation target in about two years, while offering few hints that there would be further monetary easing.

## Global Interest Rates / Credit markets

Despite QE tapering, US Treasury yields fell sharply in January as capital continued to flow out of Emerging Markets into perceived safe havens.

Yields then essentially moved sideways for the remainder of the quarter.

Australian yields also eased over the quarter (-15 basis points), though by less than their US counterparts. The RBA's shift to a neutral stance may have contributed to the divergence.

European bond's generally rallied with German 10-year Bund yields down 36 basis points. Adding to the buying pressure was continued weak inflation data in Europe and the discussion of possible unorthodox policy from the ECB. The peripheral European markets also saw bond yields continue to decline.

| 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 | 2.65 | 3 | 5 | -39 |
| AUS 10 year Bond yield | 4.09 | 7 | -15 | 67 |
| US Federal Funds rate | 0.25 | 0 | 0 | 0 |
| US 30 year Bond yield | 3.56 | -7 | -42 | 46 |
| US 10 year Bond yield | 2.72 | 4 | -32 | 87 |

## Exchange Rates

Somewhat surprisingly, the Aussie dollar appreciated over the March quarter (3.5%) despite tapering and worries over the outlook for China.

Key drivers of the move were better-than-expected domestic data, including GDP and employment, and a move in the RBA's easing bias to neutral. The RBA's trade-weighted index was up 3.0%.

| Exchange Rates | Level | 1 mth | 3 mth | 12 mth |
|---|---|---|---|---|
| AUD/USD | 0.9266 | 3.8% | 3.9% | -11.0% |
| AUD/YEN | 95.65 | 4.9% | 1.9% | -2.5% |
| EURO/USD | 1.3772 | -0.2% | 0.2% | 7.4% |
| AUD/EUR | 0.6728 | 4.0% | 3.7% | -17.2% |
| AUST TWI | 71 | 3.0% | 3.0% | -10.2% |

In other currency news, the Chinese RMB fell 2.7% against the USD, its weakest quarter in 20 years, as the People's Bank widened its trading band in an apparent attempt to wrong-foot speculative buyers. A number of Emerging Market currencies fell sharply in January as Fed's tapering commenced.

## Commodities

Commodity performance was mixed during the quarter as increased geopolitical risk was also met with worry surrounding the outlook for China, the Fed's tapering and weakening US data.

Crude oil remained in a relatively tight trading range for most of the quarter despite concerns that tensions in the Ukraine might disrupt global energy markets. Spot Brent fell 3.5% but WTI did better (+2.9%) helped by news that capacity will be added sooner than expected to a key pipeline between Cushing and the coast.

The iron ore price (-14.5%) was the main underperformer as Chinese authorities decided to cut credit to a steel sector struggling with overcapacity and targeting high polluting steel mills in particular.

Base metals had a good quarter mostly driven by copper (10.3%), however the metal came under significant pressure falling 9.4% in March. Prices were hit by concerns about credit-financed inventory and negative reads from the Chinese economy. Nickel bucked the trend, rising sharply in March following the announcement of a ban on exports of unprocessed ores from major producer Indonesia.

Spot gold erased fourth quarter losses (6.5%) on the back of increased demand from emerging market buyers concerned about currency risk and increased geopolitical tensions in Ukraine.

| Commodities | Level | 1 mth | 3 mth | 12 mth |
|---|---|---|---|---|
| Gold (US$/oz) | 1,283.89 | -3.4% | 6.5% | -19.5% |
| Oil WTI (US$/bbl) | 101.46 | -0.7% | 2.9% | 4.4% |
| Aluminium (USc/lb) LME | 78.49 | 0.4% | -1.9% | -8.0% |
| Copper (USc/lb) LME | 301.00 | -6.5% | -10.3% | -12.5% |
| Nickel (USc/lb) LME | 713.73 | 8.1% | 12.6% | -4.9% |
| MG Metals Index | 308.91 | -3.0% | -5.8% | -8.3% |

## Domestic Economic Developments

Data on the domestic economy was a bit mixed during the quarter but some forward looking indicators of business capex pointed to a sharper decline in investment than was previously thought.

On the positive side, the economy added 65 000 jobs in January and February, compared to only 9 000 in the prior two months. However, the ABS reported that the result may have been affected by sampling issues. The unemployment rate ticked up to 6.0% over the quarter, from a reading of 5.9% in December.

Fourth quarter GDP growth came in at a solid 0.8% and brought overall economic expansion for 2013 to 2.4%. Building approvals continued their strong momentum into 2014 with January approvals at a 210 000 annual rate up from 197 000 in December.

Given the generally solid data, the RBA left the cash rate on hold over at a record low of 2.5%. The RBA also moved to a more neutral stance in February, citing a period of "stability in interest rates" in contrast to the easing bias held last quarter. Meeting statements also dropped references to the high AUD which helped push the currency back above 90 cents.

Arguably the biggest downside surprise over the quarter was the February ABS capex release. In the fourth quarter, private business capital expenditure fell 5.2%, the biggest decline since 2009. But it was the outlook component of the survey which showed activity is set to decline faster than most economists expected including the RBA and Treasury.

Looking ahead, the 1st estimate for 2014/15 – the long awaited 'capex cliff' year – slumped to $125 billion from around $160 billion in the year prior. Comparing the 1st estimate from the previous year, this equates to a 17% decline (although this method is likely to overstate the weakness somewhat). By sector, mining (-17%) and manufacturing (-23%) took the hit, while the other parts of the economy showed modest growth (+4%).

On confidence, the Westpac-Melbourne Institute index of consumer sentiment fell to a post-election low of 99.4 in March whilst the NAB business confidence survey was flat over the quarter at +7. Confidence was also weighed down by commentary surrounding the upcoming Federal Budget which is expected to deliver significant spending cuts.

| Indicator | Outcome |
|---|---|
| Employment change, persons, mth | 47.3 |
| Unemployment rate, % | 6.0 |
| Consumer confidence, index, Mar | 99.5 |
| NAB business confidence, Feb | +7 |
| RBA cash rate, % | 2.50 |
| Credit growth, %, yoy, Mar | 4.3 |

## Australian Equity Market

The local market ended up a solid 2.0% over the quarter despite some volatility. Industrials (2.7%) outperformed Resources (-0.8%) by a considerable margin as the outlook for China and iron ore weighed on sentiment.

| Accumulated Australian Indices | 1mth | 3mth | 12mth |
|---|---|---|---|
| ASX 200 | 0.3% | 2.1% | 13.5% |
| ASX 300 | 0.2% | 2.0% | 13.0% |
| ASX 300 Industrials | 1.0% | 2.7% | 15.3% |
| ASX 300 Resources | -2.8% | -0.8% | 4.6% |
| All Ordinaries | 0.3% | 2.2% | 13.2% |
| Small Ordinaries | -1.2% | 0.9% | -1.5% |

As at 31 March 2014. Source: Iress * Total return

The Small Ordinaries (0.9%) underperformed the ASX 100 (2.1%) weighed down by Small Resources (-1.7%). Small Industrials (1.5%) outperformed Small Resources but underperformed ASX 100 Industrials (2.8%).

| Australian Sector * | 1 mth | 3 mth | 12 mth |
|---|---|---|---|
| Materials | -3.2% | -0.3% | 6.8% |
| Consumer Discretionary | -1.0% | 1.0% | 20.0% |
| Consumer Staples | -2.1% | -0.7% | 2.8% |
| Energy | -0.5% | 1.2% | 5.6% |
| Financial | 2.4% | 3.7% | 18.0% |
| Financial (ex LPT's) | 3.1% | 3.8% | 20.3% |
| Healthcare | -1.9% | 1.1% | 16.9% |
| Industrials | 0.9% | 2.6% | 7.8% |
| Information Technology | 0.5% | 4.1% | 9.0% |
| Property Trusts | -1.6% | 3.0% | 5.0% |
| Telecoms | 0.8% | 0.2% | 20.8% |
| Utilities | -2.1% | 4.2% | 5.5% |
| S&P/ASX300 | 0.2% | 2.0% | 13.0% |

As at 31 March 2014. Source: Iress * Total return

The local market had its December end reporting season in February which was generally viewed as positive. Companies reported fewer earnings downgrades than in previous seasons (34% downgrades vs an average of 45% over the last 2 years). Broadly, results were characterised by soft

top-line revenue growth offset by cost out initiatives as companies sought to increase productivity and adapt operations to the new lower growth environment.

Company comments through reporting season revealed several investor thematics including:

- retail conditions remain mixed, with continued heavy discounting through the sector,
- the weakening AUD is negatively impacting domestic margins,
- there are signs that the US economy is improving,
- bank asset quality positively surprised, and
- online continues to disrupt several industries most notably retail and media.

Of the sectors, Utilities (4.2%) was the standout supported by the heightened risk environment and some catch up on prior poor performance. There were solid performances from SKI (8.6%) and APA (7.2%) but AGK (3.0%) underperformed as the company's results missed expectations and the ACCC announced it would oppose the company's proposed $1.5 billion bid for MacGen.

The relatively small IT (4.1%) sector outperformed the broader market with strong performances from REC (14.5%), CRZ (7.9%) and CPU (7.6%). REC has been categorised as an IT stock by S&P in the GICS classification following its spin-off from Brambles. CDA (-43%) was down sharply following a disappointing 2014 result.

Financials ex-REITs (3.8%) outperformed following a good showing from most of the sector including Real Estate (6.9%), Insurance (6.6%) and Diversified Financials (5.3%). The sector benefited from a relatively good reporting season and earnings upgrades.

The Banks (3.3%) outperformed the market but underperformed the broader Financials sector on solid results but limited new news. The standouts were WBC (6.7%), BOQ (5.7%) and ANZ (2.6%). BEN (-0.5%) and NAB (1.8%) were the main underperformers with NAB weighed down by lower quality earnings and the risk of increased provisions for the UK business. CBA (2.0%) performed roughly in line with the market.

REITs (3.0%) also outperformed the index but not the Financials sector. WDC (4.2%) reported solid headline results but cash flows disappointed. ALZ (9.6%) rallied strongly on news that SGP (3.9%) was acquiring a 19.9% stake in the company.

Industrials (2.6%) were supported by Commercial and Professional Services (3.1%) and Transport (3.3%) but continued to be weighed down by Capital Goods (1.0%). SEK (31.0%) was the standout performer as the company announced a significant Asian acquisition of Jobstreet. Together with SEK's ownership of JobsDB, the group now has a strong presence in Asia.

Returns in the Capital Goods sector were diverse with LEI up 34.8% on a takeover offer but SDM and ANG were down more than 30%. FGE (-100%) went in to administration during the quarter.

Energy (1.2%) underperformed the market despite a rise in the oil price. The sector was weighed down by poor performances from WOR (-6.9%) and STO (-6.7%). AUT (35.8%) was the standout on news that Baytex Energy has agreed to acquire the company.

Healthcare (1.1%) underperformed weighed down by a sluggish CSL (1.7%). ANN (-10.0%) and RMD (-9.9%) also disappointed on weaker than expected results. RHC (12.1%) was the best performer in the healthcare space.

Consumer Discretionary (1.0%) underperformed following poor performances from most sub-sectors. Retailing (-3.4%) was the main drag with a -15.7% return from MYR on a disappointing result. On the other hand, DJS (7.6%) and HVN (4.4%) outperformed.

Media (-1.9%) was weighed down by FOX (-12.6%) which is being delisted from the ASX and amid news that Lachlan Murdoch has been appointed as Co-Chairman and James Murdoch has been appointed as Co-COO. The outperformers included NVT (15.0%), ALL (14.5%) and FLT (11.5%).

Telcos (0.2%) underperformed following a poor performance from Telstra (-0.5%). However, the smaller telcos of TPM (25.0%), CNU (20.2%) and IIN (15.2%) outperformed mostly on better than expected results.

Materials (-0.3%) underperformed the market driven lower by sluggish commodity prices and concern over the outlook for China. Metals & Mining ended the quarter down 1.6% with BHP down 2.3% and RIO down 5.1%. RRL (-22.3%) underperformed on the back of severe flooding while NCM (26.8%) bounced following a stabilisation in the gold price.

Construction Materials (17.2%) bounced strongly driven by strong momentum in the domestic housing market. BLD (20.0%) was the standout performer on earnings upgrades and an improved outlook followed by JHX (13.2%) and ABC (12.4%). ABC performed well despite news that it lost an important contract.

Consumer Staples (-0.7%) was the largest underperformer weighed down by the Food Beverage & Tobacco (-8.5%) sector. The main underperformers were TWE (-25.6%), GFF (-8.8%) and CCL (-5.7%). On staples retailing MTS (-17.1%) dragged the index lower following a downgrade to 2014 guidance and WES (-4.6%) also disappointed. On the other hand, WOW was up a solid 7.5%.

## Australian Equity Market – Outlook

The global economic recovery is expected to continue over the next 12 months, led mostly by the US and supported by monetary policy and reduced fiscal drag.

Given this outlook, we anticipate the Fed will continue to slowly taper QE throughout the year and bond yields should continue to normalise 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. Deflation continues to be a concern but we have confidence in the ECB to act and add additional stimulus if required. The latest PMI data is consistent with growth of around 1% to 1.5%.

The outlook for China is relatively modest with the latest PMI's hovering around 50. 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.

More broadly, the outlook for Emerging Markets is weak. The Fed's tapering is expected to see capital flow back to the US which will put downward pressure on EM currencies and potentially stoke higher EM inflation. Already a number of EM central banks have stepped in to support their currencies either directly or through higher domestic interest rates. Higher rates will weigh on EM domestic growth in the year ahead.

Locally, growth is expected to pick up to around 3% as the economy slowly transitions towards the non-mining economy. The RBA's rate cuts and the lower AUD will support domestic activity but the drag from mining investment is expected to keep growth from moving above trend.

As such, we expect the unemployment rate will continue to rise and remain elevated for some time. 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 1.00USD and disrupts the transition to 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 outs.

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

The polar vortex effect rang loudly in the minds of the market over the March quarter in which difficult weather conditions in North America played havoc with sentiment and more importantly economic activity. Add to this an element of global political and economic instability in the form of a pseudo invasion by Russia of the Ukraine, plus a continued slide in economic signals in China and the headwinds could easily have become a gale. The market though chose to look through the poor weather as a one off and surmountable and considered the events in the Crimea region of the Ukraine as unfortunate but not fatal. With this in mind, Australia did rally in aggregate with large caps up 2.1% and small caps up 0.9%.

Through the period, markets also dealt with corporate signals emanating from the interim reporting season. On balance, earnings and outlook exceeded what were subdued consensus expectations. As a general outcome, subdued trading conditions weigh on top line growth with companies displaying a renewed need for tighter cost control. For this reason, reporting season appeared quite encouraging which assisted local valuations.

Resources were volatile with gold (+6.5%) and other precious metals rallying over the quarter but selling from recent highs as the Crimea region stabilised. Iron ore prices (-13.8%) fell over the quarter responding to the economic outlook in China; the market however is acutely aware of the capability of the Chinese Government to invest at will if required to maintain a growth footing in the midst of restructuring the economy.

Finally, continued reduction in the bond buying program by the US Federal reserve led to a peculiar drop in the US dollar which has confounded – this eventuality placed a floor under the value of emerging market currencies including the Australian Dollar which rallied 3.9% against the US Dollar.

Over the month of March, **Syrah Resources*** (+39.4%) was the best performer after announcing both an off take agreement for its graphite product as well as analysis indicating that the quality of its graphite resource is at the upper end of expectations. **G8 Education*** (+23%) rallied despite conducting an equity raising for $100m for the acquisition of Sterling Early Education. The acquisition includes 91 premium childcare and education centres. In consumer discretionary results assisted select names higher (for a change!), including: Premier Investments (+21.2%) after posting a rise in 1H14 NPAT of 12% benefiting from cost reduction and sales growth. Interestingly, gross margin declined in response to discounting inherent in the company's mature Jay Jay and Just Jeans divisions, which dwarfed the company's growing divisions of Smiggle and Peter Alexander.

Kathmandu (+20.5%) also rallied following a solid result in which sales, gross margin and operating margins all grew for the period. Importantly, the company indicated that the store rollout strategy and growth into international market remains on track as a mechanism for improved profitability.

In the Biotech sector, names came in to some selling pressure particularly: Bionomics (-26.4%) which sold off in response to poor phase 2 renal cancer trial results which failed to validate the trials primary end point, namely stabilisation of the cancer for up to 6 months; and Prana Biotechnology (-17.8%) sold off ahead of the release of its phase 2 trial relating to its Alzheimer therapy trials.

Elsewhere, TEN (-21%) declined as ratings fell back to normal levels post the spike from the Big Bash and the Winter Olympics. Rare earth mineral miner Lynas Corporation (-31.2%) reported an interim loss of $60m, similar to the previous half. The result included a one-off $14m cash payment from the government for R&D expenditure. Gearing however climbed 42%, as net debt increased to $402m following a decline in cash to $75m and a fall in the A$ - the company confirmed that it will require additional funding in 2014 given it has fully drawn its US$225m facility.

The gold sector retreated (-7.3%) along with the commodity price in the month (-3.4%). Key negative performers included: Silver Lake Resources (-25.9%), St Barbara Limited (-21.4%) and **Beadell Resources*** (-20.4%). In the case of Beadell, despite the share price performance the company effectively upgraded its production target by narrowing its expected range from 190K – 220K ounces to 200K to 220K ounces.

Contractors continued to feel the wroth of the market with Ausdrill (-15.4%), RCR Tomlinson (-14.6%) and NRW Holdings (-12.0%) all falling on the back of a continued soft outlook for the sector. Finally, Karoon Gas Australia (-20.0%) fell after reporting limited progress on the partial sales of assets in the Browse Basin and Santos Basin. With A$180m of cash on hand as at Dec-13, ~A$90m expected to be spent this quarter as drilling in the Browse Basin recommences and with a further 2 wells committed in Brazil this year, the markets focus has now turned to the capital requirements of the company and expecting funding pressure to emerge well before the year-end.

***denotes stocks held in the portfolio**

## Portfolio Overview

The Contango MicroCap portfolio return of 3.0% outperformed the Small Ordinaries return of 0.9% in the March quarter.

| Period | Contango MicroCap Portfolio % | Small Ords Accum % | Emerging Co's Accum % |
|---|---|---|---|
| 1 Month | 2.2 | -1.2 | -0.6 |
| 3 Months | 3.0 | 0.9 | 1.1 |
| 6 Months | 5.1 | 0.7 | -2.7 |
| 1 Year | 13.1 | -1.5 | -8.2 |
| 3 Years pa | -0.9 | -5.5 | -15.7 |
| 5 Years pa | 16.9 | 8.7 | 6.4 |
| 10 Years pa | 17.4 | 4.9 | 3.0 |
| Inception pa | 17.4 | 5.0 | 3.1 |

*NB Inception March 2004. Past performance is no guarantee or predictor of future performance. As at 31.03.14*

The key changes over the quarter saw a number of our strong performing stocks over the last 12 months continue their outperformance during the current quarter and we used the opportunity to lock in further profits as they approached our short term price targets.

**Iproperty** has been one of our strongest performers and we used the recent strength above the $3.00 range to lock in further profits as we did with **G8 Education** and **BT Investments**. G8 Education continues to consolidate child care practices, with the recent purchase of 91 childcare centres under the Sterling ownership. We still see further growth as their market share is around the 7% range and further acquisitions are possible. **Affinity** has also purchased more child care centres and we funded this move by a small sell down in **G8 Education**. BT has been one of our strongest performers and post a very strong result we used too the opportunity to lock in some profits.

| Sector Weightings (%) | Dec 13 | Mar-14 |
|---|---|---|
| Energy | 8.5% | 7.0% |
| Materials | 13.7% | 13.0% |
| Industrials | 12.9% | 13.8% |
| Consumer Discretionary | 21.5% | 21.7% |
| Consumer Staples | 0.9% | 1.0% |
| Healthcare | 6.7% | 6.2% |
| Financials | 19.8% | 20.6% |
| Information Technology | 10.8% | 10.2% |
| Telecommunications | 1.1% | 1.1% |
| Utilities | 1.4% | 2.0% |
| SPI | 0.1% | 2.5% |
| Cash | 2.7% | 1.1% |

New additions to the portfolio were **SG Fleet** which is a leading diversified fleet management business in Australia with a strong market presence across both the corporate and salary packaging sectors. Key products and services include: quoting, sourcing and delivery, financing, maintenance management, registration management, fuel management, toll infringement and accident management, reporting, and disposal. To fund this we exited **Macmillan Shakespeare** from the portfolio.

**Enero Group**, which used to be called Photon, was also added. The company provides marketing and communications services both in Australia (55% of revenue) and globally (35% UK and 10% US). Marketing services include public relations, communications planning, strategy, research and data analytics, advertising, direct marketing and stakeholder communications. 11 brands currently exist within the group (was up to 54 previously). They service more than 1200 customers eg Coca Cola, Cadbury Schweppes, Telstra, Channel 10, Virgin Atlantic, MS.

**Prime Television** was increased following the sell down by the Ramsay family. The company offers a good solid dividend yield and with the potential for the reach rules on television to be relaxed, this could potentially lead to corporate activity within the media sector.

**ERM Power** missed out on acquiring the Macquarie power generation assets and the stock pulled back. We used the weakness to increase our weighting because we like its underlying business of being a reseller of electricity and also their gas and electricity generation business. We are not anticipating them being successful in their bid for the Macquarie power generation assets.

Within the mining sector we added **Saracen** which is an existing gold producer and has suffered from higher costs at their existing operations in Laverton. They recently bought the thunderbox assets and raised the funds necessary to repay their outstanding debt and fund the acquisition. The company was able to do extensive due diligence on the assets so we are comfortable the price paid was attractive.

**Aquarius Platinum** was exited from the portfolio. The balance sheet is carrying a lot of debt ($200m) and with current platinum prices we feel the chance of further capital raisings is possible. Their exposure to Zimbabwe platinum mines while very profitable always carries a higher risk of further nationalisation by the Mugabe government.

**Red Fork Energy**, an oil and gas producer in the USA released a very poor quarterly which saw a substantial increase in capital expenditure and a reduction in production of oil and gas. This concerned us and we have exited the stock from the portfolio.

## IPOs and Placements

After an initial flurry of new floats and placements towards the end of last year, they have now slowed. Below are a number of placements, all of the companies we own and in most cases the companies are raising funds to grow their underlying business model through acquisitions. The only exception was MACA which raised equity to fund the payout of 100% of its franking credits. Also, Mineral Deposits who raised equity for working capital needs, as they complete the build on their Senegalese mineral sands plant.

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

| Code | Company | Price |
|---|---|---|
| **PLACEMENTS** | | |
| SGF | SG Fleet Group | $ 1.85 |
| GEM | G8 Education | $ 4.60 |
| MDL | Mineral Deposits | $ 2.00 |
| AHE | Automotive Holdings | $ 3.49 |
| MLD | MACA | $ 2.25 |
| NST | Northern Star | $ 0.86 |
| SEA | Sundance Energy | $ 0.95 |
| SAR | Saracen Mineral Holdings | $ 0.31 |
| **IPOS** | | |
| SGF | SG Fleet Group | $ 1.85 |

## Portfolio Details

As at 31 March 2014 there were 67 securities in the portfolio. The tables below show the breakdown of these positions within the portfolio.

| Position Weight | # of stocks | % of portfolio |
|---|---|---|
| > 2% | 19 | 50.2% |
| 1% - 2% | 25 | 34.1% |
| 0.5% - 1% | 13 | 9.7% |
| < 0.5% | 10 | 2.5% |

| Market Cap | # of stocks | % of portfolio |
|---|---|---|
| $1b+ | 3 | 8.4% |
| $350m- $1b | 16 | 33.7% |
| $100m-$350m | 34 | 48.6% |
| $0m - $100m | 14 | 5.8% |

**Contribution to performance – 5 Best & 5 Worst**

| Company Name | | Weight |
|---|---|---|
| **BEST** | | |
| IPP | Iproperty Group | 3.11% |
| GEM | G8 Education Centres | 3.32% |
| MYX | Mayne Pharma | 3.22% |
| BTT | BT Investment Mgmt | 2.88% |
| CAJ | Capitol Health | 0.99% |

| Company Name | | Weight |
|---|---|---|
| **WORST** | | |
| CLX | CTI Logistics | 1.03% |
| MDL | Mineral Deposits | 1.76% |
| AUB | Austbrokers Holdings | 2.70% |
| BCC | Buccaneer Energy | 0.42% |
| RFE | Red Fork Energy | 0.69% |

Weights are as at 31.03.2014

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

| Code | Company Name | Weight |
|---|---|---|
| SGH | Slater & Gordon Limited | 3.6% |
| GEM | G8 Education Limited | 3.2% |
| MYX | Mayne Pharma Group Limited | 3.2% |
| TGS | Tiger Resources Limited | 3.0% |
| BTT | BT Investment Management | 2.7% |
| CWP | Cedar Woods Properties | 2.6% |
| AHE | Automotive Holdings Group | 2.6% |
| VLW | Villa World Limited | 2.5% |
| PRT | Prime Media Group Limited | 2.5% |
| IPP | iProperty Group Limited | 2.4% |
| VRL | Village Roadshow Limited | 2.4% |
| GBT | GBST Holdings Limited | 2.3% |
| SYR | Syrah Resources Limited | 2.3% |
| INA | Ingenia Communities Group | 2.2% |
| AUB | Austbrokers Holdings Limited | 2.2% |
| SFW | Sfg Australia Limited | 2.0% |
| ASB | Austal Limited | 2.0% |
| NHF | NIB Holdings Limited | 2.0% |
| EPW | ERM Power Limited | 1.9% |
| MLD | MACA Limited | 1.8% |

**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.

**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.

**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%).

**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.

**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.

**Villa World Limited (VLW)**
Villa World 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.

**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.

**iProperty Group (IPP)**
iProperty 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.

**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).

**GBST Holdings Limited (GBT)**
GBST 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.

**Syrah Resources (SYR)**
Syrah is an exploration and evaluation company with an exploration portfolio located in southeast Africa. SYR's flagship project is the Balama Graphite Project, located 265km west of the Pemba, Mozambique and covers an area of 106sqkm.

**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.

**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.

**SFG Australia Limited (SFW)**
SFG provides wealth management and accounting services to high net worth and affluent clients in the Australian market place. As at 31 December 2013, SFW had $13.6bn in funds under advice, $10.0bn in funds under administration and $5.8bn 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

**Austal Limited (ASB)**
Austal is a global defence prime contractor. The Company designs, constructs and maintains revolutionary platforms such as the Littoral Combat Ship and the Joint High Speed Vessel for the United States Navy, as well as a range of patrol and auxiliary vessels for defence forces and government agencies globally. Austal s primary facilities comprise a defence shipyard in Henderson, Western Australia; a defence shipyard in Mobile, Alabama; and a commercial shipyard in Balamban, Philippines.

**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.

**ERM Power Limited (EPW)**
ERM Power engages in the sales of electricity to businesses across Australia. EPW sell electricity to small and big business across Australia, operates gas-fired generation assets and has gas exploration projects in East and West Australia. EPW has three business segments being Electricity Sales, Generation and Gas.

**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.

| KEY INVESTMENT INDICES | 31/03/2014 | Month | Quarter | 6 Months | Financial Year to Date | 12 Months |
|---|---|---|---|---|---|---|
| **Accumulated Australian Indices** | | | | | | |
| ASX 200 | 45,567.84 | 0.3% | 2.1% | 5.6% | 16.4% | 13.5% |
| ASX 300 | 44,964.72 | 0.2% | 2.0% | 5.4% | 16.3% | 13.0% |
| ASX 300 Industrials | 87,227.18 | 1.0% | 2.7% | 6.6% | 15.7% | 15.3% |
| ASX 300 Resources | 21,594.07 | -2.8% | -0.8% | 0.9% | 18.4% | 4.6% |
| All Ordinaries | 44,810.81 | 0.3% | 2.2% | 5.7% | 17.1% | 13.2% |
| Small Ordinaries | 5,451.42 | -1.2% | 0.9% | 0.7% | 15.7% | -1.5% |
| **ASX 300 Accumulated GICS Sector Indices** | | | | | | |
| Materials | 68,919.44 | -3.2% | -0.3% | 4.7% | 21.9% | 6.8% |
| Consumer Discretionary | 14,168.80 | -1.0% | 1.0% | 4.3% | 19.4% | 20.0% |
| Consumer Staples | 79,590.22 | -2.1% | -0.7% | 0.5% | 5.7% | 2.8% |
| Energy | 98,313.51 | -0.5% | 1.2% | -1.9% | 11.8% | 5.6% |
| Financial | 59,871.26 | 2.4% | 3.7% | 8.0% | 17.5% | 18.0% |
| Financial (ex LPT's) | 68,594.15 | 3.1% | 3.8% | 9.1% | 20.5% | 20.3% |
| Healthcare | 75,381.74 | -1.9% | 1.1% | 6.6% | 12.8% | 16.9% |
| Industrials | 34,353.29 | 0.9% | 2.6% | 3.3% | 16.2% | 7.8% |
| Information Technology | 5,820.24 | 0.5% | 4.1% | 5.4% | 13.9% | 9.0% |
| Property Trusts | 27,704.62 | -1.6% | 3.0% | 1.6% | 1.7% | 5.0% |
| Telecoms | 20,725.32 | 0.8% | 0.2% | 5.9% | 13.7% | 20.8% |
| Utilities | 56,331.18 | -2.1% | 4.2% | 3.5% | 9.2% | 5.5% |
| **Global Indices** | | | | | | |
| Dow Jones Industrial | 16,457.66 | 0.8% | -0.7% | 8.8% | 10.4% | 12.9% |
| S&P 500 | 1,872.34 | 0.7% | 1.3% | 11.3% | 16.6% | 19.3% |
| NASDAQ Index | 4,198.99 | -3.1% | 0.5% | 11.3% | 23.4% | 28.5% |
| Nikkei 225 Index | 14,827.83 | -0.1% | -9.0% | 2.6% | 8.4% | 19.6% |
| Hang Seng Index | 22,151.06 | -3.0% | -5.0% | -3.1% | 6.5% | -0.7% |
| Shanghai Composite Index | 2,033.31 | -1.1% | -3.9% | -6.5% | 2.7% | -9.1% |
| FTSE 100 | 6,598.37 | -3.2% | -2.2% | 2.1% | 6.2% | 2.9% |
| German Aktien Index (DAX) | 9,555.91 | -0.8% | 0.0% | 11.2% | 20.1% | 22.6% |
| France CAC40 | 4,391.50 | -0.1% | 2.2% | 6.0% | 17.5% | 17.7% |
| India BSE 200 Index | 2,681.35 | 7.5% | 6.0% | 17.5% | 15.4% | 17.2% |
| MSCI World ex Aust (hedged) | 3,113.31 | 0.2% | 1.0% | 9.7% | 16.6% | 18.8% |
| MSCI World ex Aust (unhedged) | 4,727.19 | -3.4% | -2.4% | 10.5% | 16.9% | 34.7% |
| **S&P 500 US GICS Sector Indices** | | | | | | |
| Energy | 652.90 | 2.3% | 0.2% | 7.9% | 12.9% | 11.8% |
| Materials | 298.35 | 0.6% | 2.3% | 12.6% | 23.5% | 20.5% |
| Industrials | 450.69 | 0.8% | -0.4% | 12.5% | 21.8% | 24.5% |
| Consumer Discretionary | 513.36 | -2.9% | -3.2% | 6.9% | 14.8% | 22.2% |
| Consumer Staples | 441.92 | 1.9% | -0.2% | 7.7% | 7.8% | 7.7% |
| Health Care | 677.01 | -1.4% | 5.4% | 15.5% | 22.8% | 26.9% |
| Financials | 301.06 | 3.1% | 2.2% | 12.2% | 14.9% | 22.7% |
| Information Technology | 596.36 | 0.2% | 1.9% | 14.8% | 21.9% | 23.4% |
| Telecommunication Services | 154.39 | 4.7% | -0.7% | 3.4% | -2.2% | -2.3% |
| Utilities | 210.64 | 3.1% | 9.0% | 11.0% | 10.1% | 6.0% |
| **Commodities** | | | | | | |
| Gold (US$/oz) | 1,283.89 | -3.4% | 6.5% | -3.4% | 4.0% | -19.5% |
| Oil WTI (US$/bbl) | 101.46 | -0.7% | 2.9% | -0.9% | 5.2% | 4.4% |
| Aluminium (USc/lb) LME | 78.49 | 0.4% | -1.9% | -4.0% | 0.0% | -8.0% |
| Copper (USc/lb) LME | 301.00 | -6.5% | -10.3% | -9.0% | -1.7% | -12.5% |
| Nickel (USc/lb) LME | 713.73 | 8.1% | 12.6% | 13.5% | 15.0% | -4.9% |
| MG Metals Index | 308.91 | -3.0% | -5.8% | -4.2% | 1.4% | -8.3% |
| **Interest Rates** | | | | | | |
| AUS UBS Composite Bond Index | 7,709.90 | 0.0% | 1.5% | 1.8% | 2.9% | 3.3% |
| AUS UBS Bank Bill Index | 8,010.95 | 0.2% | 0.6% | 1.3% | 2.0% | 2.8% |
| | % | basis point change | | | | |
| AUS Cash Rate | 2.50 | 0 | 0 | 0 | -25 | -50 |
| AUS 90 day Bank Bill rate | 2.65 | 3 | 5 | 9 | -14 | -39 |
| AUS 10 year Bond yield | 4.09 | 7 | -15 | 28 | 32 | 67 |
| US Federal Funds rate | 0.25 | 0 | 0 | 0 | 0 | 0 |
| US 30 year Bond yield | 3.56 | -7 | -42 | -13 | 6 | 46 |
| US 10 year Bond yield | 2.72 | 4 | -32 | 11 | 23 | 87 |
| **Exchange Rates** | | | | | | |
| AUD/USD | 0.9266 | 3.8% | 3.9% | -0.6% | 1.4% | -11.0% |
| AUD/YEN | 95.65 | 4.9% | 1.9% | 4.4% | 5.5% | -2.5% |
| EURO/USD | 1.38 | -0.2% | 0.2% | 1.8% | 5.8% | 7.4% |
| AUD/EUR | 0.67 | 4.0% | 3.7% | -2.4% | -4.2% | -17.2% |
| AUST TWI | 71.00 | 3.0% | 3.0% | -0.3% | -0.6% | -10.2% |

# MICROCAP DISTRIBUTION UPDATE

During the March 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.

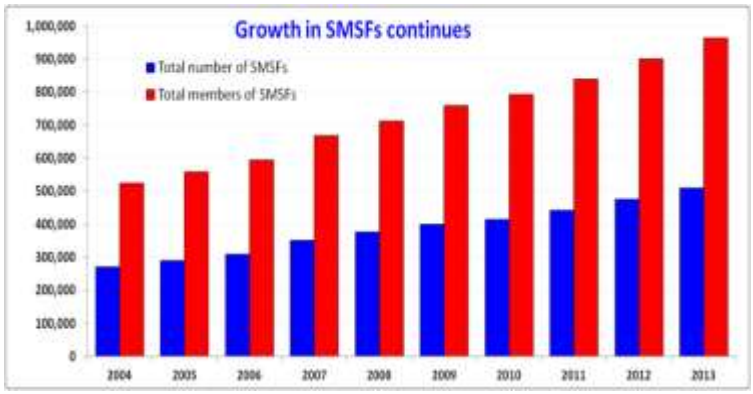
CTN is pleased to announce that at 31 March 2014 it recorded its highest ever number of shareholders with 4,696.




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 over 1 million Australians are now members of their own SMSF. (Data source ATO).

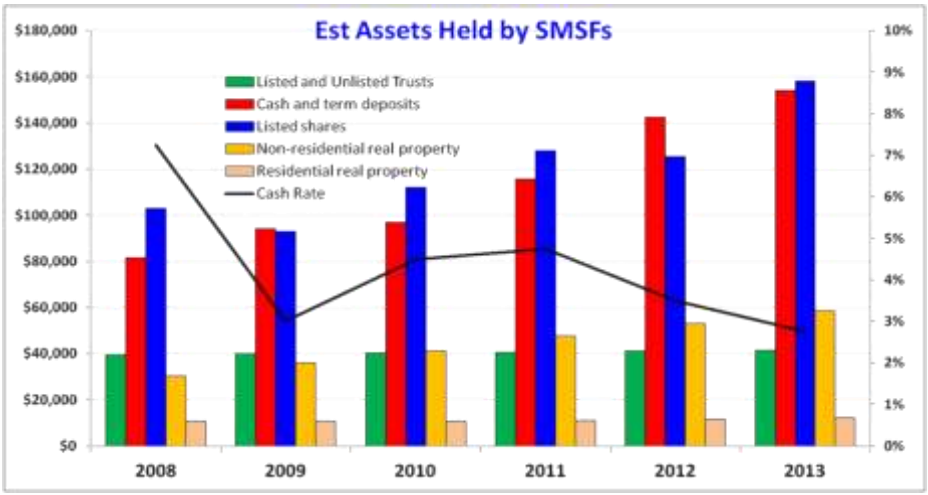



The CTN share register indicates that around 40% of shareholders (holding approx. 50% of CTN shares) are in a Superannuation Fund.

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.

There are many reasons investors prefer to hold shares directly. These include maintaining 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 direct equities the most desirable investment class for SMSF investors.



The chart "*Estimated Assets held by SMSFs*" on the previous page looks into SMSFs portfolios to identify their chosen investments. Clearly SMSF trustees want listed shares in their portfolios, and want to 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 SMSFs and other investment portfolios will eventually find its way into the sharemarket.




The table to the right tracks the monthly dollar volume traded in the ASX100, All Ordinaries (Top 500 ASX stocks) and Emerging Companies Index over the last 4 years. As is apparent, trading volumes in Microcap stocks have fallen since 2010 (when data became available), albeit having stabilised. Source: *Iress and Contango*

While we cannot be sure *when* the accumulated cash in portfolios will make its way back into the sharemarket, CTN will continue to develop its profile and shareholder base, while enhancing relationships with SMSF trustees, investors, sharebrokers and financial advisers in readiness for confidence in investing in microcaps to return to higher levels.

As we celebrate our 10th anniversary as a company CTN will continue to work hard to see CTN included in more investors portfolios and maximise more 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 page on the CTN website.

## RESEARCH

In the March quarter CTN retained formal ratings (as distinct from Broker reports) which can all be obtained from the Research page 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 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 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 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 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 ACCESSIBILE 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.




**References:**

[1] 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. Future indicative dividends are based on Dividend Policy announcement of 16 April 2010 which is to pay a minimum 6%pa of the July 1 NTA value of the company.

**Web pages sited:**

| | |
|---|---|
| CTN Events | www.contango.com.au/ctn_contango_microcap_events_and_dates.php |
| CTN Research Page | www.contango.com.au/ctn_contango_microcap_research.php |
| CTN Investment Centre | www.contango.com.au/ctn_contango_microcap_investor_centre.php |
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