Contango MicroCap Limited

ABN 47 107 617 381

INVESTMENT COMMENTARY

Quarterly Update
December 2014

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Dear Fellow Shareholder

INVESTMENT UPDATE – DECEMBER QUARTER 2014

MANAGING DIRECTOR'S COMMENT

In November CTN held its 2014 Annual General Meeting. Welcoming a strong turnout my fellow directors and I enjoyed meeting with shareholders including many new faces attending for the first time. Copies of the AGM presentation and the Chairman's address can be found on the CTN website, or posted to you upon request.

Notwithstanding the weaker performance in the small and microcap sector in the quarter, CTN continued the growth in its share registry - as it did during all of 2014 - having a record number of over 5,500 shareholders on the register at year end. Many of our new shareholders are in Self Managed Superannuation Funds (SMSFs) and indicative of the structural shift which has occurred in the wealth management industry, where investors and financial planners are investing more into LICs.

This growth in shareholders reflects developments in the Australian investment landscape where the number of SMSFs continues to grow. Research from industry analysts identify the key reasons investors prefer to invest directly into equities as being: Control, Transparency, Dividends, Franking and Tax benefits. Each point noted are a feature for which LICs are renowned. Some comments in relation to this structural shift can be read in the Distribution Update on page 18, which follows the investment commentary.

The company also welcomes George Boubouras aboard as Contango's Head of Research. He will oversee the analytical inputs to the top-down and bottom-up views which will be expressed in Contango's stock selections.

George is an experienced and highly educated investment professional having held senior investment and leadership positions over the past 20 years. Most recently he was the CIO at Equity Trustees and prior, the CIO for just over 5 years at UBS Wealth Management. He also previously worked with many of the Contango team at Hongkong and Shanghai Banking Corporation Limited Asset Management where he spent 10 years as the Head of Asset Allocation, Fixed Income and Research.

At Contango George will bring additional enhancements to the investment process, lead the investment team and help grow the size of Contango's funds management operations. George may be recognisable to many shareholders through his high media profile including regular appearances on the Sky Business channel.

CTN INVESTMENT PORTFOLIO PERFORMANCE

In the December quarter, the CTN investment portfolio generated an investment return of -4.6%.

In this time the ASX Small Ordinaries Accumulation Index fell by 3.9% and the S&P/ASX Emerging Companies Index fell by 12.8%.

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

	October	November	December	Quarter
CTN Investment Portfolio Gross return	**-1.7%**	**-2.8%**	**-0.1%**	**-4.6%**
ASX Small Ordinaries Accum. Index	-0.5%	-3.8%	0.5%	-3.9%
S&P/ASX Emerging Co's Accum. Index	-5.4%	-5.6%	-2.4%	-12.8%

Some major contributors over the quarter included Amcom Telecommunications, (which returned 54%), ERM Power (27%), Corporate Travel Management (34%), Nanosonics (38%) and Austal (16%).

Over the 12 months the portfolio held a total of 96 positions in the investment portfolio. Of these, 49 (representing approximately 50% of the investment portfolio weighting) contributed positively to the year's performance. Positive contributors over the 12 months included Austal Limited (which returned 73%), Infomedia (104%), Slater and Gordon (33%), Corporate Travel Ltd (81%), G8 Education Ltd (72%) 360 Capital Group, (78%), Iproperty Group (35%) and Capitol Health (130%).

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	0.0%	9.2%	7.1%	0.3%	4.9%	-0.4%	13.0%	15.8%
Emerging Co's Accum. Index	-11.0%	-12.2%	-10.9%	-14.2%	-7.4%	-9.1%	1.1%	1.8%
ASX Small Ords Accum. Index	-3.8%	-2.3%	0.6%	-5.4%	-2.0%	-5.6%	2.3%	4.1%

As at 31.12.14. Gross returns. Past performance is no guarantee or predictor of future performance.

The long term gross performance of the CTN investment portfolio is 15.8% pa 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

CTN share price remained flat during the quarter, closing at $1.045.

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 Small Ords Accum	S&P/ASX Emerging Companies Accum
1 Year	7.3%	-3.8%	-11.0%
2 years pa	10.6%	-2.3%	-12.2%
3 years pa	14.1%	0.6%	-10.9%
4 years pa	3.1%	-5.4%	-14.2%
5 years pa	8.8%	-2.0%	-7.4%

As at 31.12.14. Total Shareholder Return includes impact of Dividends paid. Past performance is no guarantee of future returns

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

When comparing the performance of an LIC to the returns of ASX Indices, it is important to recognise that an LIC's NTA and Total Shareholder Returns identify performances that are the after-expenses and after-tax numbers – whereas the returns of ASX Indices identify gross returns and do not adjust for any fees or taxes.

DIVIDEND INFORMATION

CTN OFFERS A FIRM DIVIDEND POLICY

In the NTA statement released to the ASX on the 1st of July 2014, CTN announced an after-tax NTA value of $1.138. In line with the company dividend policy to pay a minimum of 6% p.a of the 1 July NTA value each year, CTN is able to provide investors with guidance of the proposed FY15 dividends.
This table is not a formal declaration of the FY15 dividends. Shareholders and investors should only rely on the Official Declaration of Dividend for confirmation as to dividend amount and relevant dates including what level of franking may be attached to any dividends declared.

Guidance of future dividends as at 01 January 2015			**Amount**
FY15 Interim	*March 2015:*	*Minimum of*	*3.1 cps*
FY15 Final	*October 2015:*	*Minimum of*	*3.7 cps*

Since declaring its first dividend in December 2004, CTN has declared a total of 79.6 cents per share in dividends to shareholders, amounting to a total payout of over $89.6m.

CONTANGO ASSET MANAGEMENT LIMITED (CAML)

Since 2004 CAML has demonstrated it possesses the skills and ability to successfully manage a microcap portfolio and manage it within a closed end company structure.

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	5.3	15.8	6.9	9.4	8 Apr 1999
Small Cap	-5.5	5.5	3.9	8.6	28 Feb 2005
MicroCap Portfolio	0.0	7.1	4.9	15.8	25 Mar 2004
Ex-30 Income	14.4			20.4	21 Dec 2012
CAML International Equities funds					
Global Value Fund	22.4	34.8	20.2	15.7	31 Dec 2007
ASX Indices performance					
All Ordinaries Accumulation Index	*5.0*	*14.3*	*6.4*		
All Small Ordinaries Accumulation Index	*-3.8*	*0.6*	*-2.0*		
Emerging Companies Accumulation Index	*-11.0*	*-10.9*	*-7.4*		

As at 31.12.14. Gross returns. Past performance is no guarantee or predictor of future performance.

ASX ANNOUNCEMENTS IN THE DECEMBER QUARTER



During the quarter the company released:

- September, October and November NTA statements
- Mid-month portfolio commentaries
- September Quarter Investment Commentary
- 2014 Annual Report
- 2014 AGM Shareholder Presentation
- CTN 2014 AGM Chairman's Address

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

CTN Convertible Notes (ASX: CTNG)

On 28 November CTN announced the issue of 5 year redeemable unsecured convertible notes. CTN raised $26.5m through this issue which listed on the ASX on 24 December, trading on the ASX under the code CTNG. Going forward the month-end closing convertible note price will be noted in the NTA statement.

The convertible notes have a term of 5 years with a coupon rate of 5.5% pa. Note holders may choose to convert their holdings into CTN shares at the end of the 5 year term, or at other specified times, at the conversion price of $1.30.

The Joint Lead Managers to the issue were Evans and Partners Pty Ltd and BBY Limited.

Contango Income Generator Limited Notes (CIGL)

While the Prospectus for Contango Income Generator Limited (CIGL) was cleared by ASIC for release, it was some 2 to 3 weeks later than planned primarily due to changes in the FOFA regulations during this period and the ASIC review taking longer than we anticipated.

As there were only 6 working days to the proposed Closing Date, and 8 working days to the Christmas break, the Boards of both CTN and CIGL decided not to proceed on the proposed timetable of that prospectus. The proposal will be revisited in the New Year - with a time frame more "user friendly" for prospective investors - in particular for CTN shareholders, and members of Self Managed Superannuation Funds and their advisors.

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.

We welcome your call

We thank you for being a shareholder in CTN or your interest in the Company. We welcome your call, if you would like to speak to myself or Boyd Peters, our shareholder communications manager, please call 03 9222 2333.

Yours sincerely



David Stevens
Managing Director

QUARTERLY INVESTMENT COMMENTARY

Global Overview

Global equity markets had a roller-coaster ride in the December quarter despite finishing slightly higher. The MSCI World index sold off in mid-October, recovered during November, sold off again in mid-December, and then partly recovered in late December.

During the quarter markets were driven by the ongoing divergence in the outlook for monetary policy between the US and the rest of the world.

Concern around potential deflation in Europe forced the ECB to announce a two-year program of asset purchases. In China, the PBOC announced cuts to its benchmark interest rates. In Japan, the BoJ extended its asset purchase program. However, in contrast, the US Fed made its last QE3 purchase in October and phased out the 'considerable time' phrase with regards to the timing of the first rate hike.

The other key development during the quarter was weakness in a number of key commodity markets. The oil price traded sharply lower on the back of unfavorable fundamentals. Despite subdued global demand, OPEC decided to maintain production targets at a meeting in November. The iron ore price continued to decline on the back of strong supply growth and only modest demand from China.

The local ASX 300 finished up 2.9% in local currency terms despite a large divergence in sector returns over the quarter. The falling oil price weighed on the energy sector which was the worst performer (-17.8%). On the other hand, as bond yields fell, most defensive and high-yielding sectors outperformed including REITs (11.5%) and Healthcare (13.9%). The weak Aussie dollar (-6.5%) also supported the offshore earners including in the Healthcare sector.

Over the year, falling bond yields supported equity markets but most of the gains were in the US which had its third consecutive year of double-digit returns (11.4%). Other major indices lagged the US and most USD returns were negative as the dollar rallied. The local market returned a modest 5.6% over the year weighed down by its resources exposure as iron ore and oil prices declined.

Global Indices	1 mth	3 mth	12 mth
ASX 300*	2.0%	2.9%	5.3%
Dow Jones Industrial	0.0%	4.6%	7.5%
S&P 500	-0.4%	4.4%	11.4%
NASDAQ Index	-1.2%	5.4%	13.4%
Nikkei 225 Index	-0.1%	7.9%	7.1%
Hang Seng Index	-1.6%	2.9%	1.3%
Shanghai Composite Index	20.6%	36.8%	52.9%
FTSE 100	-2.3%	-0.9%	-2.7%
German Aktien Index (DAX)	-1.8%	3.5%	2.7%
France CAC40	-2.7%	-3.2%	-0.5%
India BSE 200 Index	-2.3%	5.4%	35.5%
MSCI World ex Aust (hedged)	-0.9%	3.3%	10.0%
MSCI World ex Aust (unhedged)	2.6%	8.2%	15.0%

* Total Return

US Economy

The data flow for the US economy was generally strong in the December quarter. Third quarter GDP growth surged to an annualised rate of 5.0% (the best quarterly growth rate in over a decade), following a revised up June quarter rate of 4.6%.

The labour market also continued to recover with nonfarm payroll growth of 243 000 and 321 000 in October and November respectively. The unemployment rate ticked down by 0.1% points to 5.8% in the quarter. The participation rate remained around 63% during the quarter.

Consistent with the stronger data, the Fed ended its QE3 program in October and removed the 'considerable time' phrase regarding the outlook for the Fed's Fund Rate.

Surveyed measures of activity and confidence were also generally strong during the quarter. The University of Michigan consumer confidence survey reached a 7 year high of 93.6 in December. The ISM's remained firmly in expansionary territory with the manufacturing PMI reaching an equal high for the year of 59 in November and the non-manufacturing index rose to 59.3 - just shy of the cyclical peak reached in August.

On housing, starts fell slightly short of expectations in November coming in at 1.028 million compared to October's figure of 1.045 million.

US Equity Market

The S&P500 index rose in each quarter of the year with the index up a solid 4.4% in the fourth quarter. With bond yields falling Utilities was the stand-out performer (12.2%) and strong consumer confidence boosted Consumer Discretionary (8.3%). Sectors exposed to falling commodity prices generally lagged including Energy (-11.3%) and Materials (-2.3%).

Over the year, the US market ground steadily higher (11.4%) marking the third consecutive year of double-digit returns. Volatility remained low with the biggest draw-down being 7.4% during September and October.

Over the year, Utilities (24.3%) were especially strong as were the Technology (18.2%) and Health Care (23.3%) sectors. Telcos (-1.9%) were weak amid growing sector competition but the clear loser was Energy (-10.0%), hit by a sharp fall in oil prices in the second half of the year.

China

The data flow continued to moderate in China during the December quarter.

GDP growth fell short of the government's target of 7.5% in the third quarter coming in at 7.3%. Industrial production growth slowed from 8.0% in September to 7.2% in November. The HSBC manufacturing PMI eased to 49.6 in December from 50.2 in September.

Credit data was soft over the quarter with total social financing lower in November reflecting a decline in non-bank lending. New bank loans recovered to 852bn yuan in November from a weak 548bn yuan in October. Credit concerns became a key issue during the year with the first onshore bond default of modern times.

Consistent with the moderating data, the PBOC announced cuts to its benchmark interest rates. The PBOC reduced the one-year benchmark deposit rate by 25bps to 2.75% and the one-year benchmark lending rate by 40bps to 5.6%. The government also implemented some fiscal measures but these were relatively small and targeted at specific projects in the rail and public housing sectors.

On other major data, house prices continued to fall in the December quarter, CPI inflation eased to 1.4% in November and PPI deflation worsened over the quarter as prices fell 2.7% over the year to November.

Europe and Japan

The data flow from Europe remained weak during the quarter with GDP growth of only 0.8% over the year to September. But the key issue in Europe remained the risk of deflation with the latest inflation reading of only 0.3% in November.

During the quarter, Draghi reinforced the ECB's intention to bring inflation up towards its target level and to expand the bank's balance sheet towards the level last seen at the beginning of 2012 (~€3trn). In addition to the previously announced rate cuts, the bank announced a two-year program of asset purchases including ABS and covered bonds.

In Japan, Prime Minister Shinzo Abe called an early election seeking reassurance on his policies to boost prices and stimulate growth. Mr. Abe secured his position following a super majority victory by the LDP and coalition partner in the lower house. Subsequently, the new cabinet announced a US$29.2bn stimulus package, with roughly half of the funds going to reconstruction related to recent natural disasters.

Also during the quarter, Japan saw its first hike in the sales tax rate for 17 years – from 5% to 8%. However, following the negative impact on growth, the second increase (to 10%) scheduled for October 2015 was delayed by 18 months.

GLOBAL INTEREST RATES/ CREDIT MARKETS

Despite the end of the Fed's QE3 program, the US 10-year benchmark Treasury yield fell 32 basis points during the quarter as the Fed maintained a cautious tone on the pace at which it would move to hike rates.

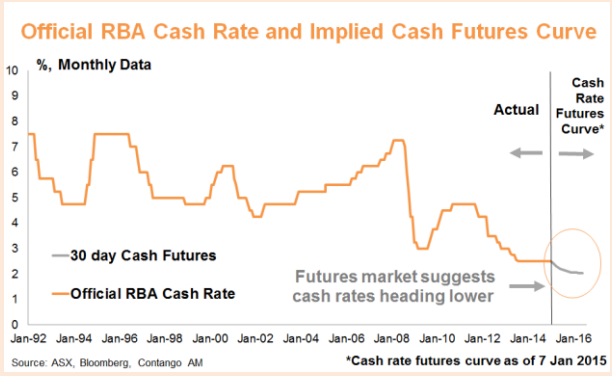
Aussie bonds rallied even more than Treasury's with yields declining 74 basis points in the quarter to an all-time low. With the RBA on hold and global rates declining, the Aussie sovereign yield curve inverted at the end of the quarter with yields below the cash rate out to seven years.

In Europe bond yields fell as the ECB cut policy rates by 10 basis points and began purchasing ABS and covered bonds. However, the bank fell short of announcing purchases of sovereign debt.

Over the year, global interest rates moved sharply lower with record lows for 10-year benchmarks in Australia, Germany and Japan. The US 10-year yield did not revisit its 2012 lows but still fell 86 basis points over the year.

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	0
AUS 90 day Bank Bill rate	2.77	3	8	17
AUS 10 year Bond yield	2.73	-30	-75	-150
US Federal Funds rate	0.25	0	0	0
US 30 year Bond yield	2.75	-14	-45	-123
US 10 year Bond yield	2.17	0	-32	-87

Chart 1: RBA Cash Rate and the Implied Cash Futures Rate. The market is pricing in additional rate cuts by early 2016.



Exchange Rates

The USD was broadly stronger over the December quarter with the broad-based ICE index rising 5.0%. The quarterly result capped off a solid year for the currency which finished up 12.8% as the outlook for Fed policy diverged from the rest of the world.

On the back of the rising USD, the AUD fell 6.0% over the quarter and 8.1% over the year with most of the selling occurring in the second half. The AUD was weighed down by comments from the RBA and also declining commodity prices.

The AUD move was more modest in trade weighted terms (-3.5%) as the Euro also sold off against the USD and the Yen actually appreciated against the USD as the BoJ extended its asset purchase program.

Emerging market currencies came under pressure during the quarter on the back of capital inflows to the US and declining commodity prices. The Russian ruble ended down 32.8% on the back of weak oil and western sanctions.

Exchange Rates	Level	1 mth	3 mth	12 mth
AUD/USD	0.8166	-4.0%	-6.7%	-8.5%
AUD/YEN	97.71	-3.2%	1.8%	4.1%
EURO/USD	1.21	-2.8%	-4.2%	-12.0%
AUD/EUR	0.68	-1.2%	-2.5%	4.1%
AUST TWI	66.50	-2.5%	-2.9%	-3.5%

Commodities

Commodity prices were generally weaker over the year and quarter with oil and iron ore the standouts.

Oil prices tumbled in the second half of the year as OPEC failed to curtail production in the face of strong US output and sluggish global demand growth. Spot Brent (-49.7%) made its high for the year in June at $115 before falling to a four-year low of $55.8 in December and trading below $60 for the first time since 2009.

Iron ore (Tianjin 62% fines) all but halved in 2014 (-47.1%) reaching a new post-crisis low of $67 in late December. Strong supply growth from the mining majors in Australia was the key driver of the weakness. However, inventory levels at Chinese ports, while still elevated, fell over the quarter, which could set the stage for a recovery in the lead up to Chinese New Year.

Spot gold was barely changed (-1.7%) over the year but lost ground in the December quarter (-1.9%). The stronger USD and weaker-than-expected inflation in most major economies weighed on the bullion.

Base metal prices were mixed over the year, but performed relatively well when compared to oil and iron ore with the LME index down only 7.8%. Most of that weakness came in the December quarter (-5.7%) with all major metals softer including aluminium (-5.3%), copper (-5.2%), zinc (-5.0%) and nickel (-7.2%).

Commodities	Level	1 mth	3 mth	12 mth
Gold (US$/oz)	1,184.11	1.4%	-2.0%	-1.8%
Oil WTI (US$/bbl)	53.70	-18.6%	-41.3%	-45.5%
Aluminium (USc/lb) LME	83.08	-11.6%	-5.3%	3.8%
Copper (USc/lb) LME	288.44	-2.4%	-5.6%	-14.0%
Nickel (USc/lb) LME	677.44	-7.2%	-9.5%	6.9%
MG Metals Index	303.87	-5.6%	-6.2%	-7.3%

Domestic Economic Developments

Domestic economic growth slowed in the second half of the year with third quarter GDP printing at only 0.3% which was below consensus expectations of 0.7%. This slowed the annual rate of growth from 3.1% to 2.7%.

Despite the moderation in growth, the RBA maintained the cash rate at 2.5% throughout the year and minutes from policy meetings revealed little new insight into expectations for monetary policy. The RBA maintained its key phrase of a 'period of stability' in interest rates and its message remained that the transition from mining to non-mining was in progress but slow.

A total of 169 000 jobs were created in the year to November, compared to 106 000 in the year prior. The unemployment rate rose steadily from 5.9% in November 2013 to 6.3% in December 2013. The labour market data come under scrutiny during the year following large swings in employment growth and an admission from the ABS that seasonal factors were causing problems with the data.

The RBA's preferred measure of CPI inflation, the trimmed mean, stayed within the RBA's target band of 2-3% printing at 2.3% in the third quarter.

Housing was the standout performer for the economy in 2014 with Building Approvals averaging 197 000 in the 10 months to October. After a somewhat slow start to the cycle, private houses led the charge over the year up 12.7% while the more volatile apartment segment actually declined by 7.0% over the year.

Consumer sentiment as measured by the Westpac-Melbourne Institute index of consumer confidence remained below 100 throughout the year. The index finished the year at 91.1 points (39 month low) which was below the 103.3 recorded in January.

Business confidence lost momentum late in the year with the NAB Business confidence index declining from +5.4 in September to +1.2 in November. However, the NAB Business conditions index was a little more robust rising from +1.0 in September to +5.4 in November.

Weighing on confidence was the Commonwealth Budget which was poorly received early in the year. The budget contained both spending cuts and tax hikes which were mostly opposed by Labor and the cross-benchers in the Senate. Key sticking points were the $7 GP co-payment and the Paid Parental Leave Scheme.

Initially in the Budget Treasurer Hockey predicted that the 2014/15 deficit would reach $29.8 billion, but following a sharp fall in commodity prices, this was revised up to $40.4 billion at the MYEFO released in December.

Indicator	Outcome
Employment change, persons, mth, Nov	42 700
Unemployment rate, %, Nov	6.3
Consumer confidence, index, Dec	91.1
NAB business confidence, Nov	+1.2
RBA cash rate, %	2.5
Credit growth, %, yoy, Nov	5.9

Australian Equity Market

The Australian equity market was volatile over the year but still managed to deliver a 5.3% return. Sector returns were highly divergent with Resources (-16.6%) strongly underperforming on the back of falling commodity prices whereas Industrials (11.0%) performed well.

Small caps (-3.8%) underperformed large caps given their leveraged exposure to resources (Small Resources -28.4%). Slimily to large caps, Small Industrials (2.8%) performed relatively well which helped to partly offset the drag from resources.

In the December quarter, the ASX 300 delivered a solid 3.1% return despite increased volatility. Resources continued to underperform for both the large caps and small caps.

Accumulated Australian Indices	1mth	3mth	12mth
ASX 200	2.1%	3.1%	5.6%
ASX 300	2.0%	2.9%	5.3%
ASX 300 Industrials	3.0%	6.8%	11.0%
ASX 300 Resources	-2.6%	-13.1%	-16.6%
All Ordinaries	1.9%	2.6%	5.0%
Small Ordinaries	0.5%	-3.9%	-3.8%

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

In the month of December, the market returned 2.1% with resources underperforming once again on the back of the falling oil price.

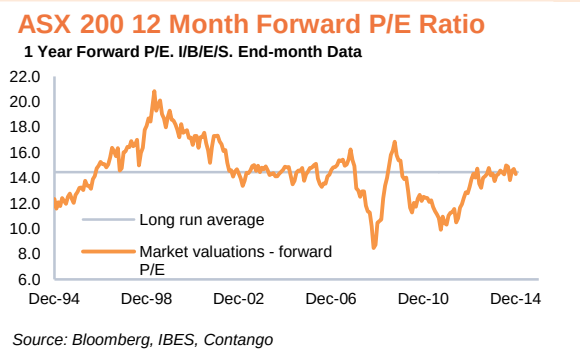
On the monthly sector performance, the more defensive sectors generally outperformed including Healthcare, Property Trusts, and Telcos with some boosted by the falling AUD.

On the sectors in more detail, Energy (-1.7%) underperformed but there was a large divergence between stock returns. CTX (13.1%) continued its strong performance while WPL (6.3%) performed well. STO (-18%) was the worst of the oil majors with S&P downgrading its LT corporate credit rating. This was followed by the announcement of capex cuts while asset divestments "were under consideration".

Australian Sector *	1 mth	3 mth	12 mth
Materials	-0.3%	-6.1%	-11.9%
Consumer Discretionary	-2.2%	-0.3%	-0.6%
Consumer Staples	-0.8%	-4.4%	-4.3%
Energy	-1.7%	-17.7%	-12.3%
Financial	2.8%	7.8%	12.2%
Financial (ex LPT's)	2.5%	7.2%	9.8%
Healthcare	5.6%	13.3%	23.0%
Industrials	5.8%	7.6%	11.0%
Information Technology	1.8%	-0.7%	4.0%
Property Trusts	4.5%	11.3%	26.8%
Telecoms	4.5%	12.3%	20.6%
Utilities	1.6%	3.0%	15.3%
S&P/ASX300	2.0%	2.9%	5.3%

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

Chart 2: Australian Equity 1-year Forward P/E. The market multiple is marginally below the long run historical benchmark. A lower for longer cash rate and lower AUD will assist the recovery for corporate Australia. Some multiple expansion anticipated over the year.



Source: Bloomberg, IBES, Contango

Although the iron ore price recovered slightly from its $66 low, Metals & Mining still underperformed (-2.6%) in the month. RIO (-1.9%) and BHP (-5.0%) came under pressure while the pure iron ore plays (FMG -6.8%, AGO -8.3%, MGX -40.2%) fell heavily.

The steel and scrap metal stocks were mixed with ARI (-10.4%) reflecting the weak iron ore price, while BSL (13.3%) and SGM (13.3%) were up as beneficiaries of both the lower iron ore price and lower AUD.

Gold stocks performed strongly as the AUD gold price rose with the fall in the currency. Notable performances were RRL (34.0%), NST (26.8%) and NCM (5.3%).

Financials (2.8%) outperformed the index driven by REITS (4.5%) and Banks (3.1%), while Diversified Financials (1.0%) and Insurance (-1.1%) underperformed.

REITs performed well driven by both the lower AUD and the rally in bonds. Positive sector performance was broad based with WFD (8.8%), GPT (7.9%), LLC (7.0%), FDC (6.6%) and GMG (6.4%) all performing well. Those that underperformed the sector were largely Australian focused retail or housing stocks such as DXS (0.80%), SCG (0.86%), CHC (1.3%), CQR (2.6%), and SGP (2.9%).

The Banks returned a respectable 3.1% given the flood of news around the Murray Inquiry. As expected the review focused heavily on the appropriate level of capital that should be held by Australian banks. The report suggested that the sector's current capital level was too low relative to internationally active banks and would need to rise.

CBA (6.1%) has the strongest capital position based on an internationally harmonised Core Tier 1 capital and performed strongly.

NAB (3.1%) was the next best performing of the banks after announcing the sale of a $2.3 billion UK commercial property portfolio announcing that it expected to book a small gain on the sale and also release up to GPB127 million ($242 million) of capital. The regional were the laggards of the sector this month with BOQ (-1.1%) down and BEN (0.3%) roughly flat.

Diversified Financials (1.1%) underperformed with a large divergence of returns between the stocks. MFG (6.3%), OFX (7.7%) and PTM (6.6%) all performed strongly while sector majors PPT (-4.3%), IFL (-2.3%), HGG (0.23%) and MQG (-0.24%) underperformed both the sector and the market.

Insurance (-1.1%) underperformed this month with only QBE (3.2%) delivering a positive return driven by the lower AUD. CVO (-13.4%) was the sector's worst performer as the earnings downgrade from key Australian customer FLT drove a sharp share price fall. Other key sector stocks IAG (-1.9%), SUN (-1.9%) and AMP (-2.5%) mostly underperformed.

While not currently included in either the index or sector, MPL (11.1%) strongly outperformed in its first full month of listing.

Industrials (5.5%) outperformed given the sectors diverse exposures. M&A and corporate restructuring were notable drivers of returns with BKN (30.3%) and RCL (13.2%) up strongly after receiving takeover offers. TSE (-13.0%) formally rejected a $2.00 takeover offer from Ferrovial Servicios. LEI (11.8%) announced the sale of John Holland to CCC International Holding Ltd. QAN (25%) rallied given its leverage to both the steep fall in oil prices and the decline in the AUD.

Consumer Discretionary (-2.8%) underperformed in December with Retail (-4.2%), Consumer Services (-2.2%) and Media (-0.1%) all underperforming.

In Retail, a downgrade from KMD -26.5% highlighted the tough trading conditions in the sector. The opening of Sephora's first Australian store also weighed on MYR (-13.5%) and the sector more broadly. Of note, JBH (2.1%) outperformed on no particular news.

Media finished the month flat with divergent returns from FXJ (18.2%) which rose strongly after news that it had entered an arrangement with Macquarie Radio network. SXL (11.4%) was the other strong performer while other key media names saw significant share price declines including SKT (-4.3%), NEC (-5%), TEN (-8.2%), SWM (-14.6%), SGN (-16.3%) and VRL (-17.5%). The latter two fell heavily after trading updates saw the market downgrade their respective FY15 earnings growth forecasts.

Consumer Services (-2.2%) was dragged down by very weak performances from a number of key stocks on stock specific issues.

VET (-55%) shares continued to decline unabated in December taking the stock price to a near 90% fall since listing. FLT (-19.3%) also downgraded FY15 earnings guidance on the back of a weaker performance of their Australian operations. CWN (-11.7%) was weak due to a slowdown in Macau's gaming revenue growth driven by both the corruption crackdown and tightening credit conditions.

Defensive sector's Healthcare (5.5%) and Telcos (4.5%) strongly outperformed however Consumer Staples (-0.8%) and Utilities (1.6%) underperformed.

Healthcare's outperformance was helped by the falling AUD which saw most of the sector outperform including SHL (6.0%), RHC (5.4%), CSL (5.0%), COH (11.7%) and RMD (11.0%). Radiography stock CAJ (34.9%) jumped following the acquisition of Southern Radiography and a successful equity placement. On the downside, JHC (-13.8%) fell heavily after announcing irregularities with the company's payroll tax system.

On Telco's, sector heavyweight TLS (6.2%) outperformed with its stock price approaching $6 per share. AMM (30%) surged after the previously announced Vocus (8.5%) acquisition moved to compulsory acquisition. CNU (35.6%) rose strongly after the New Zealand Commerce Commission's draft review of UCLL and UBA pricing was far more favorable than had been expected.

Consumer staples were weighed down by MTS (-26.4%) this month after the company downgraded its 1HY15 EBIT guidance by 10%. WOW (-1.4%) and WES (-1.4%) underperformed while CCL (2.0%) was roughly inline.

Of the Utility sector, only SKI (9.2%) and EPW (8.4%) outperformed with the rest of the sector underperforming the market.

AUSTRALIAN EQUITY MARKET – OUTLOOK

Global growth is forecast to remain sub-par in 2015 despite the recovery entering its sixth year since the depths of the GFC.

Developed economy growth remains weak with only the US showing signs of normalisation. Emerging economies face challenges with slow growth in international trade and capital outflows constraining their growth.

As the Fed ends its QE program and considers the right time to begin raising rates, markets are questioning whether global policy settings are appropriate to meet these growth challenges. In this environment, the global recovery could easily lose momentum.

Europe has shown a reluctance to take decisive action without being confronted by a crisis – unfortunately; there is no reason to believe that things will be different this time around.

Japan continues to shy away from the structural reforms that are necessary to allow it to achieve an orderly deleveraging and a reasonable rate of growth.

China provided massive stimulus in 2009 and was active again in 2012 but the legacy of excessive credit is now limiting their ability to provide support to the economy.

This slow and uneven post-GFC recovery has pushed interest rates to historic lows. The recent bout of market volatility will help extend this period of low rates. In addition, excess capacity across global product and factor markets will keep inflation pressures at bay, further reinforcing the sustainability of low rates.

This ongoing low interest rate environment will push investors out along the risk spectrum underpinning PE re-rating across income generating assets such as equities.

At the end of the day, the Fed will not allow Europe to drag the world back into recession. If growth loses momentum, they will come forward with another stimulus package. They remain the lender of last resort to the global economy.

MICROCAP OVERVIEW

Volatility remained a key feature with the Small Ordinaries index declining by almost 10% from the end of September to mid-December. It then subsequently rallied 6.5% over the final two weeks of December with Small Resources leading the way and rising 16.2%.

The ASX-100 index increased 3.5% over the quarter, outperforming the Small Ordinaries. ASX-100 Industrials (+7.4%) outperformed Small Industrials (+0.3%). Similarly ASX-100 Resources (-12.4%) outperformed Small Resources (-21.6%).

The best performing sectors over the quarter included Financials (+10.8%), Telecommunication Services (+8.6%) and Consumer Staples (+2.1%). The worst performing sectors were Energy (-29.9%), Metals & Mining (-13.7%) and Industrials (-5.5%).

Financials benefitted from strong performance by several asset managers including Magellan Financial Group (+30.6%) and Platinum Asset Management (+19.5%) which rallied from mid-October in sympathy with the rebound in global equity markets. OzForex (+23.1%) delivered a better-than-expected first half result. The defensive qualities of property trusts were evident with solid performance from BWP Trust (+19.9%), Hotel Property Investments (+17.4%) and Charter Hall Group (+13.4%).

The Telecoms sector was buoyed by corporate activity with Vocus Communications (+15.1%) announcing a proposed merger with Amcom Telecommunications* (+53.4%) in an all-scrip bid. Chorus (+57.0%) reacted positively to a release by the NZ Commerce Commission of better than expected Final Pricing Principle prices.

Within Consumer Staples, Australian Agricultural Co (+12.1%) benefitted from an FTA agreement with China which should result in tariffs on meat being exported to China being eliminated over the next nine years whilst Ridley Corporation (+10.6%) had a positive 1Q15 update at its AGM.

Energy was the worst performing sector with the oil price (WTI US$/BBL) falling -41.3% over the quarter to US$53.70. All small oil and gas stocks declined with Sundance Energy Australia (-57.1%), Horizon Oil (-46.7%) and Senex Energy (-41.8%) being the weakest. Uranium producers Paladin Energy (+5.9%) and Energy Resources of Australia (+4.0%) benefitted from improved uranium prices.

Metals & Mining saw further weakness across the iron ore producers with BC Iron (-67.2%), Sundance Resources (-61.1%), Atlas Iron (-60.7%) and Mount Gibson (-55.0%) all falling in response to a 24% decline in the iron ore price. Other miners were also under pressure with most commodities declining over the quarter. One exception was CuDeco (+25.4%) after announcing its largest shareholder, China Oceanwide International Investment Co., would increase its stake to 19.9%. Whilst the gold price was down only -2%, there was a divergence of performance amongst the gold stocks ranging from Regis Resources (+24.1%) through to Silver Lake Resources (-50.0%).

Within Industrials, Capital Goods underperformed with several profit downgrades from mining services and consulting companies, including Ausdrill (-55.7%), NRW Holdings (-55.4%) and Cardno (-43.3%).

Other strong performers over the quarter included Arrium (+38.7%) which came into the Small Ordinaries index in December. There was no specific news flow with the share price rebounding after being heavily sold post its earlier equity raising.

Corporate Travel (+34.6%) upgraded FY15 earnings guidance at its AGM in October.

Vocation (-90.6%) was the worst performer over the quarter after reaching an agreement with the Victorian Government to surrender $19.6m of funding due to some students being enrolled in inappropriate courses. Apart from Vocation, the worst ten performers were all resource related stocks.

For December the Small Ordinaries index increased +0.5% with Small Industrials up +1.0% whilst Small Resources declined -2.6%. The ASX-100 index increased +2.2% with Large Industrials delivering +2.2% whilst Large Resources fell -2.6%.

The best performing sectors over the month included Financials (+4.4%), Materials (+3.6%) and Healthcare (+3.5%). The worst performing sectors were Energy (-9.7%), Utilities (-9.6%) and Consumer Staples (-3.1%).

As mentioned above Financials benefitted from solid performance across the asset managers – Magellan Financial Group (+15.1%), Platinum Asset Management (+6.6%) and Treasury Group (+9.5%).

Performance within Materials came from Fletcher Building (+4.9%), Pact Group (+4.8%) and the gold sector as the gold price increased +1.4%.

Healthcare saw strong performance from Capitol Health* (+34.9%) after it announced an acquisition and equity raising. Sirtex Medical (+6.7%) outperformed on no specific news.

Energy sector continued to underperform with oil price (WTI US$/BBL) falling -18.6% over the month.

Utilities were led lower by Energy Word Corporation (-25.3%) and Infigen Energy (-14.3%). Consumer Staples were impacted by Asaleo Care (-14.7%).

Other notable stock events during the month included Bradken (+30.3%) receiving an indicative bid from private equity at $5.10 cash per share. The Company is reviewing the proposal but noted it "has been made at a low point in the mining cycle".

Vocation (-55.0%) announced another profit downgrade as it restructures its Victorian operations. Kathmandu (-26.6%) provided a trading update which highlighted a subdued start to the Christmas sales promotion period in Australia and gross margin pressure. Village Roadshow* (-17.5%) had an investor presentation which highlighted several issues facing the business in 1HFY15 including under-performing films within the Distribution division and the delayed sale of the Belfast cinema operations. MMA Offshore* (-17.1%) was adversely impacted by further weakness in the oil market.

* denotes stocks held in portfolio

PORTFOLIO CHANGES

The December quarter was quite active for the portfolio. We saw a number of opportunities to participate in a number of new floats, and capital raisings over the quarter. We have been further reducing the exposure to both global and domestic Cyclicals. We have used the funds raised to increase the weighting to a number of defensive/growth stocks and sectors which we will mention below.

Additions - New

We added 4 new listed companies into the portfolio.

Indoor Sky Diving - the company builds, owns and operates tandem skydiving centres in Sydney. The company is looking to expand into other capital cities as well as tourist hotspots. They have recently announced new contracts to build centres in Perth as well as at the gold coast in Queensland.

GPT Metro Office Fund - is a passive office real estate investment trust with 6 office/business park assets located in three of the major capital cities. We view the company as low risk and offering a very strong dividend yield of 7.7%.

Lifestyle Communities - is a developer and operator of retirement villages. They have just under 1800 sites across 10 villages at various stages of development.

Altium builds software products which allow their customers to design electronic products. Their software is used in a variety of industries including aerospace and defence, electronics and life sciences, automotive and consumer electronics.

Additions - Existing

Elanor - is an investment and funds management business, investing in assets and operating business throughout Australia. We participated in the float and the company recently announced the purchase of the Bell City hotel complex in Preston (VIC). The company raised $12.6m and will retain a 17.0% stake in the development.

360 Capital Fund - TGP is an evolving diversified real estate and funds management company, deriving earnings from direct rental income, co-investment income and funds management fees.

Amcom Telecommunications - A Western Australia based telecommunications company that owns and operates high speed, fibre-optic networks and Data Centre capabilities that allow them to provide integrated telecommunications and converged IT solutions to corporate enterprises, government agencies and third-party telecommunication providers. They have received an all scrip offer from Vocus Telecommunications and we remain positive about the merged group in the medium term.

Mineral Deposits - African mineral sands producer, they are commissioning their Zircon/Ilmenite mineral sands project in Senegal which will be fully commissioned by June 2015.

IPO'S

IPH Ltd (+81.0%) since listing in December 2014. IPH is a patent attorney business. The company provides for 'Patents & Designs' and 'Trademarks'.

Catapult (+9.0%) since listing in December 2014 the company develops, manufactures and markets products involved in sports analytics products. They include wearable devices as well as analytical software. The funds raised from the float will be used to expand their marketing presence in the USA over the next few years.

Evolve (+3.0%) since listing in December 2014. The company operates in the childcare space in New Zealand and also offers educational services to teachers wanting to qualify in the early childhood education space.

Godfreys (+14.1%) since listing in December 2014. The company has been operating for over 80 years and is Australia's and New Zealand's largest specialty retailer of vacuum cleaners and associated cleaning products.

Pacific Smiles (+39.2%) since listing in December 2014. The company owns and operate dental centres throughout Australia. They provide fully equipped dental surgeries which have all the facilities necessary to operate a professional dental clinic.

Sales - Reductions

To fund the purchases we have reduced the weighting in a number of the global cyclical stocks as well as locking in profits on some of our strong performers over the course of 2014.

BT and Slater & Gordon were both reduced further. BT post their very strong result and with a strong share price we decided to lock in further profits. Slater and Gordon, despite the weighting being reduced, the company still remains our largest weighting within the micro-cap portfolio.

Sales – Removals

Energy – we sold out of USA focused unconventional oil and gas plays in October and November. We remain negative on the oil price for the next 6 months and hence we see the risk of substantial reduction in profitability for all the unconventional plays in the USA. We exited both **Lonestar Resources** and **Sundance Resources**. We also accepted the takeover bid for **Nido Petroleum**.

Bellamy – the stock was exited after a very strong listing in 2014. The stock hit our valuation in December and while we like the industry we see the upside is limited at current prices.

Gold stocks were reduced in October/November as we remain bullish the US dollar and hence negative $US gold price. **Northern Star** hit our valuation and the residual holding was sold.

Syrah Resources was also exited over the quarter. We used the strength around the unfounded bid from Glencore in September to reduce the holding and while we remain bullish on the outlook for electric cars we recognise the fact that graphite is a common mineral. There are 70-80 mining companies globally, actively exploring for graphite and while Syrah has one of the largest and highest grade deposits they need to raise the necessary capital ($US120m), construct and operate the mine and this will present opportunities to re- enter the stock over the coming 12 months.

Reject Shop was sold during the quarter. We have been disappointed by the recent announcements from the company and while we like their business we do see risk of further weakness within the retail space hence we decided to exit the stock.

Titan Resources announced a significant downgrade to their camps business as well as their O&G drilling operation. We were extremely disappointed and decided to exit the stock as we see the risk of more competition and substantially lower margins over the course of 2015. Balance sheet risk raises the possibility of further equity being needed.

IPOs and Placements

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

Code	Company	Price
PLACEMENTS		
AEK	Anatolia Energy Ltd	$0.08
OTC	Otoc Ltd	$0.20
IDZ	Indoor Skydive Aust	$0.50
ICQ	Icar Asia Ltd	$1.10
ENN	Elanor Investors Grp	$1.38
IPOS		
IPH	IPH Limited	$0.58
PSQ	Pacific Smiles Grp	$1.30
EVO	Evolve Education Grp	$0.92
GFY	Godfreys Grp Ltd	$2.75
CAT	Catapult Grp Int Ltd	$0.55

Portfolio Details

As at 31 December 2014 there were 68 securities in the portfolio. The tables below show the breakdown of these positions within the portfolio.

Position Weight	# of stocks	% of portfolio
> 3%	3	10.2%
2% - 3%	16	39.4%
1% - 2%	23	33.5%
0.5% - 1%	11	9.3%
< 0.5%	15	4.5%

Market Cap	# of stocks	% of portfolio
$1b+	3	7.4%
$350m- $1b	15	25.8%
$100m-$350m	32	52.4%
$0m - $100m	18	11.3%

1 Yr Fwd	CTN	Small Ords	ASX 100
PE	9.4	12.1	14.3
EPSg	45.5	51.5	6.9
Yield	4.3	4.2	4.9
ROE	22.3	14.8	15.9
ND/E	2.4	18.6	39.7
Ave Mkt Cap (m)	$319	$533	$12,630

As at 31.12.2014. CTN is of those stocks in the underlying investment portfolio excluding stocks with a P/E > 50. Represents 75% of portfolio. Small Ords and ASX 100 are Consensus valuations. Source Factset

Sector Weights

Sector Weightings	Sep-14	Dec-14
Energy	7.2%	3.1%
Materials	9.6%	9.6%
Industrials	14.7%	14.7%
Consumer Discretionary	22.8%	22.8%
Consumer Staples	1.5%	1.5%
Healthcare	4.8%	4.8%
Financials	18.6%	18.6%
Information Technology	15.1%	15.1%
Telecommunications	1.2%	1.2%
Utilities	2.0%	2.0%
SPI	0.0%	0.0%
Cash	2.6%	2.6%

Top 20 Stock weights

Code	Company Name	Weight
SGH	Slater & Gordon Limited	4.0%
VLW	Villa World	3.1%
AFJ	Affinity Education	3.1%
GBT	GBST Holdings	2.9%
ASB	Austal	2.9%
AHE	Automotive Holdings	2.8%
EPW	ERM Power	2.7%
IPP	Iproperty	2.6%
SGF	SG Fleet	2.6%
AMM	Amcom Telecomms	2.5%
AUB	Austbrokers Holdings	2.5%
ALU	Altium	2.4%
MYX	Mayne Pharma	2.4%
PRT	Prime Media	2.4%
VRL	Village Roadshow	2.3%
ENN	Elanor Investors	2.2%
TGP	360 Capital	2.1%
PMP	PMP	2.0%
IFM	Infomedia Ltd	2.0%
NHF	NIB Holdings	1.9%

Shown as a percentage of the total CTN investment portfolio.

Slater & Gordon (SGH)
Slater & Gordon Limited (SGH) is an Australian law firm specialising in insurance claims, commercial, family and asbestos-related law. SGH also provides advice to organisations involved in commercial or business disputes. SGH operates core business with 70 offices throughout Australia and across 12 locations in the UK. SGH now includes five brands in total: Slater & Gordon (national), Trilby Misso Lawyers and Conveyancing Works (Queensland), Russell Jones & Walker and Claims Direct (UK).

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.

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.

Affinity (AFJ)
Affinity is a provider in the Australia market of education and care to children aged six weeks to 12 years. Provision of these services includes long day care, before and after school care and occasional care. Affinity owns and operates 57 child care centres and manages 11 child care centres across Qld, NSW, Vic and the NT. The portfolio of 68 centres is separated into seven geographical clusters and consists of 4,279 configured places. There are 34 owned centres, 2,752 configured places and 10 managed centres in QLD; 14 owned centres, 823 configured places and 1 managed centre in NSW; 5 owned centres and 398 configured places in VIC; and 4 owned centres and 306 configured places in NT.

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.

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.

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.

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.

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.

SG Fleet Group Limited (SGF)
SG Fleet is a provider of fleet management services to corporate and government customers, as well as salary packaged vehicles for customers' employees. The Company operates in the outsourced fleet management and salary packaging sectors, primarily in Australia, with a presence in New Zealand and the United Kingdom.

SGF offers an extensive range of products and services tailored to various market segments. Fleet solution services - including fleet management service, funding options, fleet product which includes maintenance plans, registration renewal, fuel cards and reporting, comprehensive insurance, vehicle acquisition and disposal and fleet innovation.

Amcom Telecommunications (AMM)
A Western Australia based telecommunications company that owns and operates high speed, fibre-optic networks and Data Centre capabilities that allow them to provide integrated telecommunications and converged IT solutions to corporate enterprises, government agencies and third-party telecommunication providers. They have received an all scrip offer from Vocus

Telecommunications and we remain positive about the merged group in the medium term.

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 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.

Altium Limited (ALU)
Altium builds software products which allow their customers to design electronic products. Their software is used in a variety of industries including aerospace and defence, electronics and life sciences, automotive and consumer electronics.

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.

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.

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).

Elanor Investors Group (ENN)
Elanor is an investment and funds management business, investing in assets and operating business throughout Australia. We participated in the float and the company recently announced the purchase of the Bell City hotel complex in Preston (VIC). The company raised $12.6m and will retain a 17.0% stake in the development.

360 Group (TPG)
TGP is an evolving diversified real estate and funds management company, deriving earnings from direct rental income, co-investment income and funds management fees.

PMP Limited (PMP)
Is engaged in commercial printing, letterbox delivery, digital pre-media and magazine distribution services. PMP provides a range of services including photography, creative services, consumer insights, printing, distribution and multi-channel solutions. PMP operates three main businesses: PMP Australia, PMP New Zealand and Gordon and Gotch. PMP has operations in Australia and New Zealand.

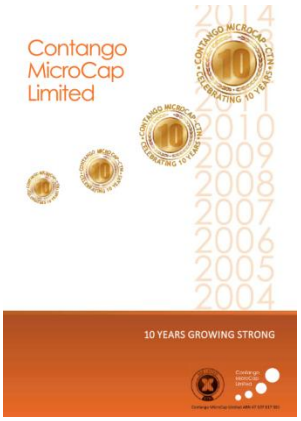
Infomedia Ltd (IFM)
Infomedia is a provider of information solutions to the after sales parts and service sector of the automotive industry. IFM supplies online parts selling systems, menu pricing systems, a range of publications, as well as data analysis and information research for automotive manufacturers. IFM products are used by over 140,000 dealership personnel in over 186 countries.

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.

KEY INVESTMENT INDICES	31/12/2014	Month	Quarter	6 Months	Financial Year to Date	12 Months
Accumulated Australian Indices						
ASX 200	47,139.24	2.1%	3.1%	2.5%	2.5%	5.6%
ASX 300	46,425.57	2.0%	2.9%	2.4%	2.4%	5.3%
ASX 300 Industrials	94,297.66	3.0%	6.8%	6.8%	6.8%	11.0%
ASX 300 Resources	18,153.34	-2.6%	-13.1%	-15.3%	-15.3%	-16.6%
All Ordinaries	46,046.93	1.9%	2.6%	2.3%	2.3%	5.0%
Small Ordinaries	5,197.54	0.5%	-3.9%	-2.5%	-2.5%	-3.8%
ASX 300 Accumulated GICS Sector Indices						
Materials	60,904.59	-0.3%	-6.1%	-8.8%	-8.8%	-11.9%
Consumer Discretionary	13,947.51	-2.2%	-0.3%	0.1%	0.1%	-0.6%
Consumer Staples	76,759.70	-0.8%	-4.4%	-3.8%	-3.8%	-4.3%
Energy	85,170.08	-1.7%	-17.7%	-17.6%	-17.6%	-12.3%
Financial	64,734.74	2.8%	7.8%	5.7%	5.7%	12.2%
Financial (ex LPT's)	72,544.11	2.5%	7.2%	4.5%	4.5%	9.8%
Healthcare	91,659.83	5.6%	13.3%	24.0%	24.0%	23.0%
Industrials	37,156.89	5.8%	7.6%	8.3%	8.3%	11.0%
Information Technology	5,815.08	1.8%	-0.7%	0.1%	0.1%	4.0%
Property Trusts	34,090.51	4.5%	11.3%	12.7%	12.7%	26.8%
Telecoms	24,950.63	4.5%	12.3%	18.4%	18.4%	20.6%
Utilities	62,355.70	1.6%	3.0%	3.1%	3.1%	15.3%
Global Indices						
Dow Jones Industrial	17,823.07	0.0%	4.6%	5.9%	5.9%	7.5%
S&P 500	2,058.90	-0.4%	4.4%	5.0%	5.0%	11.4%
NASDAQ Index	4,736.05	-1.2%	5.4%	7.4%	7.4%	13.4%
Nikkei 225 Index	17,450.77	-0.1%	7.9%	15.1%	15.1%	7.1%
Hang Seng Index	23,605.04	-1.6%	2.9%	1.8%	1.8%	1.3%
Shanghai Composite Index	3,234.68	20.6%	36.8%	57.9%	57.9%	52.9%
FTSE 100	6,566.09	-2.3%	-0.9%	-2.6%	-2.6%	-2.7%
German Aktien Index (DAX)	9,805.55	-1.8%	3.5%	-0.3%	-0.3%	2.7%
France CAC40	4,272.75	-2.7%	-3.2%	-3.4%	-3.4%	-0.5%
India BSE 200 Index	3,428.09	-2.3%	5.4%	9.7%	9.7%	35.5%
MSCI World ex Aust (hedged)	3,389.80	-0.9%	3.3%	4.2%	4.2%	10.0%
MSCI World ex Aust (unhedged)	5,570.07	2.6%	8.2%	14.4%	14.4%	15.0%
S&P 500 US GICS Sector Indices						
Energy	586.59	0.3%	-11.3%	-19.4%	-19.4%	-10.0%
Materials	305.28	-0.9%	-2.3%	-2.6%	-2.6%	4.7%
Industrials	486.47	-0.3%	6.2%	4.5%	4.5%	7.5%
Consumer Discretionary	572.75	0.8%	8.3%	8.2%	8.2%	8.0%
Consumer Staples	499.58	-1.4%	7.4%	8.8%	8.8%	12.9%
Health Care	791.97	-1.5%	7.0%	12.4%	12.4%	23.3%
Financials	333.32	1.6%	6.7%	8.7%	8.7%	13.1%
Information Technology	691.95	-1.7%	4.9%	9.4%	9.4%	18.2%
Telecommunication Services	152.55	-6.2%	-5.3%	-3.6%	-3.6%	-1.9%
Utilities	240.14	3.2%	12.2%	6.8%	6.8%	24.3%
Commodities						
Gold (US$/oz)	1,184.11	1.4%	-2.0%	-10.8%	-10.8%	-1.8%
Oil WTI (US$/bbl)	53.70	-18.6%	-41.3%	-49.1%	-49.1%	-45.5%
Aluminium (USc/lb) LME	83.08	-11.6%	-5.3%	-1.0%	-1.0%	3.8%
Copper (USc/lb) LME	288.44	-2.4%	-5.6%	-8.6%	-8.6%	-14.0%
Nickel (USc/lb) LME	677.44	-7.2%	-9.5%	-20.2%	-20.2%	6.9%
MG Metals Index	303.87	-5.6%	-6.2%	-8.0%	-8.0%	-7.3%
Iron Ore price	72.50	3.6%	-6.5%	-23.7%	-23.7%	-46.3%
Interest Rates						
AUS UBS Composite Bond Index	8,345.07	1.7%	4.0%	5.0%	5.0%	9.8%
AUS UBS Bank Bill Index	8,174.08	0.2%	0.7%	1.4%	1.4%	2.7%
	%	basis point change				
AUS Cash Rate	2.50	0	0	0	0	0
AUS 90 day Bank Bill rate	2.77	3	8	9	9	17
AUS 10 year Bond yield	2.73	-30	-75	-81	-81	-150
US Federal Funds rate	0.25	0	0	0	0	0
US 30 year Bond yield	2.75	-14	-45	-61	-61	-123
US 10 year Bond yield	2.17	0	-32	-36	-36	-87
Exchange Rates						
AUD/USD	0.8166	-4.0%	-6.7%	-13.4%	-13.4%	-8.5%
AUD/YEN	97.71	-3.2%	1.8%	2.2%	2.2%	4.1%
EURO/USD	1.21	-2.8%	-4.2%	-11.6%	-11.6%	-12.0%
AUD/EUR	0.68	-1.2%	-2.5%	-2.0%	-2.0%	4.1%
AUST TWI	66.50	-2.5%	-2.9%	-7.6%	-7.6%	-3.5%



DISTRIBUTION UPDATE



At 31 December 2014 CTN recorded its highest ever number of shareholders with 5,573 - an increase of 342 in the quarter. 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 number of Self Managed Superannuation Funds (SMSFs) continues to grow.

Research from industry analysts identify the key reasons investors prefer to invest directly into equities as Control, Transparency, Dividends, Franking and Tax benefits.

CTNs marketing objective is to make as many investors as possible aware of the company and familiar with the benefits of owning its shares. The flow on of this is to enable the share price to more fully reflect the asset value of the company.

During the December quarter the company remained active in promoting itself to investors, shareholders and brokers across Australia including participating in the SMSF Strategy Days and also the Morningstar Individual Investors Conference in Sydney amongst other events. The upcoming quarter will again see us visible to industry and investors.

It is becoming apparent that SMSFs and high net wealth investors prefer to invest directly in blue-chip equities, LICs and ETFs over managed funds, while an ever growing number of financial advisers are using these to build client portfolios. The "traditional" fund managers offering managed funds- while still giants by size- are losing the market share they once took for granted and are committing more attention to remaining attractive to the higher-end investor.

The following charts and observations address the structural shift occurring within the wealth management industry. It is an exciting time to be a part of the industry as I have not seen such a structural shift in financial planner behaviour since the 1990s when Master Trusts and Wraps gained widespread acceptance,.

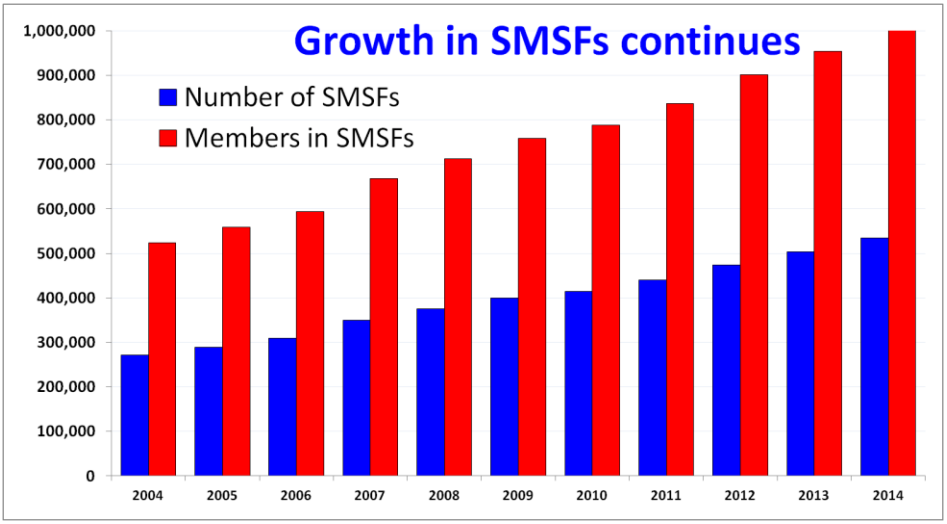


Chart 1: Source ATO data December 2014

In terms of the dollars managed, Unit Trusts are still the "800 pound gorilla" and offer quality products that satisfy investors' needs. They're just fighting more competitors, some

of whom are growing very quickly and inflicting significant wounds.

As SMSFs become simpler to manage and cheaper to operate more people are entering them resulting in more investment flowing into direct equities, ETFs and LICs. The increased demand for these shares has seen their value recognised and discounts to NTAs have moved closer to parity or - in some cases - into significant premiums. Some observations are that this demand is a structural shift based on LICs ability to offer shareholders predictable franked dividends, which satisfy investors' needs for reliable income.

THE PREFERRED VEHICLE



Industry research shows that not only do self-directed investors prefer direct equities to Unit Trusts, but that the wealthier you are the more you prefer them. Investors' needs are typically similar. Beyond the obvious of seeking capital growth they want dividends, franking, control, transparency, low cost and tax efficiency. Being well educated and typically "hands-on" they also expect engagement from those managing their money. These points noted are features for which LICs are renowned.

Having spoken to investors and advisers for the better part of two decades I can't ignore the shift in investor attitude I have observed over the last 3-5 years in particular. From first hand observations and discussions this appears to be more than just a cyclical trend but be structural as well.

Chart 2 shows assets held by SMSFs as reported to the ATO. Even thought the market has risen considerably since 2008, assets invested in Listed and Unlisted Trusts (represented in green) are only a fraction of that invested in Listed Shares (blue) which have increased substantially.

The volume of money sitting in cash and term deposits (red) is also quite astounding.

While it remains to be seen whether low interest rates will eventually force investors into the market, it is not unreasonable to suggest the bulk of that cash will eventually find its way into buying listed shares.

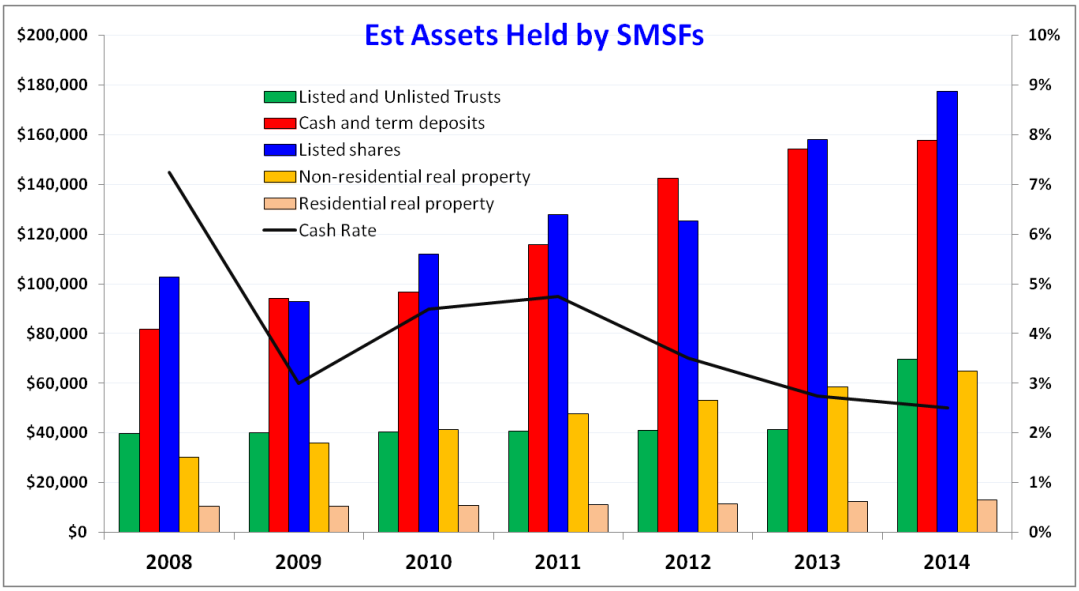


Chart 2: Source ATO data December 2014

DESIRE FOR RELIABLE, FRANKED INCOME DRIVES THE STRUCTURAL EVOLUTION

With an aging population more investors have income planning needs. LICs have educated investors that by being a company they can offer specific dividend policies which will help investors manage their income streams and lifestyle planning. This compares to the Unit Trusts which rely on income received and realised gains to be able to pass a distribution through to their unitholders.

In many instances, even as late as June each year the fund managers themselves don't know if or how much of a distribution might be paid that year. Contrast to the certainty that comes from the LIC structure it is hardly surprising more advisers are increasing their clients' exposure to LICs and ETFs.

The Table below summarises some of the key structural changes I have observed which contribute to the shift in investment recommendation patterns for financial advisers.

Amongst things, industry research providers now product reports on LICs for their subscribers. A few years ago there were only broker reports available, whereas we now have Morningstar, Zenith and Independent Investment Research (IIR) amongst others producing reports.

There is a drift towards Demand for Equities, LICs	
Increase in number of SMSFs	LICs: Tax efficient. High Franking. Firm Dividend policies, Yield
Growth in Advice Industry	The # of Australians receiving advice expected to double by 2025
Future of Financial Advice (FOFA)	Fee pressure: Advisers must to reduce the cost of advice
Evolution in Portfolio Construction	Require tailored solutions such as Bespoke Portfolios
Evolution of the Wealth Industry	Enormous Switching upon retirement. More going into SMSFs
LIC legislation: Dividends based on Solvency	LICs can create firm Dividend Policies
Acceptance of ETFs	Advisers increasingly going direct, away from managed funds
Advisers leaving Investment Platforms	Increased take-up of IMAs, DMAs, UMAs & SMAs
Industry Funds equities access for members	More Australians will be able to invest in shares
LIC Research produced for financial advisers	Industry Investment Research (IIR), Lonsec, Morningstar, Zenith
LICs starting to employ specialists	Engaging stakeholders, focussing on demand and Parity management

Both Zenith's and the Australian Fund Manager Association annual awards now have an award category for LICs. In addition daily industry e-newsletters routinely cover LIC news in their content while investor newsletters cover LICs widely. IPOs and Placements are a regular occurrence and also widely reported. LICs have unquestionably crossed into the consciousness of the financial professional and their approved fund lists as well as their investment recommendations.

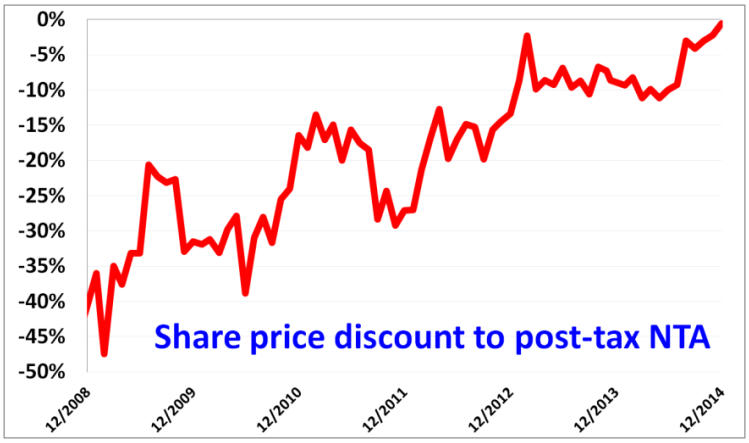


Chart 3: Source CTN

This structural evolution complements the activities CTN has undertaken to grow its shareholder base and enhance the desirability of its shares, which have seen its share price track closely to its underlying asset value.

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 asset 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.

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 on 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.

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.

The Contango Investor Centre App is now available to download for free from iTunes or the Google Play store. Search for "*ContangoIC*".

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.

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.

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ATO data on SMSFs	https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/

REQUEST AN INVESTOR PACK

Over the past 12 months CTN has added over 1,000 new shareholders with over 5,500 investors now on its register.



Coinciding with this and the 10 year anniversary as a listed company an information document about Contango was produced for shareholders.

This brochure can be viewed on the CTN web site and a hard copy can be posted to readers upon request.

If you would like to receive an information and welcome pack (brochure, bookmarks and mouse pad) please call Contango on 03 9222 2333 or contact us via email support@contango.com.au or use the *Contact Us* feature on the Contango MicroCap web site.