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Contango MicroCap Limited

Wednesday, March 18, 2015
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Investment update

COMMENT FROM INVESTMENT MANAGER

In February the investment portfolio returned 9.9% bringing the total 12 month portfolio return to 8.8%.

Of the 70 positions held during the month, 54, for a combined weight of 82% of holdings, contributed positively to performance.

The best performing stock over the month was Mayne Pharma Group (ASX Code: MYX, which rose 52% in February) after they announced the acquisition of Doryx from its distribution partner Actavis. Other major contributors over the month included GBST Holdings (GBT, 32%), Altium (ALU, 34%), Sino Gas and Energy (SEH, 48%) and Slater and Gordon (SGH, 22%).

During the month, the key news item was the February reporting season with most companies announcing either half-year or full-year results. Stocks in the CTN portfolio generally came in line with expectations, with many companies continuing to reduce operating costs in their organisation.

The outlook for small industrials is solid with the low interest rate and lower currency environment supporting earnings. However, without the strong cyclical upswing we continue to look for companies with strong balance sheets and solid growth profiles that are mostly independent of the economic cycle. We have also introduced some more defensive companies, including REITs and infrastructure.

Small resources should continue to underperform with the wind down in the mining investment boom and weakness in commodity prices. We remain underweight Energy based on our negative view on oil prices and, likewise, we remain underweight iron ore exposed sectors including mining and capital goods.

Despite this underweight, we continue to monitor for value opportunities where the structural outlook for the company is solid. We are also looking for companies exposed to particular commodities that offer unique opportunities.

The following table identifies the performance of the underlying investment portfolio at the end of February.

	1m %	6m %	1 Yr %	5-yrs % p.a	10-yrs % p.a	Since Inception % p.a
CTN Investment Portfolio	9.9	-1.4	8.8	8.7	13.2	16.6
All Ords Accum Index	7.0	7.1	13.6	9.5	8.1	9.7
Small Ords Accum Index	8.4	-0.6	3.1	1.4	2.8	4.9
Emerging Companies Index	2.8	-12.1	-8.5	-4.6	1.1	2.2

To 28.02.15. Past performance is no guarantee of future performance and before impact of fees, taxes and charges. Inception 25.03.04

The long term gross performance of the CTN investment portfolio is 16.6% per annum since inception in March 2004. This ranks CTN's investment portfolio performance amongst the best performing Australian shares portfolios over the corresponding time period.

More information about CTN and the investment portfolio will be provided in the March Quarter Investment Commentary to be released through the ASX in mid April.

GEORGE BOUBOURAS CONFIRMED AS CIO AT CONTANGO



On 16 February Contango confirmed the appointment of George Boubouras as Chief Investment Officer. The appointment of Mr Boubouras signals a new growth phase for the company.

Mr Boubouras succeeds company founder, David Stevens in the role. Mr Stevens will continue to play an important role within the Contango Group and continue as Managing Director of CTN. Mr Boubouras said he was delighted to once again work with David Stevens. "David Stevens first hired me in 1996, and in a way we've come full circle as he's hired me again," Mr Boubouras said. "I am looking forward to working with David, CTN portfolio manager Bill Laister, the board, and the executive team to evolve the business. "Over time, you will see incremental change at Contango. I see us evolving into a more diverse investment house and in doing so be able to offer our clients broader, more blended portfolios."

Contango Chairman, Mark Kerr said that Mr Boubouras' appointment will signal a broadening in the firm's offering. "We have asked George to build on the strong foundation that David Stevens and his team have created. Already the feedback from institutional clients, brokers and advisers to this appointment has been most encouraging," he said. Mr Boubouras has enjoyed a long and distinguished career in the investment market industry, and enjoys a well-established profile as a leading media commentator on investment matters. He was most recently Chief Investment Officer at Equity Trustees and prior to that was CIO at UBS.

ASX FEATURE ARTICLE WITH CTN CIO GEORGE BOUBOURAS

George Boubouras wrote the feature article in this month's ASX Investor Update, regarding the promising outlook for small stocks. This article can be read here.



VIDEO INTERVIEW ON SWITZER

George is a regular guest on the Sky business channel. In this interview he talks about market confidence following the end of earnings season, and corporate Australia transitioning from the end of the mining boom. (Broadcast Tuesday 10 March 2015.) Watch the video here.



CTN INVESTMENT PORTFOLIO FUNDAMENTALS

The forward values of the stocks within the CTN investment portfolio reflect our view that the sector overall is poised to perform well into FY16.

1 Year Forward	CTN Portfolio	SMALL ORDS	ASX 100
PE (times)	13.3 x	13.9 x	16.0 x
EPSg (%)	18.4	8.9	2.5
Yield- net (%)	4.2	4.1	4.5
Yield- gross (%)	5.3	5.1	6.0
ROE (%)	16.9	15.8	15.6
ND/E (%)	2.9	25.1	62.8
Median. Mkt Cap ($m)	$260	$429	$5,726

At 01.03.15 Source: Contango Asset Management Limited.
Consensus valuations. Excludes stocks with negative earnings and P/E's > 50.
Reflects approx. 75% of the CTN investment portfolio weight.

20 LARGEST STOCK HOLDINGS WITHIN CTN INVESTMENT PORTFOLIO AT 28 FEBRUARY 2015

CODE	STOCK	WEIGHT	CODE	STOCK	WEIGHT
MYX	Mayne Pharma Ltd	3.7%	IFM	Infomedia Ltd	2.4%
SGH	Slater & Gordon Limited	3.5%	IPP	Iproperty Group Ltd	2.3%
VLW	Villa World Ltd	3.3%	ENN	Elanor Investors Group	2.3%
GBT	GBST Holdings	2.9%	AMM	Amcom Telecoms	2.0%
AFJ	Affinity Education Group	2.9%	TGP	360 Capital Group	2.0%
ALU	Altium Limited	2.9%	NHF	NIB Holdings Limited	2.0%
ASB	Austal Limited	2.7%	PMP	PMP Limited	2.0%
AHE	Automotive Holdings	2.6%	PRT	Prime Media Group Limited	2.0%
SGF	SG Fleet Group Limited	2.6%	VRL	Village Roadshow Limited	1.8%
EPW	ERM Power Limited	2.5%	GMF	GPT Metro Office Fund	1.8%

The CTN Investment Portfolio held 66 securities at 28 February 2015. In addition to this CTN owns 100% of fund manager Contango Asset Management Limited representing 5.5% of CTN's Net Tangible Assets.

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 per share. 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 Final dividend. This table is not a formal declaration of the FY15 Final dividend. 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.

Declared and Guidance future dividends as at 18 March 2015			**AMOUNT**
FY15 Final	*October 2015:*	*Minimum of*	*3.7 cents p/s*

Since declaring its first dividend in December 2004, CTN has declared a total of 83.6 cents per share (cps) in dividends to shareholders amounting to a total payout of over $95.9m.

CTN COMPANY INFORMATION

ABOUT CTN: A listed investment company (LIC) whose objectives are to:

- **Outperform the S&P/ASX All Ordinaries Accumulation Index and**
- **Provide regular dividends to its shareholders.**

INVESTMENTS HELD: CTN holds a diversified portfolio of 60-90 companies listed on the ASX each with a market cap. generally between $10m & $350m at time of acquisition. There are over 900 companies in this investible universe with a total market capitalisation exceeding $70b.

INVESTMENT STYLE: CTN is *"Style Neutral"* - the portfolio is managed on the basis of sensitivity to economic & market factors as well as stock specific considerations. At some stages of the cycle there is a growth bias while in periods of economic weakness the portfolio typically has a bias to value/ defensive stocks.

Investment Manager	Contango Asset Management Limited	**CTN Listing Date**	**25 March 2004**
Benchmark	ASX All Ordinaries Accumulation Index	**Portfolio Size at 28 February 2015**	**$179 million**
Maximum cash position	Can hold up to 50% in Cash	**Shares on issue**	158.8 million
Stock Universe	Generally those companies with a market cap. between $10m-$350m at time of acquisition	**Number of stocks held**	Investments in **66** ASX companies at 28.02.15
Companies that we like to invest in	Those with a proven track record that are looking to expand. Particularly those with potential to move from microcap to small cap to large cap		
Companies we prefer to avoid	Biotech or early stage companies Pseudo-private equity type	Mining companies at exploration stage Companies with no definable earnings	

STARY IN TOUCH- DOWNLOAD THE CTN INVESTOR APP

This app is one way in which shareholders can be automatically alerted when important documents have been loaded to the CTN web site. The CTN App is available for free download from Google Play or iTunes.



NOTES:

The investment portfolio performance identified in this document is of the stocks held within the underlying investment portfolio as at 28 February 2015. This is gross performance and does not adjust for the effect of fees, taxes and charges. Past performance is not a predictor of future returns. Investors in LICs need to understand the distinction between Investment portfolio, NTA and Share Price performance. The portfolio investment manager reserves the right to purchase, hold or retain securities that have a market cap greater than $350m.

* Unaudited Pre-Tax NTA is *after* tax paid but *before* tax paid on unrealised gains.

** Unaudited Post Tax NTA is *after* tax paid & *after* tax paid on unrealised gains.

[1]Dividend Policy announcement of 16 April 2010. The Company will normally pay annual dividends amounting to a minimum 6%pa yield on the Net Tangible Asset value per share prevailing at the beginning of each financial year payable via (two) semi-annual dividend payments. NTA at 1 July 2014 was $1.138. Only refer official ASX Announcements. All payment dates, dividend amounts & any franking which may be attached to possible future dividends are indicative only until formally declared via the ASX.

ASX Article http://www.asx.com.au/education/investor-update-newsletter/201503-promising-outlook-for-small-stocks.htm

Switzer video: http://www.switzer.com.au/video/20150310george-boubouras/

DISCLAIMER:

Contango MicroCap Limited (CTN) has prepared this update for information purposes only related to the underlying investment portfolio. It does not contain investment recommendations nor provide investment advice or identify the NTA performance of the company at this date or any date subsequent to this document. CTN only provide NTA values via the monthly NTA statement that is released through the ASX. There may be errors in this document and the data provided within. You are to refer to audited statements and data officially released via the ASX. Investors in LICs should understand the distinction between Investment Portfolio Performance, NTA Performance and Share Price return. Neither CTN nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested within CTN or any associated product or Fund. Contango Asset Management Limited, ABN 52 085 487 421 AFSL No. 237119 is the investment manager of CTN. We strongly encourage you to obtain detailed professional advice and to read any relevant offer document in full before making any investment decision. CTN and any CAML investment fund identified in this document may not be suitable for your investment needs. This is not an offer to invest in a fund or product.