

Notice of Meeting, Explanatory Statement and Independent Expert Report

Contango Asset Management Limited
ACN 080 277 998

Date: Tuesday, 20 February 2018
Time: 10:00am
Location: Taylor Collison, Level 10, 167
Macquarie Street, Sydney
NSW 2000

Key dates

Latest time and date for lodgement of completed Proxy Form	10:00am on Sunday, 18 February 2018
Time and date for determining eligibility to vote at Meeting	10:00am on Sunday, 18 February 2018
Time and date of Meeting	10:00am on Tuesday, 20 February 2018

Contango Asset Management Limited

ACN 080 277 998

Notice of Meeting

Notice is given that a general meeting of the members of Contango Asset Management Limited (**Company**) will be held on Tuesday, 20 February 2018 at 10:00am at Taylor Collison, Level 10, 167 Macquarie Street, Sydney NSW 2000 (**Meeting**).

Information on the business to be considered at the Meeting is contained in the Explanatory Statement, which should be read together with and forms part of this Notice of Meeting. The Independent Expert's Report and Proxy Form also form part of this Notice of Meeting.

Please read this Notice of Meeting carefully and, if applicable, consider directing your proxy on how to vote on each Resolution by marking the appropriate box on the enclosed Proxy Form. Shareholders who intend to appoint the Chairman as proxy (including appointment by default) should have regard to the Voting and Proxy Instructions included in this document.

BUSINESS OF THE MEETING

Resolution 1 - Approval of the Transaction with NAOS Asset Management Limited

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

That for the purposes of ASX Listings Rule 10.1 and 10.9 and for all other purposes, approval is given for the Transaction with NAOS Asset Management Limited, on the terms and conditions of the Agreement to Assign as set out in the Explanatory Statement (and as each term is defined in the Notice of Meeting).

Independent Expert's Report

The Independent Expert has determined that the Transaction, the subject of Resolution 1 in this Notice of Meeting, is fair and reasonable to the non-associated shareholders of the Company

Shareholders should carefully consider the accompanying Independent Expert's Report, prepared for the purpose of the Shareholder approval required under ASX Listing Rules 10.1 and 10.9. The Independent Expert's Report comments on the fairness and reasonableness of the Transaction to Shareholders. The Independent Expert has determined that the Transaction is fair and reasonable.

Voting exclusion

The Company will disregard any votes cast on Resolution 1 by or on behalf of NAOS Asset Management Limited ACN 107 624 126 or any of its associates.

The applicable definition of "associate" is set out in the ASX Listing Rules and the Corporations Act. A person in one of the above categories is an excluded person for the purposes of this Voting Exclusion for this Resolution 1. Shareholders who are excluded persons for this item and who intend to attend and cast a vote at the Meeting in person, must inform a representative of the Company's Share Registrar, Link Market Services, of this fact when they register at the Meeting.

However, the Company need not disregard a vote on Resolution 1 if it is cast by an excluded person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form.

Resolution 2 - Approval of employee share scheme buy-back of shares

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That for the purposes of section 257C of the Corporations Act and for all other purposes, the Company is authorised to conduct an employee share scheme buy-back of:

- (a) *1,369,344 fully paid ordinary shares issued under the Company's Employee Share Incentive Plan pursuant to the terms of each relevant ESIP Shares Buy-Back Agreement; and*
- (b) *4,543,351 fully paid ordinary shares issued under the Company's Employee Loan Share Plan pursuant to the terms of each relevant ELSP Shares Buy-Back Agreement,*

in the 6 month period following the approval of this Resolution, on the basis described in the Explanatory Statement issued for this Meeting.

Voting exclusion

The Company will disregard any votes cast on Resolution 2 by or on behalf of any Former Employee, a participant in the Company's Employee Share Incentive Plan or Employee Loan Share Plan or any of their associates.

The applicable definition of “associate” is set out in the ASX Listing Rules and the Corporations Act. A person in one of the above categories is an excluded person for the purposes of this Voting Exclusion for this Resolution 2. Shareholders who are excluded persons for this item and who intend to attend and cast a vote at the Meeting in person, must inform a representative of the Company’s Share Registrar, Link Market Services, of this fact when they register at the Meeting.

However, the Company need not disregard a vote on Resolution 2 if it is cast by an excluded person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form.

By Order of the Board

Hari Morfis

Company Secretary

Dated: 19 January 2018

Contango Asset Management Limited

ACN 080 277 998

Explanatory Statement

INTRODUCTION

This Explanatory Statement has been prepared to assist Shareholders in understanding the business and Resolutions set out in the Notice of Meeting.

This Explanatory Statement accompanies and forms part of the Notice of Meeting and should be read by Shareholders in conjunction with the Notice of Meeting.

The Directors recommend that Shareholders read this Explanatory Statement before making any decisions in relation to the Resolutions. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.

RESOLUTION 1 – APPROVAL OF THE TRANSACTION WITH NAOS ASSET MANAGEMENT LIMITED

General background and reasons for the Transaction

Contango Asset Management Limited (**Contango** or the **Company**), through its subsidiary, Contango Funds Management Limited ACN 085 487 421 (**CFML**), was the investment manager of Contango MicroCap Limited ACN 107 617 381 (now NAOS Small Cap Opportunities Company Limited) (**NSC**). CFML was appointed in this capacity upon the initial public offering of NSC in February 2004. NSC is a listed investment company (**LIC**) and the longest running LIC with a “micro cap” mandate on the ASX. Contango acquired CFML from NSC in September 2016. On 20 October 2017, the Company announced that CFML had entered into an agreement to assign the NSC Investment Management Agreement to NAOS Asset Management Limited ACN 107 624 126 (**NAML**) (the **Transaction**).

CFML had historically been an institutional and LIC specialist manager covering mandates across the market cap spectrum (large cap, mid cap, small cap, micro cap and income-focused mandates). Since the Company acquired CFML in 2016, it has successfully launched the Contango Global Growth Limited LIC and, via its interest in Switzer Asset Management Limited ACN 123 611 978 (**SAML**), the Switzer Dividend Growth Fund.

Whilst historically the Contango business was predominantly an institutional manager and specialist fund manager, the Board reviewed the Company’s offering and took the strategic decision to focus on the areas that it considered to present the best opportunities for future growth, being listed and exchange traded investments targeted at retail, self-directed and independent financial advisory channels via its interest in Switzer Asset Management Limited and also its mandates with Contango Global Growth Limited and Contango Income Generator Limited. Unlike micro cap mandates, these large cap and global mandates do not have capacity constraints.

Accordingly, the Company announced to ASX on 20 October 2017 that it had entered into the Transaction to facilitate its future expansion in these core business areas. The Transaction has provided the Company with significant capital to put in place the necessary sales and distribution functions to achieve this growth strategy.

Details of the Investment Management Agreement

CFML was appointed the investment manager of NSC pursuant to the Investment Management Agreement between them dated 24 June 2016. The initial term of CFML’s appointment as investment manager was 5 years from 24 June 2016. After the initial term, the agreement continued in force until terminated in accordance with its terms.

In addition to termination for an unremedied breach or if CFML went into liquidation, NSC was able to terminate the Investment Management Agreement at any time if:

- CFML sold or transferred or made any agreement for the sale or transfer of the main business, an undertaking of CFML or a beneficial interest in that main business or undertaking (other than for the purpose of a corporate construction on terms approved by NSC);
- a person acquired a relevant interest in voting shares in NSC where because of the acquisition that person’s voting power in NSC exceeded 50% and such person did not have the relevant interest as at the date of the Investment Management Agreement;
- a receiver, receiver and manager, administrator or similar person was appointed with respect to the assets and undertakings of CFML;
- CFML did not meet or otherwise failed to achieve the specified “Investment Objective” over rolling 3 year periods after 24 June 2016 and the board of directors of NSC in its discretion elected to place before the shareholders of NSC an ordinary

resolution approving the termination of the Investment Management Agreement and the shareholders of NSC passed the ordinary resolution approving the termination of the agreement; or

- at a general meeting of NSC, the shareholders of NSC pass an ordinary resolution approving the termination of the Investment Management Agreement, provided that CFML had a reasonable opportunity to state its case in materials provided to shareholders of NSC prior to the general meeting and in person at the general meeting.

The “Investment Objective” for the Investment Management Agreement was to exceed the performance of the median manager of the combined Mercer Small and Mirco Cap Performance Survey over rolling 3 year periods after 24 June 2016.

At any time after the Investment Management Agreement had been in force for 10 years or more, the shareholders of NSC could pass an ordinary resolution approving the termination of the Investment Management Agreement.

Under the terms of the Investment Management Agreement, CFML was entitled to be paid a management fee equal to:

- (a) 1.25% per annum of the average portfolio value on the first \$200 million of funds under management; and then
- (b) 1% per annum on the value of the average portfolio value of funds under management in excess of \$200 million.

In addition, for the period until March 2022:

- (c) CFML agreed to forgo a management fee on the proportion of the portfolio that was transferred to it on 25 May 2017 (approximately \$25.9 million) relative to the entire portfolio value at the time of transfer (approximately \$174.4 million); and
- (d) the \$200 million hurdle referred to in paragraphs (a) and (b) above was adjusted down by the proportionate value of the portfolio transferred in and in respect of which CFML was forgoing a fee as noted in paragraph (c) above.

CFML received management fees for the 2017 financial year of \$2,431,618 from NSC and \$2,089,696 for the 2016 financial year.

Details of the Transaction

As announced to ASX on 20 October 2017, CFML and NAML entered into the Agreement to Assign the Investment Management Agreement on 20 October 2017 (**Agreement to Assign**). Under the terms of the Agreement to Assign, CFML and NAML agreed to assign the Investment Management Agreement by executing a Deed of Assignment between CFML, NAML and NSC. The consideration for the assignment of the Investment Management Agreement is agreed to be payable in installments as follows (**Consideration**):

- \$2,000,000 following execution of the Agreement to Assign;
- \$3,000,000 following satisfaction of the “Conditions” (see below); and
- the remaining \$7.5 million balance to be paid in installments by the end of each financial year until 30 June 2022 with the first installment of \$860,000 payable on 30 June 2018 and the remaining installments for an amount of \$1,660,000.

If the Conditions were not satisfied, the aggregate \$12.5 million consideration payable would have been adjusted to an aggregate amount of approximately \$6.7 million dollars (based on the valuation of the NSC portfolio at the time the agreement was entered into).

The Conditions for payment of the entire \$12.5 million consideration were the approval by the shareholders of NSC of the change of name of NSC, the termination of the Investment Management Agreement, the entering into of a new investment management agreement between NAML and NSC and the appointment of Warwick Evans and Sebastian Evans to the board of NSC. As noted in the Company’s announcement on 28 November 2017, the Conditions were satisfied on that day. NAML has been appointed as investment manager of NSC under a new agreement and the Investment Management Agreement has now been terminated. As a result, under the terms of the Agreement to Assign, CFML has agreed to restraints with respect to the provision of investment management services to NSC and from direct marketing to NSC shareholders for a company for which CFML is the investment manager and which employs an investment strategy that is substantially the same as that described in the Investment Management Agreement. These restraints are for a period of up to 5 years.

CFML, NAML and NSC entered into the Deed of Assignment of the Investment Management Agreement on 20 October 2017 (**Deed of Assignment**). Pursuant to the terms of the Deed of Assignment:

- CFML assigned to NAML all of CFML’s rights and benefits under the Investment Management Agreement;
- NAML accepted the assignment and assumed and agreed to comply with all of the obligations, responsibilities, liabilities and duties of CFML under the Investment Management Agreement; and
- NSC consented to the assignment as described from CFML to NSC as contemplated under the assignment provisions of the Investment Management Agreement.

The Deed of Assignment provides that the assignment as described above was effective on 20 October 2017 (the **Effective Date**). The Deed of Assignment also provided for arrangements in respect of transition of the investment management services, transition and termination of the shared services arrangements, use of the Contango name and trade mark and business name use and assistance and cooperation regarding the annual general meeting of NSC.

Subsequent events

The Investment Management Agreement that was assigned as part of the Transaction was terminated by NSC and NAML following the approval of NSC shareholders by ordinary resolution at the annual general meeting of NSC held on 28 November 2017. Further, a new investment management agreement was entered into between NSC and NAML, following the approval of NSC shareholders by ordinary resolution at the NSC 2017 annual general meeting.

ASX Listing Rules 10.1 and 10.9

NAML is the investment manager of companies that have appointed it as their investment manager. As at the date of the Transaction, NAML, in its capacity as investment manager, and its associates had a relevant interest of greater than 10% of the ordinary shares of the Company. Accordingly, it is a person of influence for the purposes of ASX Listing Rule 10.1. As at 12 January 2018, NAML and its associates have a relevant interest in 7,443,931 shares of the Company being 15.57% of the undiluted issued capital of the Company.

ASX has determined that the Investment Management Agreement is an asset for the purposes of ASX Listing Rule 10.1. An asset is substantial if the value of the asset or the value of the consideration for it is 5% or more of the equity interests of the Company as set out in the latest set of accounts given to the ASX. The Company's full year accounts for 30 June 2017 show an equity interest value of \$3,529,000. Accordingly, given the quantum of the Consideration, ASX has determined that the Company should have obtained Listing Rule 10.1 shareholder approval for the Transaction and therefore is required to take corrective action pursuant to ASX Listing Rule 10.9.

ASX Listing Rule 10.9 provides that the corrective action that may be taken by the Company is to either:

- cancel the Transaction (or arrange for its cancellation); or
- seek the approval of the Transaction from its Shareholders. If Shareholder approval is not obtained, then the Company must cancel the Transaction (or arrange for its cancellation).

Accordingly, the Company is now seeking Shareholder approval as set out in Resolution 1. In the event that Shareholders do not approve the Transaction, then the Company is required to cancel the Transaction. This is taken to mean putting the parties to the Transaction, CFML and NAML, in the position they would have been in had the Transaction not been executed.

As noted above, the Investment Management Agreement has been terminated since 20 October 2017 (the date of the Transaction) and NSC has appointed NAML as its investment manager under the terms of a new investment management agreement. These termination and appointment actions were approved by the shareholders of NSC. Accordingly, CFML is not in a position to require its reinstatement as the investment manager to NSC.

Therefore, if the non-associated Shareholders do not approve Resolution 1, the Company would be required to cancel the Transaction and would not be entitled to the \$12.5 million payable by NAML under the Agreement to Assign. If Shareholders do not approve Resolution 1, the Company would be required to pay back part of the Consideration that CFML has received to date, CFML would lose its entitlement to the balance of the Consideration payable and CFML would not be reinstated by NSC as the manager to NSC and would not have any entitlement to fees under the new management agreement between NSC and CFML.

Accordingly, if non-associated Shareholders do not approve Resolution 1, the Company (through its subsidiary CFML) will not be entitled to receive from NAML the \$12.5 million Consideration payable under the Transaction for the Agreement to Assign the Investment Management Agreement and the Company will not have any recourse against either NAML or NSC to be re-appointed investment manager of NSC.

Financial effect of the Transaction

As a result of the Transaction, CGA expects that it will record a gain of approximately \$9 million pre-tax in its Profit and Loss for the financial year to 30 June 2018, given the Conditions have been satisfied. This amount is not final and is subject to audit. Cash will be \$5,860,000 higher than it would have been had the transaction not occurred and receivables will be \$6,640,000 higher.

Use of proceeds

The Company will use the Consideration received from the Transaction to put in place the sales and distribution functions required to achieve the growth objectives referred to previously and for working capital and general corporate purposes.

Independent Expert

ASX Listing Rule 10.10 requires that a notice of meeting issued to Shareholders under ASX Listing Rule 10.9.2 include a report on the Transaction from an independent expert as to whether the Transaction is fair and reasonable to holders who are entitled to vote on Resolution 1. The Company has engaged the Independent Expert to provide a report as to whether the Transaction is fair and reasonable for Shareholders not associated with NAML.

The Independent Expert has concluded in the Independent Expert's Report that:

- the Transaction is fair; and
- the Transaction is reasonable,

to the Shareholders eligible to vote on Resolution 1.

A copy of the Independent Expert's Report is provided to Shareholders with the Notice.

Directors' Recommendation for Resolution 1

The Directors unanimously recommend that non-associated Shareholders vote in FAVOUR of Resolution 1 for the reasons set out below:

- upon passing of the resolution, the Company is entitled to be paid by NAML the \$12.5 million Consideration for the Transaction, payable in installments until 30 June 2022, which proceeds will be used to put in place and develop a sales and distribution function and for other general corporate and business development purposes;
- a cancellation of the Transaction will not result in CFML being reinstated as the investment manager of NSC. This is because the Investment Management Agreement that was assigned pursuant to the Transaction has been terminated by NSC following shareholder approval at the NSC annual general meeting on 28 November 2017. NAML has been appointed as investment manager of NSC pursuant to a new agreement it has entered into following NSC shareholder approval on 28 November 2017;
- a cancellation of the Transaction will result in CGA being required to repay the Consideration proceeds received to date under the Agreement to Assign and will result in the Company losing its entitlement to be paid the balance of the Consideration; and
- the Independent Expert has concluded that the Transaction is fair and reasonable to the Shareholders eligible to vote on Resolution 1.

The Chairman intends to vote undirected proxies in favour of this Resolution 1.

RESOLUTION 2 – APPROVAL OF THE EMPLOYEE SHARE SCHEME BUY-BACK OF SHARES

In accordance with section 257C of the Corporations Act, the Company seeks Shareholder approval to allow the Company flexibility to conduct an employee share scheme buy-back over the 10/12 limit in the 6 month period following the approval of Resolution 2.

Resolution 2 seeks approval for the Company to buy-back:

- 1,369,344 fully paid ordinary shares issued under the Company's Employee Share Incentive Plan pursuant to the terms of each relevant ESIP Shares Buy-Back Agreement; and
- 4,543,351 fully paid ordinary shares issued under the Company's Employee Loan Share Plan pursuant to the terms of each relevant ELSP Shares Buy-Back Agreement,

in the 6 month period following the Meeting (**Buy-Back**).

Background

The Company's Shareholders approved the terms of the Company's Employee Share Incentive Plan (**ESIP**) and Employee Loan Share Plan (**ELSP**) (together the **Plans**) and the issue of Shares under the Plans to members of senior management of the Company at the extraordinary general meeting of the Shareholders of the Company held on 25 August 2016 (**2016 EGM**).

The notice of meeting and explanatory memorandum dated 26 July 2016 despatched for the 2016 EGM (Sections 8.8 to 8.11 of the explanatory memorandum in particular) summarised the terms of the ESIP and ELSP and proposed issue of Shares under the Plans to specified members of senior management.

On 26 September 2016 (**Acquisition Date**), following the requisite approvals at the 2016 EGM, a total of 2,003,301 Shares were issued under the ESIP and a total of 5,705,604 Shares were issued under the ELSP, each at a deemed acquisition price of \$0.60 per Share. The acquisition amounts for the ESIP Shares and ELSP Shares issued under the Plans were funded by way of a loan from the Company to the relevant senior management employee of the Group who was offered Shares under the Plans (**Borrower**) for the purpose of enabling either the relevant Borrower directly, or the relevant Borrower's nominated entity, to acquire and hold ESIP Shares and ELSP Shares.

Under the terms of the ESIP and ELSP and loan agreements for the relevant ESIP Shares and ELSP Shares, if before the third anniversary of the Acquisition Date a Borrower ceases to be an employee of the Group (**Former Employee**) due to either resignation or other good leaver special circumstances determined by the Board of the Company in accordance with the Plans (**Good Leaver Event**), a Good Leaver Event has occurred and the Company may elect, by written notice, to buy-back all of the Shares issued under the Plans to the relevant Former Employee or their nominated entity.

The Company is seeking Shareholder approval to buy-back Shares during the 6 month period from the date of the Meeting in accordance with the terms of the Plans.

Corporations Act requirements for the Buy-Back

Subject to and in accordance with the provisions of Part 2J.1 Division 2 of the Corporations Act, the Company may purchase its own Shares on such terms and at such times as may be determined by the Directors from time to time.

The Corporations Act rules relating to share buy-backs are designed to protect the interests of shareholders and creditors by:

- addressing the risk of the transaction leading to the company's insolvency;
- seeking to ensure fairness between the shareholders of the company; and
- requiring the company to disclose all material information.

In particular, Section 257A of the Corporations Act requires that a company may only buy-back its own shares if:

- the buy-back does not materially prejudice the company's ability to pay its creditors; and
- the company follows the procedures laid down in Division 2 of Part 2J.1 of the Corporations Act.

Under section 9 of the Corporations Act, an "employee share scheme buy-back" means a buy-back under a scheme that:

- has as its purpose the acquisition of shares in a company by, or on behalf of employees of the company or a related body corporate or directors of the company or a related body corporate who hold a salaried employment or office in the company or a related body corporate; and
- has been approved by the members of the company.

A buy-back by the Company of Shares issued under the Company's Employee Share Incentive Plan and Employee Loan Share Plan is an employee share scheme buy-back for the purposes of section 9 of the Corporations Act.

Under section 257B(4) of the Corporations Act, unless Shareholder approval is obtained, the Company is limited to buying back Shares under the Plans up to 10% of the smallest number of Shares on issue at any time during the last 12 month period (**10/12 Limit**).

Based on the smallest number of Shares on issue during the last 12 months, being 42,265,500 Shares, the Company is restricted under the 10/12 Limit to buying a maximum of 4,226,550 Shares issued under the Plans.

Resolution 2 therefore seeks approval of Shareholders to buy-back 5,912,695 Shares issued under the Plans in the 6 month period following the Meeting as an employee share scheme buy-back over the 10/12 Limit.

If Resolution 2 is passed, Shareholder approval for the Buy-Back under section 257C(1) of the Corporations Act will remain current for 6 months after the Meeting.

Terms of the Buy-Back and Buy-Back Agreements

Where:

- a Good Leaver Event occurs before the third anniversary of the Acquisition Date;
- Resolution 2 has been passed; and
- the Company has given the relevant Former Employee a Call Exercise Notice of the Company's exercise of its right to buy-back all of the relevant ESIP Shares and ELSP Shares (**Leaver Shares**);

the Company will in the 6 month period following the Meeting enter into an ESIP Share Buy-Back Agreement and ELSP Share Buy-Back Agreement with the relevant Former Employee and respective ESIP Holder and Loan Share Holder.

The terms of the Buy-Back Agreements are conditional on the passage of Resolution 2. Subject to and after the passage of Resolution 2, the Company will issue a Call Exercise Notice and enter into and execute the Buy-Back Agreements for the relevant Leaver Shares with the relevant Borrowers and ESIP Holder and ELSP Holder.

The terms of an ESIP Share Buy-Back Agreement and ELSP Share Buy-Back Agreement provide that the Company will buy-back all of the relevant ESIP Shares and ELSP Shares in consideration for the Company's acquiring all of the rights and assuming all of the obligations of the relevant Borrower in respect of the outstanding loan amount (including interest, if applicable) as at the date of transfer and buy-back for the relevant ESIP Shares and ELSP Shares.

After completion of the transfer of interests in and buy-back of the Leaver Shares to the Company and novation to the Company of the Borrower's obligations in respect of the outstanding loan amount for the relevant Leaver Shares, the Borrower's loans for the Leaver Shares will be fully discharged, the Borrower will not have any liability to the Company in respect to the loans for the Shares issued under the Plans, nor any interest in the Shares issued under the Plans.

No cash is payable by the Company to the relevant Borrower or ESIP Holder and ELSP Holder for the Company's buy-back of the Leaver Shares.

Immediately after the registration of the transfer to the Company of the Leaver Shares, the Leaver Shares will be cancelled in accordance with the buy-back procedure under section 257H of the Corporations Act.

The Company will announce to ASX when Leaver Shares are cancelled and when the Company has completed the Buy-Back.

Financial effect of the Buy-Back

As at the date of this Notice there are 47,821,056 Shares on issue.

Shareholder approval is being sought pursuant to Resolution 2 to allow the Company to buy-back 5,912,695 Shares issued under the Plans over the 6 month period following the Meeting.

The proposed Buy-Back of 5,912,695 Shares issued under the Plans will have no effect on the Company's cash reserves as there is no cash consideration payable by the Company.

If the Company buys-back all of the 5,912,695 Shares proposed under the Buy-Back in the 6 month period following the Meeting and assuming the Company does not issue any new Shares in the 6 month period following the Meeting, the number of Shares on issue in the Company's issued capital will reduce to 41,908,361 Shares on issue.

The Leaver Shares under the Plans have similar features to an option granted to ESIP Holders and ESLP Holders and accordingly are recorded in the company's financial report as options which vest over time. During the vesting period the fair value of the options at grant date is amortised through Profit and Loss based on the number of years in the vesting period.

If the Company buys-back all of the 5,912,695 Shares issued under the Plans and cancels those Shares with effect following the Meeting, the Company will record a write back of previously amortised option value related to the Plans amounting to less than \$250,000. Any interest charged to the Former Employees under the Plans will also be assumed by the Company, the amount of which is estimated to be immaterial.

The Directors are of the view that buy-back of the Shares under the Plans will not materially prejudice the Company's ability to pay its creditors because the Buy-Back does not require the Company to pay cash which otherwise would reduce its cash reserves.

On completion of the Buy-Back, the contributed equity of the Company will remain unchanged as no amounts were received from ESIP Holders or ESLP Holders at the time of the grant of the Shares.

Effect of Buy-Back on capital structure

If approved and implemented during the 6 month period after the Meeting and assuming the Company does not issue any new Shares during the 6 month period after the Meeting, the Buy-Back will:

- involve a reduction in and cancellation of a maximum of 5,912,695 Shares on issue and held by Former Employees (which equates to 12.36% of the current issued capital of the Company);
- result in the shareholding of Henley Holdings Aust Pty Ltd ACN 613 587 330 ATF Henley Holdings Family Trust (the nominated entity of George Boubouras) and George Boubouras decreasing from 7.51% to 2.78% of the voting power of the Company;
- result in the shareholding of Pacific Point Partners increasing from 11.74% to 13.39% of the voting power of the Company;
- result in NAML having a relevant interest in 17.76% the voting power of the Company (currently 15.57%);
- have no effect on the number of Shares held by Shareholders other than Shares issued under the Plans to Former Employees; and
- except as specified above, not result in any material change in control of the Company.

If all of the Shares are bought back under the Buy-Back and assuming the Company does not issue any new Shares during the 6 month period after the Meeting, the number of Shares on issue will reduce to 41,908,361 Shares.

There will be no dilutionary effect on Shareholders, other than the holders of Shares issued under the Plan whose Shares are acquired as a result of the Buy-Back.

The ownership interest of Shareholders in the Company who do not hold Shares acquired under the Plan (and whose Shares are not bought-back) will increase.

Advantages of the Buy-Back

The Company will have the ability to exercise and perform its rights to buy-back Shares issued under the Plans in the circumstances of a Good Leaver Event in the 6 month period following the Meeting if Resolution 2 is passed.

By enabling the Company to buy-back the Shares issued under the Plans where Former Employees are no longer employed by the Group the Company is not required to nominate a third party nominee as purchaser of the Shares.

The Buy-Back does not require the Company to pay cash and which otherwise would reduce its cash reserves. Therefore the Buy-Back will not materially prejudice the Company's ability to pay its creditors.

The Board believes that following completion of the Buy-Back the Company will remain strongly capitalised.

By reducing the number of ordinary shares on issue, all other things being equal, the Company expects the Buy-Back to be earnings per share accretive for Shareholders.

Disadvantages of the Buy-Back

The proposed buy-back and cancellation of the Shares in the Plans will reduce the number of Shares on issue and therefore may reduce the market capitalisation of the Company.

The Directors are not aware of any material disadvantages which would result from the Buy-Back being implemented.

However, the Directors are of the view that the reduced number of Shares on issue in the Company and the potentially reduced market capitalisation of the Company do not impair the Company's ability to conduct and develop its business.

The proposed buy-back of the Shares will occur as a consequence of Former Employees ceasing to be employed by the Group in the circumstances of a Good Leaver Event.

The Directors are of the view that the loss of any Former Employees in the circumstances of a Good Leaver Event will not materially impair the Company's ability to conduct and develop its business.

If Resolution 2 is not approved

If Resolution 2 is not approved by the Company's Shareholders, the Company will be restricted to buying back a maximum of 4,226,550 Shares within the 10/12 Limit.

In the event there are Leaver Shares in excess of 4,226,550 Shares, the Company would be required to nominate a third party nominee to purchase the relevant Shares in consideration of the Company assuming the obligations of the relevant Borrower in respect of the outstanding loan amounts. Where the Leaver Shares were transferred to the nominee rather than bought-back by the Company, such Leaver Shares would not be cancelled by the Company and the Company's share capital in respect of those Leaver Shares would not reduce.

Interests of Directors

None of the Directors of the Company hold any ESIP Shares or ELSP Shares.

Current market price

To provide an indication of the recent market price of the Company's Shares, the closing price on Friday, 12 January 2018 was \$0.535. The highest and lowest market sale prices for the Company's Shares on the ASX during the previous 3 months were as follows:

Month	Low	High
October 2017	\$0.580	\$0.975
November 2017	\$0.500	\$0.750
December 2017	\$0.420	\$0.560

Directors' Recommendation for Resolution 2

The Directors unanimously recommend that Shareholders vote in FAVOUR of Resolution 2 to approve the Buy-Back because they believe the advantages of the Buy-Back outweigh the disadvantages.

The Chairman intends to vote undirected proxies in favour of this Resolution 2.

FURTHER INFORMATION

No other material information

Except as set out in this Explanatory Statement, in the opinion of the Directors, there is no other information material to the making of a decision on how to vote in relation to the Resolutions, being information that is within the knowledge of any Director or related body corporate of the Company which has not been previously disclosed to Shareholders.

The Company will issue a supplementary document to the Explanatory Statement if it becomes aware of any of the following between the date this Explanatory Statement is provided to ASX and the date the Meeting is held:

- a material statement in the Explanatory Statement becomes false or misleading in a material aspect;
- a material omission from the Explanatory Statement;
- a significant change affecting a matter included in the Explanatory Statement; or
- a significant new matter has arisen which would have been required to be included in the Explanatory Statement if it had arisen before the date the Explanatory Statement is provided to ASX.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, the Company

may circulate and publish any supplementary document by:

- making an announcement to ASX;
- posting the supplementary document to Shareholders at their registered addresses as shown on the Company's register of Shareholders; or
- posting a statement on the Company's corporate website,

as the Company, in its sole and absolute discretion, considers appropriate.

Authorisation

The Notice of Meeting and Explanatory Statement have been approved by a resolution passed by the Directors.

Responsibility

The Notice of Meeting and Explanatory Statement have been prepared by the Company under the direction and oversight of the Directors.

Forward-looking statements

Some of the statements appearing in this Explanatory Statement may be in the nature of forward-looking statements. Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement and those deviations are both normal and to be expected.

None of the Company, any of its officers or any person named in this Explanatory Statement or involved in its preparation makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, and you are cautioned not to place undue reliance on those statements.

The forward-looking statements in this Explanatory Statement reflect views held only at the date of this document. The Company has no obligation to disseminate, after the date of this Explanatory Statement, any updates or revisions to those statements to reflect any change in expectations in relation to those statements, or any change in events, conditions or circumstances on which those statements are based, unless it is required under the Corporations Act to update or correct this document or to do so pursuant to its continuous disclosure obligations under the ASX Listing Rules and/or the Corporations Act.

GLOSSARY

In this Explanatory Statement, unless the context otherwise requires, the following terms will have the following meanings:

Acquisition Date means 26 September 2016, the date on which the Company issued ESIP Shares and ELSP Shares under the Plans.

Agreement to Assign means the Agreement to Assign the Investment Management Agreement between CFML and NAML dated 20 October 2017.

ASX means, as the case requires, ASX Limited ACN 008 624 691 or the Australian Securities Exchange operated by ASX Limited.

ASX Listing Rules means the listing rules of ASX.

Board means the board of directors of the Company.

Buy-Back means the employee share scheme buy-back over the 10/12 limit of 5,912,695 Shares issued under the Plans and on the basis described in Resolution 2 and this Explanatory Statement.

Buy-Back Agreements means an ESIP Shares Buy-Back Agreement and a ELSP Shares Buy-Back Agreement to be entered into by the Company.

Call Exercise Notice means a notice from the Company to the ESIP Holder or ELSP Holder as applicable where a Good Leaver Event has occurred in respect of a Former Employee.

CFML means Contango Funds Management Limited ACN 085 487 421, a wholly owned subsidiary of the Company.

Chairman means the chairman of the Meeting.

Company means Contango Asset Management Limited ACN 080 277 998.

Constitution means the constitution of the Company as amended from time to time.

Corporations Act means the Corporations Act 2001 (Cth) as amended from time to time.

Corporations Regulations means the Corporations Regulations 2001.

Deed of Assignment means the Deed of Assignment of the Investment Management Agreement between NSC, CFML and NAML dated 20 October 2017.

Directors means the directors of the Company.

ESIP means the Company's Employee Share Incentive Plan approved by the Company's Shareholders at the extraordinary general meeting held on 25 August 2016.

ESIP Shares means Shares issued under the ESIP.

ESIP Shares Buy-Back Agreement means a buy-back agreement to be entered into between the Company and an ESIP Holder to whom the Company has issued a Call Exercise Notice to buy-back all of the ESIP Shares held by the relevant ESIP Holder.

ESIP Holder means a holder of ESIP Shares.

ELSP means the Company's Employee Loan Share Plan approved by the Company's Shareholders at the extraordinary general meeting held on 25 August 2016.

ELSP Holder means a holder of ELSP Shares.

ELSP Shares means Shares issued under the ELSP.

ELSP Shares Buy-Back Agreement means a buy-back agreement to be entered into between the Company and a ELSP Holder to whom the Company has issued a Call Exercise Notice to buy-back all of the ELSP Shares held by the relevant ELSP Holder.

Explanatory Statement means this explanatory statement (as amended or supplemented from time to time) annexed to and forming part of the Notice of Meeting.

Former Employee has the meaning given on page 7 of the Explanatory Statement.

Good Leaver Event has the meaning given on page 7 of the Explanatory Statement.

Group means the Company and its Related Bodies Corporate.

Independent Expert means PKF Melbourne Corporate Pty Ltd ACN 063 564 045.

Independent Expert Report means the report prepared by the Independent Expert dated 16 January 2018, contained in Annexure A.

Investment Management Agreement means the Investment Management Agreement dated 24 June 2016 between CFML and CTN as amended or varied.

Leaver Shares has the meaning given on page 8 of the Explanatory Statement.

Meeting means the extraordinary general meeting of Shareholders to be held on Tuesday, 20 February 2018 at 10:00am at Taylor Collison, Level 10, 167 Macquarie Street, Sydney NSW 2000.

NAML means NAOS Asset Management Limited ACN 107 624 126.

Notice of Meeting or **Notice** means the notice of meeting convening the Meeting.

NSC means NAOS Small Cap Opportunities Company Limited ACN 107 617 381 (formerly Contango MicroCap Limited).

Plans means the ESIP and ELSP.

Resolutions means the resolutions set out in the Notice of Meeting and explained in the Explanatory Statement and Resolution means any one of the Resolutions.

SAML means Switzer Asset Management Limited ACN 123 611 978.

Shareholders means holders of the Shares and **Shareholder** means any one of those Shareholders.

Shares means the fully paid ordinary shares in the capital of the Company and **Share** means any one of those shares.

Transaction means the transaction set out in the Agreement to Assign and as further described in this Explanatory Statement.

All times referred to in the Notice of Meeting and this Explanatory Statement are **Australian Eastern Daylight Time**.

By Order of the Board

Hari Morfis
Company Secretary
19 January 2018

Important notices

Voting and Proxy Instructions

Quorum

The Constitution provides that a quorum for the Meeting is three Shareholders.

Voting entitlement

For the purposes of the Meeting and in accordance with section 1074E(2)(g)(i) of the Corporations Act and Regulation 7.11.37 of the Corporations Regulations, the Directors have determined that the Shareholders entitled to attend and vote at the Meeting will be those persons who are recorded on the Company's register of Shareholders at 10:00am on Sunday, 18 February 2018. Share transfers registered after that time will be disregarded in determining the Shareholders entitled to attend and vote at the Meeting.

On a poll, Shareholders will have one vote for every Share held. Holders of options, if any, are not entitled to vote. In the case of joint holders of Shares, if more than one holder votes at the Meeting, only the vote of the first named of the joint holders in the Company's register of Shareholders will be counted.

Majority required for Resolutions

- Each Resolution will be passed if at least 50% of the votes cast on that Resolution (either in person, proxy, attorney or by corporate representative) are in favour of that Resolution.

Proxies

Any Shareholder entitled to attend and vote at the Meeting is entitled to appoint:

- 1 proxy (if the Shareholder is entitled to one vote); or
- 1 or 2 proxies (if the Shareholder is entitled to more than one vote).

The person or persons appointed may, but need not necessarily be, a Shareholder.

- Where 2 proxies are appointed, each proxy should be appointed to represent a specified portion or number of the Shareholder's voting rights (failing which each appointee will be entitled to cast half the Shareholder's votes, in which case any fraction of votes will be disregarded).
- Where a Shareholder appoints 2 proxies, on a show of hands, neither proxy may vote if more than 1 proxy attends and, on a poll, each proxy may only exercise votes in respect of those Shares or voting rights the proxy represents.
- The Proxy Form must be signed by the Shareholder (or, in the case of a joint holding, by each joint holder) or his/her attorney duly authorised in writing or, if the member is a corporation, in a manner permitted by the Corporations Act. A proxy given by a foreign corporation must be executed in accordance with the laws of that corporation's place of incorporation.
- If a Proxy Form is signed under a power of attorney on behalf of a Shareholder, then either the original power of attorney, or a certified copy of it, must be lodged with the Proxy Form (before the deadline for appointment of proxies), unless the power of attorney has already been sighted by the Company's Share Registry.
- A proxy may decide whether or not to vote on any item of business or other motion at the Meeting, except where the proxy is required by law or the Company's Constitution to vote or abstain from voting in their capacity as proxy. If the proxy's appointment directs the proxy how to vote on an item of business, the proxy may vote on that item only in accordance with the direction. If the proxy's appointment does not direct the proxy how to vote on an item of business or any other motion at the Meeting, the proxy may vote as he or she thinks fit on that item or motion.
- If the same person (such as the Chairman) is appointed as proxy for two or more Shareholders and those Shareholders have specified different ways for the proxy to vote on an item of business, then the proxy is not entitled to vote (as proxy) on a show of hands on that item.
- The appointment of 1 or more proxies will not preclude a Shareholder from attending the Meeting and voting personally. If the Shareholder votes on a Resolution, the proxy or proxies must not vote as the Shareholder's proxy on that Resolution.
- Proxies may be appointed using the enclosed Proxy Form. Detailed instructions for appointing a proxy are provided on the back of the Proxy Form.

Proxy appointments (and any necessary supporting document) must be received by the Company no later than **48 hours before the commencement of the Meeting (i.e. 10:00am on Sunday 18 February 2018)**. Proxies received after this deadline will not be effective for the Meeting.

Proxy appointments may be lodged in any of the following ways:

By mail to: Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

By facsimile to: +61 2 9287 0309

Online: www.linkmarketservices.com.au

Appointment of corporate representatives

- A body corporate that is a Shareholder and is entitled to attend and vote at the Meeting, or that has been appointed as proxy of a Shareholder entitled to attend and vote at the Meeting, may appoint an individual to act as its representative at the Meeting. The appointment must comply with section 250D of the Corporations Act. The representative must bring to the Meeting adequate evidence of his/ her appointment, including any authority under which the appointment is signed, unless that evidence has previously been provided to the Company's Share Registry.

Appointing the Chairman as your proxy

- The Proxy Form accompanying this Notice of Meeting contains detailed instructions regarding how to complete the Proxy Form if a Shareholder wishes to appoint the Chairman as his/ her proxy. You should read those instructions carefully.
- The Chairman intends to exercise all available proxies by voting in favour of all Resolutions on the Notice of Meeting.
- If you do not wish to give the Chairman such a directed proxy, you should ensure that a box other than the 'For' box is clearly marked against each of the Resolutions in the Proxy Form.

Undirected proxies

- If you return your Proxy Form but do not nominate a proxy, the Chairman will be your proxy and will vote on your behalf as you direct on the Proxy Form. If your nominated representative does not attend the Meeting then your proxy will revert to the Chairman and the Chairman will vote on your behalf as you direct on the Proxy Form.
- If a proxy is not directed how to vote on an item of business or any Resolution, the proxy (including, if applicable, the Chairman) may vote, or abstain from voting, as he/she thinks fit.
- If you appoint the Chairman as your proxy (including appointment by default) and do not direct the Chairman how to vote on a Resolution, the Chairman will vote your proxy in favour of the item of business even if the Chairman has an interest in the outcome of that Resolution and votes cast by the Chairman, other than as proxy holder, would be disregarded because of that interest.

Explanatory Statement

Please read the enclosed Explanatory Statement for an explanation of the items of business set out in the Notice.

Availability of Independent Expert Report

The Company is providing printed copies of the Independent Expert Report only to Shareholders who have specifically requested to receive information from the Company in printed form. For all other Shareholders, an electronic copy of the Independent Expert Report, together with the Notice of Meeting and Explanatory Statement, is available on the Company's website – www.contango.com.au. A hard copy of the Independent Expert report is available to Shareholders on written request to the Company, at no cost to the Shareholder, by emailing info@contango.com.au.

Definitions

Words that are defined in the Glossary have the same meaning when used in the Notice unless the context requires or the definitions in the Glossary provide otherwise.

By Order of the Board

Hari Morfis
Company Secretary

Dated: 19 January 2018

Annexure A

Independent Expert Report

Report by PKF Melbourne Corporate Pty Ltd in relation
to the Transaction

16 January 2018

The Directors
Contango Asset Management Limited
Level 27, 35 Collins Street
Melbourne, VIC 3000

Dear Directors

Re: Independent Expert's Report

1. Introduction

1.1. The Board of Directors of Contango Asset Management Limited ("CGA" or "the Company"), has requested PKF Melbourne Corporate Pty Ltd ("PKF Corporate") to prepare an independent expert's report ("IER") in respect of the following transaction:

1. CGA has arranged the assignment of management rights ("the Management Rights") in relation to NAOS Small Cap Opportunities Company Limited (formerly known as Contango Microcap Limited) ("NSC") (which was managed by Contango Funds Management Limited ("CFML"), a wholly-owned subsidiary of CGA) to NAOS Asset Management Limited ("NAML");
2. Consideration receivable by CFML from NAML comprises:
 - a. \$2,000,000; plus
 - b. \$3,000,000 subject to certain conditions which have now been satisfied; plus
 - c. \$7,500,000 in instalments as follows (also subject to certain conditions which have now been satisfied):
 - i. \$860,000 on 30 June 2018; plus
 - ii. \$1,660,000 annually from 30 June 2019 to 30 June 2022, inclusive.
3. CGA has been advised by the ASX that it deems the agreement to assign a transaction with a person of influence and that corrective action is required pursuant to ASX Listing Rule 10.9;
4. the person of influence status arises because a fund managed by NAML is a substantial shareholder in CGA; and
5. the company has elected to seek shareholder approval pursuant to ASX Listing Rule 10.9.

1.2. Paragraphs 1. and 2. together describe the Transaction upon which we have been asked to opine.

1.3. In our opinion the Transaction is **fair and reasonable**. The reasons for this opinion are summarised in section 2 below.

PKF Melbourne Corporate Pty Ltd
(formerly DMR Corporate Pty Ltd)
ACN 063 564 045
AFSL No. 222050

Melbourne
Level 12, 440 Collins Street
Melbourne VIC 3000 Australia
p +61 3 9679 2350

PKF Melbourne Corporate Pty Ltd is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member of correspondent firm or firms.

For office locations visit www.pkf.com.au

2. Summary of opinions

2.1. Fairness

- 2.1.1. In our opinion, the Transaction, set out in Section 1 above, is **fair**.
- 2.1.2. Our principal reason for reaching the above opinion is that the discounted value of the consideration exceeds or is within the range of estimates of value of the Management Rights for all valuation methods considered.
- 2.1.3. Our assessment of fairness is summarised in section 7.1.

2.2. Reasonableness

- 2.2.1. ASIC Regulatory Guidelines state that a transaction is reasonable if it is fair.
- 2.2.2. Notwithstanding, we have also considered advantages and disadvantages of the Transaction proceeding and not proceeding. These are outlined in section 7 and also support the reasonableness of the Transaction.

3. Structure of this Report

- 3.1. This report is divided into the following Sections:

<u>Section</u>	<u>Page</u>
4 Purpose of the Report	2
5 Management Rights - Key Information and Valuation	4
6 The Consideration	11
7 Assessment as to Fairness and Reasonableness	12
8 Financial Services Guide	13
 <u>Appendix</u>	
A Sources of Information	16
B Declarations, Qualifications and Consents	17
C Glossary	18
D Bibliography	19
E Weighted Average Cost of Capital	20

4. Purpose of the Report

- 4.1. This IER has been prepared to assist CGA shareholders to make an informed decision whether or not to approve the assignment of management rights in respect of NSC to NAML.
- 4.2. This report has been prepared in accordance with the following regulatory requirements:

- **ASX - Listing Rule 10**

Listing Rule 10 requires that a company obtain shareholder approval at a general meeting when the sale or acquisition of an asset, which has a value in excess of 5% of the shareholders' funds as set out in the latest financial statements given to the ASX under the listing rules, is to be made to or from:

- (i) a related party;
- (ii) a subsidiary;
- (iii) a substantial shareholder who is entitled to at least 10% of the voting securities, or a person who was a substantial shareholder entitled to at least 10% of the voting securities at any time in the 6 months before the transaction;

- (iv) an associate of a person referred to in paragraphs (i), (ii) or (iii) above;
- (v) a person whose relationship to the entity or a person referred to above is such that, in the ASX's opinion, the transaction should be approved by security holders.

The ASX has advised CGA that it is of the opinion that Listing Rule 10 applies to the Transaction, and that the notice of meeting under Listing Rule 10 must include a report on the transaction from an independent expert. The report must state whether the transaction is fair and reasonable to the holders of the entity's ordinary shares whose votes are not to be disregarded i.e. the Non-Associated shareholders.

RG 111 – Content of Expert Reports (“RG111”)

RG111.9 It has long been accepted in Australian mergers and acquisitions practice that the words ‘fair and reasonable’ in S640 established two distinct criteria for an expert analysing a control transaction:

- (a) is the offer ‘fair’; and
- (b) is it ‘reasonable’?

That is, ‘fair and reasonable’ is not regarded as a compound phrase.

RG111.10 Under this convention, an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or ‘portfolio’ parcel of shares.

RG111.11 An offer is ‘reasonable’ if it is fair. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111.55 Generally, ASIC expects an expert who is asked to analyse a related party transaction to express an opinion on whether the transaction is ‘fair and reasonable’ from the perspective of non-associated members.

- **General**

The terms “fair” and “reasonable” are not defined in the Corporations Act 2001, however guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

- | | | |
|----------------|---|---|
| Fairness | - | the Transaction is “fair” if the value of the Management Rights to be assigned to NAML is equal to or less than the consideration payable by NAML. |
| Reasonableness | - | the Transaction is “reasonable” if it is fair. It may also be “reasonable” if, despite not being “fair” but after considering other significant factors, we consider that the advantages of proceeding with the Transaction outweigh the disadvantages of proceeding. |

4.3. In determining whether the Transaction is fair, we have:

- valued the Management Rights being assigned;
- determined the discounted value of the consideration being offered by NAML; and
- compared the discounted value of the consideration offered with the value of the Management Rights being assigned.

4.4. In determining whether the Transaction is reasonable we have analysed other significant factors, which CGA shareholders should consider prior to approving or rejecting the Transaction.

5. Management Rights – Key Information and Valuation

5.1. Background

5.1.1. CGA is a wholesale and listed investment company (“LIC”) fund manager. It has investment mandates from wholesale clients and LICs. It also manages an exchange traded product in partnership with an associated entity, Switzer Asset Management Ltd.

5.1.2. CGA (formerly Tyrian Diagnostics Ltd) acquired the Contango funds management business and commenced operations as a fund manager from 29th September, 2016. Subsequently it undertook a capital reconstruction, a capital raising and relisted on the ASX.

5.1.3. CGA’s annual report for the year ended 30 June 2017 disclosed total revenue for the year of \$4,138,000 and a loss before depreciation, impairment, finance costs and income tax of \$3,647,000. The net loss after tax for the year was \$14,148,000 which included goodwill impairment charges of \$10,311,000. Net assets were \$3,529,000 at 30 June 2017.

5.1.4. On 25 September 2017 CGA announced that funds under management and advice (“FUMA”) had declined by \$141.6 million, from \$752.6 million (at 30 June 2017) to \$611.0 million and that the net decrease related to CGA’s institutional business.

5.1.5. On 20 October 2017 CGA announced the Transaction, described in section 5. The reasons for the transaction were stated as:

- a) “Given [CGA’s] renewed focus on large and midcap companies, the Company is of the view that an alternative specialist manager would be better placed to manage the portfolio. Further, [CGA] had a limited opportunity to grow its broader microcap strategy as it had been approaching capacity for this strategy”; and
- b) The Transaction will provide CGA with significant capital to grow its core offering, including via its investment in Switzer Asset Management and the two other LICs managed by CGA.

5.1.6. At its annual general meeting on 24 November 2017, CGA announced that it had conducted a review of its operations and had decided to move away from pursuing institutional mandates and would concentrate on listed investment products.

5.1.7. On 28 November 2017 CGA announced that, since 22 September 2017 FUMA had declined by \$264.8 million to \$346.2 million relating to its “exit from institutional business and its decision to focus on its high growth operations.” This decline in FUMA includes the movement of NSC’s FUMA, which we have been advised was approximately \$209 million at the time of the Transaction.

5.1.8. CFML has agreed to forgo a management fee on a portion of NSC’s portfolio until March 2022. As a result, at the date of the Transaction CFML was earning management fees on approximately \$181 million of funds in the NSC portfolio.

5.2. Value Definition

- 5.2.1. Our valuation of the management rights pursuant to the IMA has been made on the basis of fair market value, defined as the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length.

5.3. Valuation Methodologies

- 5.3.1. In selecting appropriate valuation methodologies, we considered the applicability of the valuation methodologies set out in RG 111:

- the discounted cash flow;
- application of earnings multiples;
- asset realisation;
- listed securities; and
- recent offers.

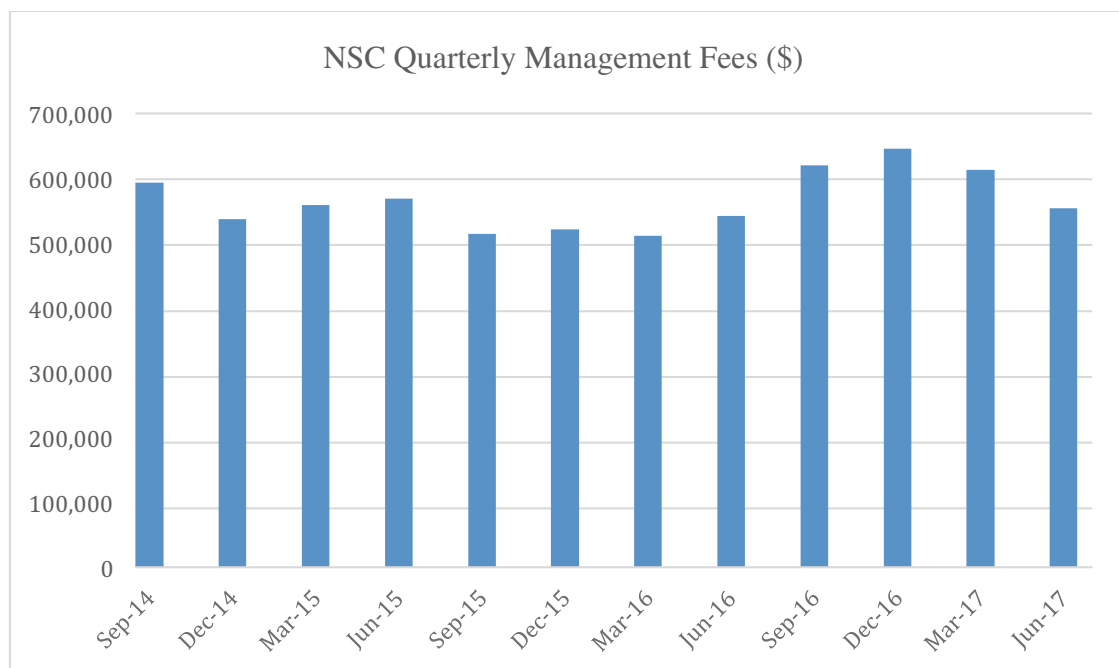
- 5.3.2. RG 111 is not prescriptive as to the methodologies to be applied and is also framed in terms of valuation of securities. Some of the methodologies above are not directly applicable to the valuation of the Management Rights. We therefore considered adaptations of the foregoing methodologies, as discussed below.

5.4. Selection of Valuation Methodology

- 5.4.1. Discounted cash flow ("DCF"): The IMA gives rise to fees payable quarterly based on FUMA. A review of quarterly management fees for the last three years shows they have been relatively consistent. This provides a good foundation for a DCF approach when combined with assumptions about the costs of servicing the IMA.
- 5.4.2. Application of earnings multiples: This approach entails applying an appropriate multiple (usually derived from similar listed businesses) to an estimate of future maintainable profit or cash flow. We have analysed fund managers listed on the ASX and adapted this approach to valuing the rights pursuant to the IMA. We have selected Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as the measure of earnings to be capitalized as EBITDA is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.
- 5.4.3. Asset realisation: Funds management businesses, in common with many other service businesses, typically have relatively low asset bases and income is not dependent on deployment of assets. Hence this approach was not adopted.
- 5.4.4. Listed securities: In our view analysis of listed securities in CGA does not provide useful information about the value of the Management Rights. Hence this approach was not adopted.
- 5.4.5. Recent offers: Per RG 111 this approach considers recent offers for the business or asset being valued. Although there are no recent offers for the Management Rights, we considered the acquisition by CGA of the entire Contango business in September 2016. We have also considered a number of recent transactions involving the assignment of management rights in relation to managed funds.

5.5. Discounted Cash Flow

- 5.5.1. The following chart shows the quarterly management fees paid by NSC. Over the period fees have fluctuated between \$512,000 (March 2016) and \$646,000 (December 2016), with an average of \$565,000 and standard deviation of \$44,000.



- 5.5.2. Given the relative consistency and absence of a clear trend, we have valued the Management Rights as a perpetuity of \$565,000 per quarter (\$2.26 million annually).
- 5.5.3. CGA advised that it does not allocate overheads to individual funds or mandates. In developing a cash flow model we have, therefore, used the small fund median EBITDA margin (22%) and the market median EBITDA margin (42%), set out in section 5.5.4, to develop low and high profit and cash flow estimates.
- 5.5.4. We reviewed the EBITDA margins of other listed fund managers, as set out in the following table. The "small" and "large" medians refer to the bottom six and top six companies in the table, respectively. The median EBITDA margin for all managers is 42%, but there is a significant difference between larger (EBITDA margin 45%) and smaller fund managers (EBITDA margin 33%). This most likely reflects scale economies enjoyed by the larger managers.

Company	Revenue (\$ million)	EBITDA (\$ million)	Enterprise	
			value (\$ million)	EBITDA margin
Magellan Financial Group	338	254.6	4,419	75%
Platinum Asset Management	313	267.1	4,047	85%
BT Investment	490	201.3	3,189	41%
Henderson	1,994	518.1	3,009	26%
Perpetual	513	223.0	1,874	43%
Blue Sky Alternative	85	38.9	849	46%
EQT Holdings	80	27.8	379	35%
Pengana Capital	37	11.2	325	30%
Pacific Current Group	21	9.8	325	47%
Australian Ethical	28	4.1	139	14%
K2 Asset Management	17	8.6	48	50%
Clime Investment	9	1.2	19	14%
Average				42%
Median				42%
Median - large				45%
Median - small				33%

5.5.5. We have used CGA's forecasts of capex and working capital for the business as a whole (prior to the Transaction) and pro-rated them to NSC based on revenues. We have adopted an estimate of the prospective Australian corporate tax rate of 27% as being appropriate for a stand-alone valuation (that is, ignoring the particular tax circumstances of CGA, including carried forward tax losses).

5.5.6. The following table shows the calculation of total cash flow.

	Low estimate (\$,000)	High estimate (\$,000)
NSC revenue	2,260	2,260
EBITDA	746	1,017
EBITDA margin	33%	45%
Depreciation	24	24
EBIT	722	993
Net interest	78	78
Net profit before tax	644	915
Tax	174	247
Net profit after tax	470	668
EBIT	722	993
Less tax	(174)	(247)
Add depreciation	24	24
Less capex	(25)	(25)
Less working capital	(11)	(11)
Total cash flow	536	734

5.5.7. The value of a perpetuity is given by the formula:

$$V_t = CF_{t+1} / (r - g) \text{ where:}$$

V_t = the value at time t

CF_{t+1} = expected cash flow at time $t+1$

r = the discount rate

g = the long-term growth rate

5.5.8. The discount rate is CGA's weighted average cost of capital ("WACC"). Calculation of the WACC is set out in Appendix E. We have adopted a WACC of 15.3% for our analysis.

5.5.9. For the long-term growth rate we have used our estimate of the Australian long-term nominal inflation rate (2.5%).

5.5.10. The following table summarises the DCF analysis:

	Low estimate	High estimate
Cash flow (\$,000)	536	734
Discount rate (WACC)	15.3%	15.3%
Long term growth rate	2.5%	2.5%
Present value (\$,000)	4,188	5,734

5.6. Earnings multiple

5.6.1. The following table shows the calculation of EBITDA multiples for listed fund managers. The overall median is 15.7. The median of the larger managers is similar (15.5), whereas the median for the smaller managers is significantly higher (22.3). The high variability of the multiples for the small managers combined with the small number of members of that group suggest the small manager median may not be a reliable indicator, so we have used the overall median.

Company	Market Cap (\$ million)	Net debt / (cash) (\$ million)	Enterprise value (\$ million)	EBITDA (\$ million)	EV / EBITDA
Magellan Financial Group	4,567	(148)	4,419	254.6	17.4
Platinum Asset Management	4,201	(154)	4,047	267.1	15.1
BT Investment	3,383	(194)	3,189	201.3	15.8
Henderson	4,182	(1,173)	3,009	518.1	5.8
Perpetual	2,197	(323)	1,874	223.0	8.4
Blue Sky Alternative	867	(18)	849	38.9	21.8
EQT Holdings	422	(43)	379	27.8	13.6
Pengana Capital	345	(20)	325	11.2	29.0
Pacific Current Group	342	(17)	325	9.8	33.2
Australian Ethical	152	(13)	139	4.1	34.1
K2 Asset Management	61	(13)	48	8.6	5.5
Clime Investment	29	(10)	19	1.2	15.5
Average					17.9
Median					15.7
Median - large					15.5
Median - small					22.3

- 5.6.2. The above multiples are applicable to the sale of minority interest parcels of shares. To determine the premium applicable to a controlling interest we have referred to the RSM Bird Cameron Control Premium Study 2017, summarised below. Based on these data our point estimate of the appropriate control premium is 26%.

Effect	Applicable to Transaction	Average control premium (20 days pre announcement)	Median control premium (20 days pre announcement)
	All transactions	34.5%	27.0%
Sector	Banks and diversified financials	23.4%	19.1%
Consideration type	Cash	36.9%	29.6%
Toehold prior to announcement	Zero toehold	29.9%	22.8%
Size	<= \$25m market cap.	46.8%	34.2%

- 5.6.3. Unlisted companies typically trade at a discount to listed companies, reflecting the lack of liquidity in their shares. Australian professional literature suggests that the discount for non-negotiability is generally in a range of 10% to 25%¹. Our point estimate of the appropriate discount is the top of that range, reflecting the relatively inactive market for unlisted funds management businesses.

- 5.6.4. The following table sets out the calculation of the applicable multiple.

Multiple applicable to minority stake	15.7
Control premium	26%
Multiple applicable to a control stake	19.8
Non-negotiability discount	25%
Applicable multiple	14.9

- 5.6.5. The following table applies the foregoing multiple to calculate the value of the Management Rights as if it were a stand-alone business.

	Low estimate	High estimate
EBITDA (\$,000)	497	949
Multiple	14.9	14.9
Enterprise value (\$,000)	7,405	14,140
Assumed net debt (\$,000)	-	-
Equity value (\$,000)	7,405	14,140

5.7. Recent offers / transactions

- 5.7.1. Although there are no other offers for the Management Rights, there are a number of recent similar transactions.

¹ Wayne Lonergan "The Valuation of Businesses, Shares and Other Equity" 4th Edition page 129

5.7.2. Most relevant was the acquisition by CGA of the entire business for \$13 million in September 2016. Revenues from the provision of services in the year ending 30 June 2016 were \$5,171,000. Management fees in respect of NSC over the same period were \$2,258,000. Pro rating the purchase price in proportion to revenues gives a notional value of NSC of \$5,677,000.

5.7.3. The following table sets out information about other recent transactions.

Date	Buyer	Vendor	Consideration (\$ million)	Vendor AUM (\$ million)	% Acquired	Effective Consideration / AUM
Jul-17	Clime Investment Management	CBG Asset Management	3.1	130	100.0%	2.4%
May-17	Moelis Australia	Armada Funds Management	29.5	800	100.0%	3.7%
Mar-17	Washington H. Soul Pattinson	Hunter Hall International	17.3	970	24.3%	7.3%
Dec-16	Washington H. Soul Pattinson	Hunter Hall International	5.4	970	19.9%	2.8%
Nov-16	Centuria Capital Group	360 Capital	91.5	1,396	100.0%	6.6%
Average						4.6%
Median						3.7%

5.7.4. Applying the median and average effective consideration to NSC's \$181 million of fee-earning assets under management ("AUM") yields values of \$6,697,000 and \$8,326,000 respectively.

5.8. Valuation Summary

5.8.1. The table below summarises the values derived using different approaches.

\$,000	Low estimate	High estimate
Discounted cash flow	4,188	5,734
Earnings multiple	7,405	14,140
CGA acquisition of Contango	5,677	5,677
Recent transactions	6,697	8,326
Average	5,992	8,469

5.8.2. The DCF approach gives a value range which is lower than the other approaches. For example, the recent transaction data suggests that acquirers are prepared to pay significantly more than the stand-alone value. This most likely reflects significant economies of scale for larger fund managers.

5.8.3. The earnings multiple approach gives a value range which is significantly higher than the other approaches. There are a number of possible explanations for this discrepancy, including:

- Listed shares which are used to calculate the EBITDA multiple trade at valuation levels that are above fair value due to short to medium term supply and demand factors for shares in this sector.
- The EBITDA multiples were derived from historical earnings (mainly to 30 June 2017). If sector earnings have increased significantly, the historical EBITDA multiple will be greater than the multiple based on current or expected earnings.
- The approach taken values the Management Rights as if it were a stand-alone entity. If that were the case, it is possible that it would suffer diseconomies due to its relatively small scale.

5.8.4. The average range covers the recent transaction range and is materially consistent with the CGA acquisition of Contango. The average range also lies between the DCF range and most of the earnings multiple range. In our view the average range provides a reasonable approximation of the fair value. As such we have concluded that the value of the Management Rights lies in the range of \$6.0 million to \$8.5 million.

6. The Consideration

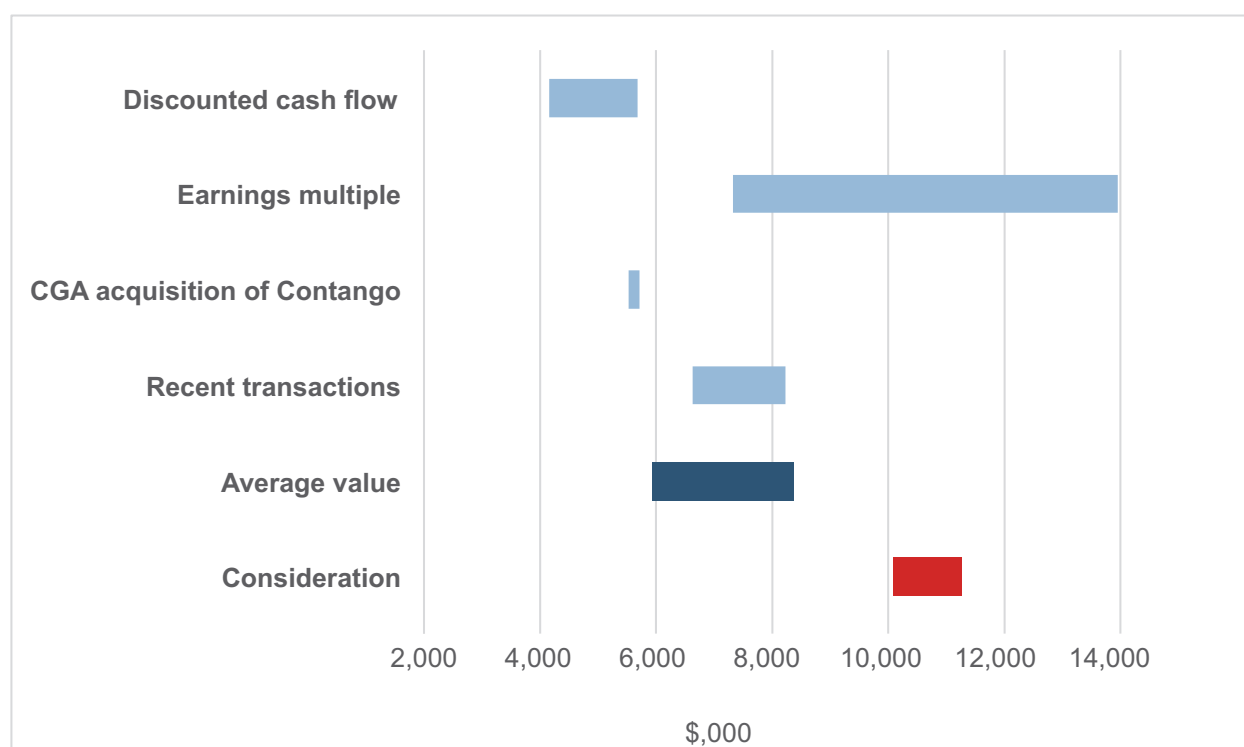
- 6.1. The consideration receivable by CFML from NAML for assigning the IMA comprises:
- a) \$2,000,000; plus
 - b) \$3,000,000 subject to conditions relating to approval by NSC, now satisfied; plus
 - c) \$7,500,000 in instalments as follows (subject also to approval by NSC, now satisfied):
 - i) \$860,000 on 30 June 2018; plus
 - ii) \$1,660,000 annually from 30 June 2019 to 30 June 2022, inclusive.
- 6.2. On 28 November 2017 CGA announced that the conditions relating to the assignment had been satisfied and that CFML is entitled to receive the full consideration of \$12.5 million as set out above.
- 6.3. Given the deferred nature of \$7.5 million of the consideration, it is appropriate to discount future consideration to reflect the time value of money. It is arguable whether the discount rate should be the WACC (15.3%) or the after tax cost of a vendor loan to the purchaser (6.1% per Appendix E).
- 6.4. The following table shows the calculation of the discounted consideration value using the WACC (15.3%) and the after tax cost of debt (6.1%) as the discount rates.

			30/6/18	30/6/19	30/6/20	30/6/21	30/6/22	Total
Cash flow (\$,000)		5,000	860	1,660	1,660	1,660	1,660	12,500
Present value discount factor	15.3%	1	0.94	0.81	0.70	0.61	0.53	
Discount cash flow (\$,000)		5,000	805	1,347	1,168	1,013	879	10,212
Present value discount factor	6.1%	1	0.97	0.92	0.86	0.81	0.77	
Discount cash flow (\$,000)		5,000	837	1,522	1,434	1,352	1,274	11,419

- 6.5. The range for the present value of the consideration is \$10,212 to \$11,419.

7. Assessment as to Fairness and Reasonableness

7.1. The following chart shows the value estimates per section 5.8.1 and the discounted value of the consideration per section 6.5.



7.2. The consideration exceeds or is within the range of all the value estimates. We therefore consider that **the Transaction is fair**.

7.3. Other Considerations – Advantages and Disadvantages

7.3.1. ASIC regulatory guidelines state that if a transaction is fair it is also reasonable. Notwithstanding, we have considered a range of factors that shareholders should consider.

7.3.2. Advantages of the Transaction Being Approved

- The Transaction provides CGA with a significant cash injection. This will allow CGA to pursue its stated strategy of growing its sales and distribution capabilities and launching new products. It will also provide CGA with capital management options that it does not presently have.
- The cash provided will significantly improve CGA's liquidity position, thereby reducing liquidity risk.
- The Transaction is consistent with CGA's stated strategy of withdrawing from the microcap sector.
- Avoids the significant disadvantages of the transaction not proceeding – refer 7.3.5 below.

7.3.3. Disadvantages of the Transaction Being Approved

- The Transaction removes a significant source of revenue and earnings. Whether or not the transaction is accretive to shareholders will depend on the ability of CGA to generate new earnings to replace earnings derived from the Management Rights.

- b) The reduction in CGA's earnings may result in downwards pressure on CGA's share price until CGA can demonstrate that it is able to generate new earnings to replace those derived from the Management Rights.
- c) The Transaction will initially concentrate CGA's earnings streams into fewer business segments, making it more dependent on earnings from those segments.

7.3.4. **Advantages of the Transaction not Being Approved**

- a) Ordinarily an advantage of a transaction not being approved is avoidance of the risks associated with it being approved. That is not so in the case of the Transaction as CFML would not have the right to be reinstated as the fund manager and would be required to pay back or forego the consideration. Therefore we do not believe there are any advantages in the Transaction not being approved.

7.3.5. **Disadvantages of the Transaction not Being Approved**

- a) In the event that Shareholders do not approve the Transaction, then the Company is required to cancel the Transaction. In that event:
 - i) CGA would be required to pay back part of the Consideration that CFML has received to date;
 - ii) CFML would lose its entitlement to the balance of the Consideration payable until 30 June 2022; and
 - iii) CFML would not have any recourse against NAML or NSC to be re-appointed as the investment manager of NSC.
- b) There will be a delay in implementing CGA's growth strategy.
- c) In order to pursue its growth strategy and meet liquidity needs, CGA may need to raise further capital, which could result in dilution or necessitate further investment by existing shareholders.
- d) CGA has incurred costs in relation to the Transaction which will have been to no avail.
- e) CGA will not obtain the benefits identified in section 7.3.2 above.
- f) The effects described in this section, particularly paragraph a. above, would most likely negatively impact CGA's share price.

7.4. After reviewing the foregoing, we consider that **the Transaction is fair and reasonable.**

8. **Financial Services Guide**

8.1. This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

8.2. PKF Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide general financial product advice in respect of securities to retail and wholesale investors.

8.3. **Financial Services Offered by PKF Corporate**

8.3.1. PKF Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by PKF Corporate are provided by the Entity to its members.

8.3.2. All reports prepared by PKF Corporate include a description of the circumstances of the engagement and of PKF Corporate's independence of the Entity commissioning the report and other parties to the transactions.

- 8.3.3. PKF Corporate does not accept instructions from retail investors. PKF Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. PKF Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

8.4. General Financial Product Advice

- 8.4.1. In the reports, PKF Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.
- 8.4.2. Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

8.5. Independence

- 8.5.1. At the date of this report, none of PKF Corporate, Mr Paul Lom nor Mr David Burgess has any interest in the outcome of the Transaction, nor any relationship with CGA or any of its associates.
- 8.5.2. Drafts of this report were provided to and discussed with CGA and its advisors. Certain changes were made to factual statements in this report as a result of the reviews of the draft reports. Our opinion was not amended as a result of any changes.
- 8.5.3. There were no alterations to the methodologies that were adopted by PKF Corporate.
- 8.5.4. PKF Corporate had no part in the formulation of the Transaction. Its only role has been the preparation of this report.
- 8.5.5. PKF Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 March 2011.

8.6. Remuneration

- 8.6.1. PKF Corporate is entitled to receive a fee of approximately \$35,000 for the preparation of this report, plus out of pocket expenses. With the exception of the above, PKF Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.
- 8.6.2. Except for the fees referred to above, neither PKF Corporate, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of any report.

8.7. Compensation Arrangements and Complaints Process

- 8.7.1. As the holder of an Australian Financial Services Licence, PKF Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement PKF Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.
- 8.7.2. PKF Corporate is also required to have a system for handling complaints from persons to whom PKF Corporate provides financial services. All complaints must be in writing and sent to PKF Corporate at the above address.
- 8.7.3. PKF Corporate will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

PKF Melbourne Corporate Pty Ltd

A handwritten signature in black ink, appearing to read 'Paul Lom'.

Paul Lom
Director

A handwritten signature in black ink, appearing to read 'D.N. Burgess'.

David Burgess
Consultant

Sources of Information

Investment Management Agreement, dated 24 June 2016 between Contango MicroCap Limited and Contango Asset Management Limited.

Financial Report for the year ended 30 June 2016, Contango Funds Management Limited

Report on purchase price allocation for the acquisition of Contango prepared by Leadenhall, dated 29 September 2016.

Portfolio allocation and fee amendment deed, dated 30 June 2017, between Contango MicroCap Limited and Contango Asset Management Limited.

Notice of a meeting of the Board of Directors of the Company, to be held on 12 October 2017, Contango Asset Management Limited.

Circulating resolution of the directors of Contango Asset Management Limited, dated 18 October 2017, relating to the assignment of the IMA.

Agreement to Assign the Investment Management Agreement, dated 20 October 2017, between NAML Asset Management Limited and Contango Funds Management Limited.

Deed of Assignment of the Investment Management Agreement, between Contango MicroCap Limited, Contango Funds Management Limited and NAOS Asset Management Limited and Contango Funds Management Limited.

Copies of various emails between CGA executives related to the assignment of the IMA.
List of top 20 shareholders in CGA as at 18 December 2017.

Spreadsheet of quarterly management fees received in relation to NSC provided by CGA.

Telephone conversations and emails with Ms Hari Morfis, Company Secretary and Mr Paul Shannon, CFO, Contango Asset Management Limited.

Declarations, Qualifications and Consents

1. Declarations

This report has been prepared at the request of the Company Secretary of CGA to accompany the notice of meeting of shareholders to approve the Transaction. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Transaction is fair and reasonable.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

2. Qualifications

Mr David Burgess and Mr Paul Lom prepared this report. Mr Lom is a Director of PKF Corporate and has been responsible for the preparation of many expert reports and is involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist) with more than 35 years' experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

Mr Burgess is a Director of First City Corporate Advisory Services, in which capacity he has managed many advisory engagements in the financial services sector and has prepared numerous independent expert's report.

Mr Burgess is a Chartered Financial Analyst with more than 20 years' experience in corporate financial advice.

3. Consent

PKF Corporate consents to the inclusion of this report in the form and context in which it is included in the Explanatory Statement.

Glossary

Term	Meaning
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
AUM	Assets under management
CGA	Contango Asset Management Limited
Capex	Capital expenditure
CFML	Contango Funds Management Limited
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
FUMA	Funds under management or advice
FY	Financial year ending 30 June
IER	Independent Expert's Report
IMA	Investment management agreement between CFML and NSC
LIC	Listed investment company
NAML	NAML Asset Management Limited
NPAT	Net profit after tax
NSC	NAOS Small Cap Opportunities Company Limited (formerly known as Contango Microcap Limited)
PKF Corporate	PKF Melbourne Corporate Pty Ltd
WACC	Weighted average cost of capital

Bibliography

Gilmour, Andy, Glyn Yates, and Ian Douglas. *Control Premium Study 2017*. Perth, WA: RSM Bird Cameron, 2017.

Loneragan, Wayne. *The Valuation of Businesses, Shares and Other Equity*. 4th. edition. Allen & Unwin, 2003.

Weighted Average Cost of Capital

The generally acceptable methodology for assessing the appropriate discount rate is the capital asset pricing model ("CAPM"). The CAPM makes separate calculations of the cost of equity and the cost of debt. The cost of capital and the cost of debt are then combined to calculate the weighted average cost of capital ("WACC").

The CAPM expresses the cost of equity by the following formula:

$$K_e = R_f + (\beta \times R_p) + \alpha$$

Where:

K_e = cost of equity

R_f = risk free rate of interest

R_p = market risk premium

β = beta of the investment being valued

α = risk factors specific to the investment being valued not captured in beta

The CAPM expresses the cost of debt by the following formula:

$$K_d = i \times (1 - t)$$

Where:

i = interest cost

t = corporate tax rate

Set out below are our comments in respect of each of the inputs into the calculations of cost of equity and cost of debt.

1. Cost of Equity

1.1 Risk free rate of return

We have adopted the current Australian 10-year bond yield, being 2.73%.

1.2 Market risk premium

This is the difference between the return that investors require from an investment in equity and the return investors accept from a risk-free investment. After reviewing the recent research, we have concluded that a market risk premium range of 6% to 7% is appropriate.

1.3 Beta

Beta measures the sensitivity of the share price to fluctuations of the market as a whole. A beta greater than one indicates greater volatility, and a beta of less than one indicates lower volatility, than the market. The volatility of the overall market is 1.0.

Our research indicates that the diversified financials sector has a beta of 1.1.

The impact of gearing is discussed in Section 3 below. In that Section we have concluded that long term gearing of approximately 15% to 25% is realistic.

The levered beta is given by the following formula:

$$\text{Levered Beta} = \text{Unlevered Beta} \times (1 + ((1 - \text{Tax Rate}) \times (\text{Total Debt/Equity})))$$

Application of this formula gives a levered beta of 1.2 to 1.4

1.4 Alpha

A significant risk factor specific to the asset being valued is its small size. Based on our experience and observations with small company transactions we expect that investors would require an additional premium equivalent to the market risk premium for a business of this size. Hence we have adopted an alpha of 6% to 7%.

1.6 Conclusion – Cost of Equity

The calculation of the cost of equity using the above inputs is summarised in the following table.

	Low estimate	High estimate
Risk free rate	2.73%	2.73%
Market risk premium	6%	7%
Beta	1.2	1.4
Alpha	6%	7%
Cost of equity	15.9%	19.5%

2. Cost of Debt

2.1 Interest cost

We have adopted the Reserve Bank of Australia's current estimate of the average advertised borrowing cost (without residential security) for small businesses, being approximately 8.3%.

2.2 Corporate tax rate

As noted elsewhere we have adopted a tax rate of 27%.

2.2 Conclusion – Cost of Debt

Using the above inputs, we have assessed the cost of debt at 6.1%.

3. WACC

3.1 Gearing

The cost of debt and the cost of equity must be combined in proportion in which these are expected to contribute to the funding of the business. This is commonly referred to as gearing. The gearing is determined based on the market value of debt and equity.

The gearing ratio should reflect an appropriate long-term funding mix and not necessarily the mix currently used by the entity being valued.

The selection of an appropriate gearing ratio is subjective and the typical ratios differ between industries and within industries over time as market conditions change.

Generally, fund managers are not asset intensive businesses and tend to have low or no gearing. Of the industry peers reviewed elsewhere in this report, none had net debt. Notwithstanding, the generally predictable nature of revenues and profits from fund management indicates that some level of debt could be supported. We have adopted a conservative level of gearing being 15% to 25%.

3.2 Conclusion - WACC

Using the above gearing, cost of equity and the cost of debt, we have assessed the WACC to be in a range of 14.4% to 16.2%. For the purpose of our DCF analysis we have used the mid-point, 15.3%.


LODGE YOUR VOTE

 **ONLINE**
www.linkmarketservices.com.au

 **BY MAIL**
Contango Asset Management Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

 **BY FAX**
+61 2 9287 0309

 **BY HAND**
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

 **ALL ENQUIRIES TO**
Telephone: +61 1300 554 474



X99999999999

PROXY FORM

I/We being a member(s) of Contango Asset Management Limited and entitled to attend and vote hereby appoint:

APPOINT A PROXY

☐ **the Chairman of the Meeting (mark box)**

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held at **10:00am on Tuesday, 20 February 2018 at Taylor Collison, Level 10, 167 Macquarie Street, Sydney NSW 2000** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an ☒.

Resolutions

For Against Abstain*

1 Approval of the Transaction with NAOS Asset Management Limited

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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2 Approval of employee share scheme buy-back of shares

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Sunday, 18 February 2018**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



BY MAIL

Contango Asset Management Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**