AUSTRALIAN RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Argo Investments Limited (ARG)

April 2017

INDEPENDENT INVESTMENT RESEARCH

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3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

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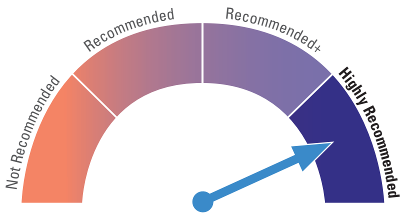
INDEPENDENT INVESTMENT RESEARCH

Argo Investments Limited (ARG)

Note: This report is based on information provided by the company as at April 2017

Rating



LMI Type	
Listed Investment Company	
Investment Geography	
Australia	
Investment Assets	
Listed companies and other	
Investment Sectors	
Diversfied	

Key Investment Information	
Price ($) as at 20 April 2017	$7.60
Market Cap ($M)	5,249.3
Shares on Issue (M)	690.7
Shares traded ($M p.a.)	361.3
12-month L/H ($)	$7:12 - 7.85
Listing date	1948
Fees	
Management Fee (%)	0.15
Performance Fee (%)	None

Pre-tax NTA Performance Analytics (Including dividends)		
	S&P/ASX 200 Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	-2.3%	-0.9%
TE (%)	1.7	3.0

Dividend Yields	%
FY14	3.54ff
FY15	3.58ff
FY16	4.14ff

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

COMPANY OVERVIEW

Argo Investments Limited (ARG or 'the Company') is the second largest LIC by market capitalisation on the Australian Stock Exchange and was established in 1946 and now has over 81,000 mostly retail shareholders. The Company runs an all market cap Australian equities strategy although approximately 60% of the portfolio constitutes large market capitalisation stocks in the S&P/ASX 20 index. Of the total returns equation, the emphasis is on paying a growing, stable and fully franked dividend and the Manager has been very successful in delivering this over the long-term. A key point of difference for ARG, and similar to many other 'old style' LICs, is that trading gains and losses are on capital account rather than revenue account, as per the majority of LICs and managed funds. There are pros and cons to this structure, with the key positive being the Manager's consequent ability to pay a 100% fully franked dividend. However, the major negative is it adds an additional layer to sell decisions that may lead to stocks being retained which, on investment merit alone, would otherwise be divested. The investment team, led by Managing Director Jason Beddow, is solid, experienced and stable and is supported by an equally strong board. The Manager has a mild value-bias to its investment approach, which is partly reflective of its focus on consistently paying a relatively attractive dividend. The Company has a very lengthy track-record, during which it has been successful in delivering a stable and growing fully franked dividend while exhibiting a lower degree of volatility and downside risk than the overall market. ARG is internally managed and, due to economies of scale in running a very large share portfolio and a relatively fixed cost base, charges an exceptionally competitive MER of 0.15%.

INVESTOR SUITABILITY

The Manager's key focus is to deliver a highly stable, growing and fully-franked dividend and has been successful in doing so over the longer term. There is less of an emphasis on the capital growth part of the total returns equation relative to many managed funds. The Company has exhibited relatively low beta, with lower downside during down market periods. As such, we believe the Company is best suited to investors in the later stages of their investment lifecycle during which stable income and capital preservation are particularly important. The track-record of paying 100% fully franked dividends makes it, in this regards, especially well-suited to investors on lower marginal tax rates, including SMSF investors. In order to retain its capital account status, ARG is typically constrained to keeping its portfolio turn-over to around 5% p.a. Additionally, given its FUM size and significant track-record, there are stock holdings in the portfolio with substantial embedded capital gains, which the Manager rightly so would be reticent to realise. As such, implementing a material change in ARG's portfolio is a slow process: what investors see today will be the predominant nature of the portfolio over the foreseeable future, notwithstanding the fact that the Manager is far from a passive manager. ARG's portfolio is comprised 60% of large cap S&P/ASX 20 stocks.

RECOMMENDATION

IIR is upgrading its rating on ARG from "Recommended Plus" to "Highly Recommended". IIR has always held ARG in high regard, but over the years our conviction has been cemented that ARG is truly best-of-breed in the listed investment company sector. The positives of ARG far outweigh the negatives in the view of IIR. Investors can gain confidence from a long track-record in which the Manager has generally achieved its investment objectives, and particularly in delivering a stable, growing and fully-franked dividend. The team is well-qualified and stable and is supported by a strong board. It's a culture of no surprises and given the rigour of the investment process under the stewardship of Jason Beddow, we believe past performance is very much repeatable. An MER of 15 basis points speaks for itself. Premium / discount to NTA risk has generally never transpired as a major negative and, in any case, the Company is well placed to address the risk through an active buy-back. The primary negative is the potential for the capital account status of the Company to compromise sell disciplines. Investors need to accept this as the cost for the positives of the capital account status, mainly the ability to consistently deliver 100% fully franked dividends.

SWOT ANALYSIS

STRENGTHS

- Internal management means there is no fee leakage to a third party manager. At 0.15% the management expense ratio is one of the lowest of any investment vehicle in the domestic market, including ETFs.
- Well qualified and highly stable investment team with a flat and collegiate investment culture. Additionally, given the Company's significant track-record, FUM scale, and the fact that it tends to be a long-term shareholder (a 'good' shareholder from a listed company perspective), the investment team tends to get excellent access to company management teams.
- A significant and loyal shareholder base. This has been an important factor in managing and mitigating discount to NTA risk that LICs are subject to. Historically, ARG has very rarely traded at anything approaching a material discount to NTA.
- The LIC capital gains tax applies to ARG. The primary benefit of this is it enables the Manager to consistently pay a 100% fully franked dividend, which is particularly valued by lower marginal tax rate investors such as SMSFs and those in the retirement stage.
- The company structure of ARG enables the Manager to smooth the distribution profile over time through the ability to retain profits. In contrast, a managed fund is required to distribute all realised income in any given period.
- The board and investment team are well qualified with significant experience in the finance and investment industries. This experience underpins the investment process.

WEAKNESSES

- On account of its significant track-record and FUM levels, the portfolio has some significant embedded unrealised capital gains tax liabilities. This creates an additional layer to investment decisions and introduces the risks that stocks that may otherwise be divested based on investment merit are retained in the portfolio.
- In order to retain its LIC capital gains tax status, ARG must maintain a low degree of portfolio turnover that averages 5% per annum. Again, this introduces an additional investment consideration and one that may lead to stocks that would otherwise be divested being retained in the portfolio.
- The significant FUM scale of ARG limits the degree to which the manager can invest in the smaller market capitalisation segment of the market. While the Company has an all market caps mandate, small company holdings are typically not material exposures in the portfolio and, hence, less likely to generate a material alpha contribution.

OPPORTUNITIES

- ARG provides the opportunity for investors to access a very low-cost diversified portfolio of ASX-listed securities in which the manager has a strong track-record of generating a growing income stream, largely in the form of fully franked dividends.
- As an 'old style' LIC, ARG represents a shrinking group in the context of the significant number of newer LICs coming to the market which are not subject to the capital gains tax concession.
- Consistent portfolio outperformance could see the shares trade at a premium to NTA allowing investors to exit at a higher value than the underlying portfolio of shares. Over the past three years the shares have traded, on average, at a premium to NTA of 2%.

THREATS

- As a listed investment vehicle, the price at which shares trade is determined by buyers and sellers. This means the share price may deviate from the NTA of the underlying portfolio. This presents both an opportunity and a threat depending on the discount or premium when an investor wishes to either buy or sell shares.
- The highly turnover constrained nature of ARG tied with a logical reticence to divest holdings with significant embedded capital gains means that the timeliness in which the manager can react to an unforeseen change in market / sector outlook is significantly slower than the vast majority of actively managed investment vehicles. Investors must accept this as a feature of ARG but one that conversely can also generate signficant benefits in the form of 100% fully franked dividends.

PRODUCT OVERVIEW

ARG has a buy-and-hold investment style, aiming to overlook short-term market volatility. The Manager has a natural mild value bias due to its emphasis on delivering a relatively attractive dividend yield to its shareholder base. The investment team focuses on business strategies, the underlying value of the business, key financial indicators, industry structure, the quality of management, the board and corporate governance practices when considering potential investments. The process seeks to identify the highest quality Australian companies and trusts and over time, buy or add to those stocks when they are trading at prices which represent good long-term value. The Company also has 'legacy' holdings in other LICs (approximately 6% of the portfolio) which we expect will continue to be slowly divested over time. The Company will also engage in option writing, selling puts and calls on some portfolio holdings as a way to generate additional income, but such activities are limited to no more than 5% of the overall portfolio.

The Company invests in a core group of blue chip stocks, which is essentially the top 20 positions held in the portfolio, which generate the majority of the company's dividend income. Growth is generated from a diversified investment across both large and smaller cap stocks which the company believes has sound management and good earnings growth potential. Stocks within the S&P/ASX 20 constitute about 60% of the overall investment portfolio but the portfolio comprises a very long tail, with around 90 positions in total covering the entire market capitalisation spectrum.

ARG has a Sydney-based investment team consisting of six analysts, a number that has remained steady for approximately 10 years now. Analysts have sector responsibilities and cover the full market capitalisation spectrum. Each analyst will typically engage in their own modelling and valuation work but the team is also cognisant of sell-side analyst input. Analyst meetings with investee companies is a very important part of the process and, given ARG's status, the team typically gets good access to management teams.

ARG has a capital account LIC status. Trading gains and losses are taxed at the company level. As such, there is an important additional consideration to sell decisions, namely realised capital gains or losses. This additional factor may lead to different sell decisions (either to sell or more often, not to sell) than may otherwise have been the case if a stock was assessed on investment merit grounds alone. Furthermore, in order for the Company to retain this status, portfolio turn-over must be low, and has generally been 5% per annum on average. This, combined with the Company's lengthy track-record and significant FUM (read significant embedded capital gains), means that there are holdings in the portfolio that may be less likely to be divested than otherwise the case.

ARG has an extremely low MER, which is currently 15 basis points. There is no performance fee.

INVESTMENT PROCESS

INVESTMENT OBJECTIVE

ARG's main objective is to hold a diversified portfolio of assets that generate increasing income, allowing ARG to pay increasing (and fully franked) dividends to its own shareholders and grow the value of its shareholders' investment. From a total returns equation, the emphasis is more on income than capital returns compared to many actively managed funds. Capital preservation is also a key consideration and, historically, ARG has exhibited relatively low beta participating to a lesser degree than the market as a whole during down periods. Both attributes address key concerns of the bulk of the Company's shareholder base, which generally tend to be in the latter stages of their investment lifecycle.

INVESTMENT PHILOSOPHY

ARG is a long-term investor and seeks to hold investments in companies that are well managed and have a profitable history, with an expectation of increasing dividends and distributions. The Manager likes cash-flow and, as such tends to eschew exploration, mining, or early stage businesses which are deploying cash back into the business rather than paying out a dividend. As a long-term investor, the Manager tends to look for industries with structural tail-winds, citing the health sector as a good example. The Manager is index aware relative to the benchmark S&P/ASX 200 Index, but investment decisions are certainly not dictated by the index and the Manager may invest outside the S&P/ASX 200 Index.

INVESTMENT PROCESS

ARG is a top down, bottom up fundamental investment manager that also has an important taxation overlay at the portfolio level. The focus on relatively high and franked dividends creates a natural value bias to its investment process. While there is a taxation overlay, this tends to operate at an overall portfolio level rather than an analyst level, with each analyst responsible for presenting their best ideas on investment merit alone.

In terms of investment methodology, ARG's investment process consists of five stages: industry and company analysis; stock valuation; portfolio construction, dividend forecasting, and; implementation and monitoring.

Industry and company analysis is a vital part of the investment process and includes a detailed company profile report. This report captures the consideration and assessment of key qualitative and quantitative factors and subsequent valuation of each specific company. For each company, the team assesses the competitive dynamics and positioning of the company, management quality, and financial strength, amongst other factors.

The team engages in a comprehensive company visitation program, which is supported by detailed company modelling and valuation models and industry research, the latter of which is regularly presented to the board.

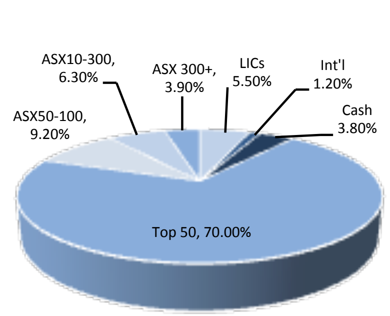
PORTFOLIO

ARG's portfolio is weighted towards large cap stocks, with approximately 70% allocated to the top 50 stocks at 28 February 2017. Ex-100 stocks constitute around 15% of the portfolio, roughly 10% of which is actually ex-300 / micro-cap stocks. The portfolio has a very long tail, with some 90 stock holdings in total. Many of these positions have been established over some time, with ARG often acting as an 'incubator' for some micro to small cap stocks by way of participating in placements, etc, to fund a company's expansion over time. Notwithstanding this, the portfolio is very much dominated by larger market cap holdings and this is unlikely to materially change over the foreseeable future for reasons previously discussed.

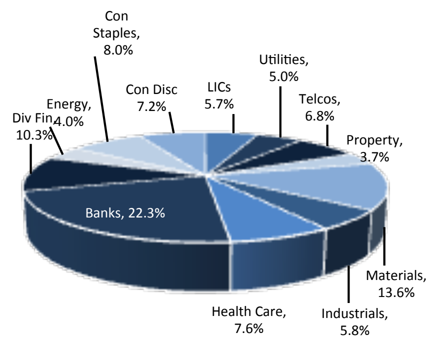
As at the date of this report, ARG was materially overweight health, diversified financials, industrials, consumer discretionary, and utilities. Material underweight positions are the REITs, large banks, and resources.

Generlly speaking, given ARGs objective to make reliable, fully franked dividends to its shareholders, there is a focus on investing in strong dividend paying companies. It would be rare for ARG to invest in a company that did not pay dividends, or to limit such exposure. ARG tends not to hold large levels of cash and is nearly always relatively close to fully invested. It holds small cash balances to take advantage of opportunities that may emerge from time to time. At 28 February 2017 cash represented 3.8% of the portfolio.

Size Weighting



Sector Weighting



ARG's Portfolio (Top 10) Weighting

Code	Portfolio (%)	S&P/ASX 200 (%)
Westpac Banking Corporation	7.0	7.5
Australia and New Zealand Banking Group Ltd.	5.6	6.0
Commonwealth Bank of Australia	4.9	9.4
Wesfarmers Ltd.	4.3	3.2
Macquarie Group Ltd.	4.0	2.0
BHP Billiton Ltd.	3.9	5.3
Telstra Corporation Ltd.	3.9	3.8
National Australia Bank Ltd.	3.6	5.7
Rio Tinto Ltd.	2.8	1.8
CSL Ltd.	2.4	3.6
	42.4	48.3

CAPITAL MANAGEMENT

Being a LIC ARG is a closed-end investment vehicle and does not need to redeem or issue securities to meet investor inflows and outflows. However, as with all listed companies, ARG has the option of issuing new shares if it sees opportunities to grow the portfolio.

There are currently three capital initiatives in place, a dividend reinvestment plan (DRP), a share purchase plan (SPP) and a share buy-back registered with the ASX. The first two initiatives give existing shareholders the opportunity to increase their holdings in ARG and provide additional cash for the Company to invest in new opportunities and grow the portfolio, while the latter is a 'defensive' mechanism to limit the discount to NTA, should the manager deem it necessary to be activated

The DRP is generally active for every dividend, with or without a discount. Where a discount has applied, it has been very small, specifically in the vicinity of 2%. Approximately 20% of shareholders typically opt to take up the DRP. The SPP is in operation in most years, and the only time the manager would not do so is, sensibly, if the shares were trading at a material discount.

The SPP typically raises in the vicinity of A$60-70m, which is relatively small and easily manageable in the context of a $5bn investment portfolio. As long as new shares are issued at, or above NTA, this is not dilutive to NTA and so shareholders who do not participate in the SPP and DRP are not disadvantaged.

As noted above, ARG has a buy-back registered with the ASX, but it has not been used during the time current Managing Director Jason Beddow has been at ARG given the Company has not traded at a sustained and material discount to NTA during this period. However, should this be the case, and particularly if any such discount is not a peer wide phenomenon, then ARG would be prepared to activate the buy-back, thereby mitigating potential related down-side risks to investors.

DIVIDENDS

ARG's aim is to pay out around 95% of its underlying net profit after tax. It aims to pay a steadily rising dividend over time, an objective that is particularly important to its shareholder base. With the exception of the aftermath of the global financial crisis when banks and a number of other companies cut their dividends, dividends have steadily and consistently grown over time and every dividend has been fully franked. Over recent history, the Company's dividend yield has been around, or slightly over, 4% fully franked.

BOARD & MANAGEMENT

BOARD

The Board consists of seven members, all of whom are independent bar Jason Beddow. All members are highly qualified, having significant relevant industry experience. There is a stability of tenure, with all but one member having served at least five years on the ARG board. We view the quality of the Board as a particular strength. In addition to fulfilling the board's specific duties, from an investment perspective board members also provide especially strong input to the investment team's periodic sector overviews, given many of the board members have strong sector and company specific experience.

Board		
Name	**Position**	**Experience**
Ian Martin AM	Non-executive Chairman	Independent, non-executive director of ARG for the past 13 years and has been Chairman of the board since 2012. Over 30 years of experience in economics, investment management, superannuation, investment banking and financial services. Former Chief Executive Officer of the BT Financial Group and a host of other experience pertinent to the role.
Jason Beddow,	Managing Director.	See Investment Team section below.
Anne Brennan	Non-executive Director	Joined the Board of Argo Investments Limited in 2011. Ms Brennan is currently Chair of the Audit & Risk Committee. Experienced company Director who has a chartered accounting and corporate background. Currently a non-executive Director of Myer Holdings Limited, Charter Hall Group, Nufarm Limited and Rabobank Australia and New Zealand Limited.
Chris Cuffe	Non-executive Director	Joined the Board in 2016. Mr Cuffe has more than 25 years of experience in building successful wealth management practices. Most notably he joined Colonial First State in 1988 and became its CEO two years later. In 2003 Chris became the CEO of Challenger Financial Services Group Limited and subsequently headed up Challenger's Wealth Management business.
Roger Davis	Non-executive Director	Joined the Board in 2012. Mr Davis is currently a member of the Remuneration Committee. Rhodes Scholar with an extensive executive career that includes over 30 years' experience in banking and investment banking in Australia, Japan and the U.S. Spent more than 20 years working with Citigroup in a variety of senior management roles globally, including as a Managing Director,
Russell Higgins AO	Non-executive Director	Joined the Board in 2011. Mr Higgins is currently Chair of the Remuneration Committee. experienced company director who has worked at very senior levels of both government and private sectors. Extensive experience in the energy sector and in the development of economic and fiscal policy, both in Australia and internationally. He is currently a non-executive Director of APA Group and Telstra Corporation Limited
Joycelyn Morton	Non-executive Director	Independent, non-executive director since 2012. Extensive financial background with particular expertise in taxation matters. Ms Morton enjoyed a long and successful executive career, initially in chartered accountancy, followed by senior management roles with Woolworths Limited and global leadership roles in Australia and internationally within the Shell Group of companies.

INVESTMENT TEAM

The investment team consists of six members, led by the Managing Director Jason Beddow who is widely held in high regard. It is an experienced and stable investment team with a flat and collegiate culture. Analyst responsibilities are based on sectoral lines, as is generally the case for medium to large sized investment teams. While it's a collegiate culture there is also a strong degree of analyst responsibility and accountability, part of which is evident in the separate best buy and sell portfolios each analyst maintains. While at an overall portfolio level there is a taxation overlay, encouragingly each analyst is purely focussed on ideas from a pure investment merit basis. There is a strong variable component to the investment team remuneration package, delivered via a mix of short and long-term incentive scheme. The structure provides a solid alignment of interest between the team and the investment objectives of the Company.

Jason Beddow was appointed as Managing Director of ARG in February 2014, after 4 years as Chief Executive Officer. He has over 18 years' experience in the investment industry, including 15 years with the Company. Jason started his financial services career as a research analyst in the resources sector with Hartley Poynton and Deutsche Bank. He then moved to funds management in 2001 when he joined ARG as an investment analyst. He was appointed

Chief Investment Officer of ARG in 2008 and Chief Executive Officer in 2010. He is also Managing Director of Argo Global Listed Infrastructure Limited.

Andy Forster joined ARG in 2010 as an Investment Analyst and was promoted to Senior Investment Officer in 2015. Andy has over 18 years' experience as an analyst and portfolio manager. Prior to joining the Company, Andy was a founding partner and portfolio manager at boutique fund manager, Cannae Capital. His experience also includes portfolio manager positions at Deutsche Asset Management, State Street Global Advisors and as an equities analyst at Westpac Investment Management.

Daniel Cuthbertson joined ARG in 2011 as an Investment Analyst and has extensive experience in the funds management industry. Prior to joining the company he held investment analyst roles at boutique fund manager PM Capital, and listed investment company MMC Contrarian. His experience also includes analytical roles in global companies BNP Paribas and JPMorgan Chase & Co.

Paul Frost re-joined ARG in January 2015 as an Investment Analyst. He previously served as an Investment Executive at ARG from 1997-2003. Paul has over 18 years' experience as an investment analyst and portfolio manager. Prior to re-joining the Company, Paul was a portfolio manager at boutique fund manager, PM Capital. His experience also includes roles as a senior portfolio manager at Investors Mutual and credit research manager atWestpac.

Brydie Lloyd-Roberts joined ARG in 2004 as an Investment Analyst. Brydie has over 17 years' experience in equities research across the market for listed investment companies. Prior to this Brydie worked at investment bank UBS AG.

Colin Whitehead joined ARG in 2012 as an Investment Analyst and has over 16 years of industry experience. Before joining ARG, Colin was Head of Research at a leading Australian equities research house. His earlier experience includes analyst roles with State Street Bank and BNP Paribas in Sydney, prior to NatWest Investments and State Street Bank in London.

Investment Team		
Name	Position	Experience
Jason Beddow,	Managing Director	15 years at ARG, 18 years industry experience
Andy Forster	Senior Investment Officer	7 years at ARG, 18 years industry experience
Daniel Cuthbertson	Investment Analyst	6 years at ARG, over 15 years industry experience
Paul Frost	Investment Analyst	Cumulatively 8-years at ARG, 18 years industry experience
Brydie Lloyd-Roberts	Investment Analyst	13-years at ARG, 17 years industry experience
Colin Whitehead	Investment Analyst	5-years at ARG, 16 years industry experience

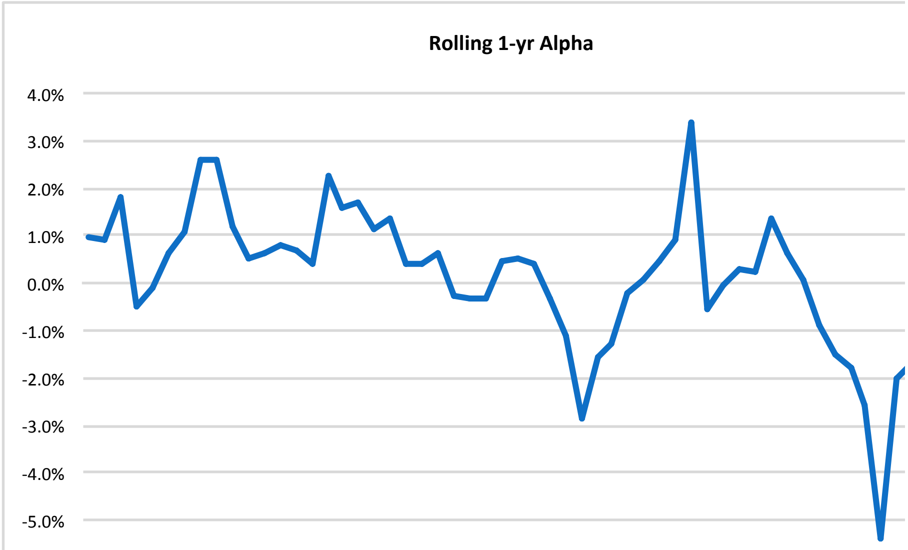
PERFORMANCE ANALYTICS

ARG has a solid long-term track-record of not only delivering a stable, relatively high and 100% fully franked dividend but also sustained periods of generating alpha on a total returns basis (refer to the chart on the following page which measures 1-year rolling alpha from June 2012).

More recently, ARG's relative performance has been adversely impacted by underweight positions in REITs and the resources sector. Both positions were very much intentional and we believe the Manager's decision to do so was well founded (additionally ARG will naturally have an underweight position to resources due to the Manager's dividend focus). The Manager is confident, based on industry dynamics and valuations, that it will not be adversely impacted by its underweight holdings in these sector over the foreseeable future.

Total Returns (as at 28 February 2017)	1-year	3-year	5-year
Total Portfolio Return	19.8%	5.6%	10.6%
S&P/ASX 200 Acc Index	22.1%	6.5%	10.6%
Excess Return (alpha)	-2.3%	-0.9%	0.0%
Volatility (%) - ARG	9.1	11.4	11.5
Volatility (%) - S&P/ASX 200 Acc Index	10.3	12.4	12.4

On a risk basis, ARG has exhibited both lower volatility and drawdown than the market as a whole, generating a superior risk-adjusted return over the last 5-year period (refer to the total returns vs volatility metrics in the table above). On a 10-year basis to 31 December 2016, we note ARG has generated comparable returns to the benchmark (4.6% p.a. vs 4.5% p.a.) but with a lower degree of risk (13.7% vs 14.3%), generating superior risk-adjusted returns.



We have compared ARG with the other top five (by market capitalisation) LICs that invest in large cap Australian shares. Like ARG, they are all internally managed with long-term investment strategies, except that DJW has a more active management approach and uses options to generate additional income from the portfolio.

ARG compares favourably to its peers. Despite the relatively 'poor' last 12-months, ARG has still outperformed all but one of its peers on a total returns basis over 5-years and has recorded the lowest degree of risk, the combined outcome being superior risk-adjusted returns (refer to the returns and volatility measures of ARG and peers in the tables below).

PEER COMPARISON

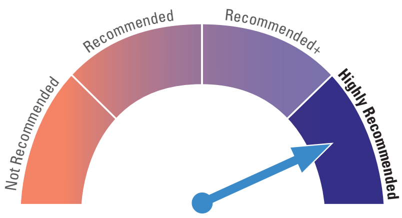
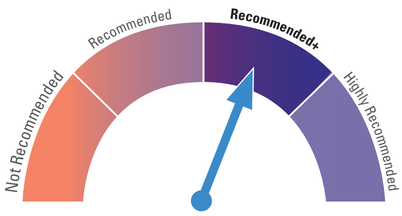
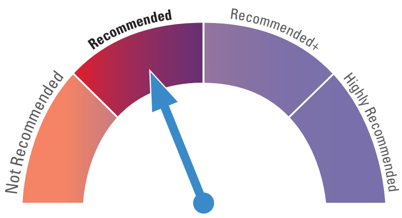
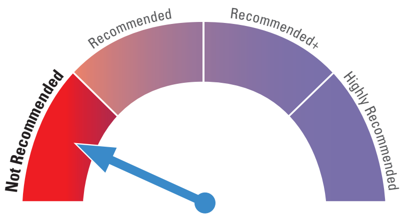
All data as at 28 Feb 2017	ASX Code	3 Year Avg Prem/Disc	M'ment	M'ment Fee	IIR Rating
Australian Shares - Large Cap					
Australian Foundation Investment Company	AFI	3.0%	Internal	0.16	Recommended+
Argo Investments	ARG	3.3%	Internal	0.15	Highly Recommended
Milton Corporation	MLT	1.3%	Internal	0.13	Highly Recommended
BKI Investment Company	BKI	1.6%	Internal	0.16	Not Rated
Australian United Investment	AUI	-4.8%	Internal	0.10	Recommended+
Djerriwarrh Investments	DJW	26.2%	Internal	0.46	Recommended+

Peer Group Portfolio Returns (Pre-tax NTA plus dividends) to 28 February 2017					
	Code	**3 month**	**1 year**	**3 year**	**5 year**
Returns					
Aust. Foundation Investment Co.	AFI	4.6%	17.3%	4.1%	9.6%
Argo Investments	ARG	5.2%	19.8%	5.6%	10.6%
Milton Corporation	MLT	5.5%	17.3%	6.0%	10.9%
BKI Investment Company	BKI	4.2%	14.7%	3.9%	7.7%
Djerriwarrh Investments	DJW	4.5%	21.1%	2.4%	7.3%
S&P/ASX 200 Acc Index		5.8%	22.1%	6.5%	10.6%
Volatility					
Aust. Foundation Investment Co.	AFI	n/a	10.3%	12.4%	11.9%
Argo Investments	ARG	n/a	9.1%	11.4%	10.9%
Milton Corporation	MLT	n/a	10.6%	12.1%	11.9%
BKI Investment Company	BKI	n/a	10.5%	11.6%	11.3%
Djerriwarrh Investments	DJW	n/a	11.1%	12.8%	11.8%
S&P/ASX 200 Acc Index		n/a	10.3%	12.4%	12.4%

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

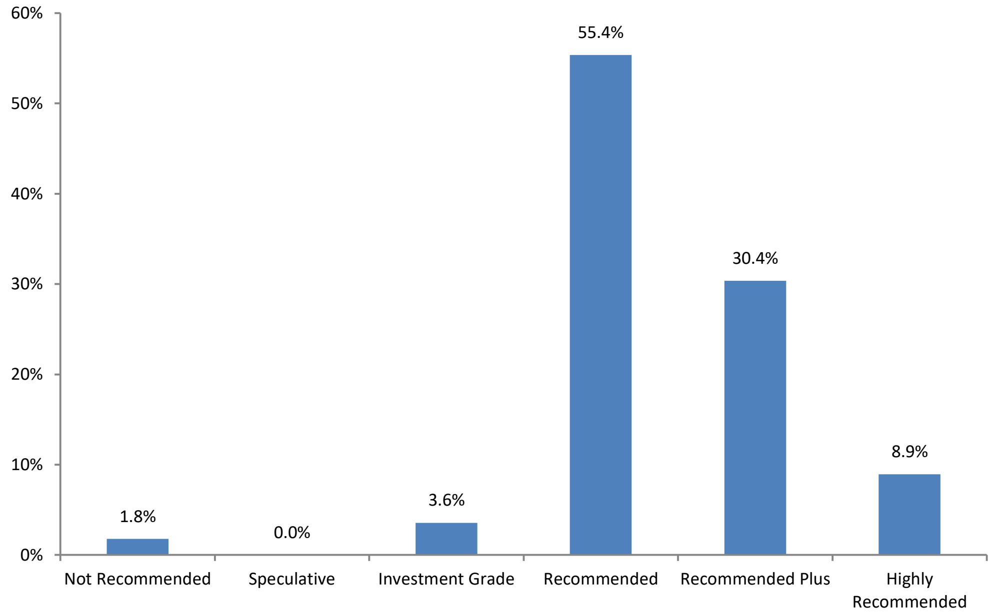
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive rizsk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–82**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**60–78**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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