Lonsec

Recommended

Product Review
Argo Investments Limited

ISSUE DATE 15-09-2023

ANALYST: CONOR GALVIN | APPROVED BY: ELLIOT LUCAS

About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN LARGE CAP
SUB SECTOR REVIEWED	LIC
TOTAL COMPANIES RATED	9

About this Company

LIC REVIEWED	ARGO INVESTMENTS LIMITED
TICKER	ARG
LISTING DATE	1 JULY 1948
COMPANY OBJECTIVE	MAXIMISE LONG TERM RETURNS THROUGH A BALANCE OF CAPITAL AND DIVIDEND GROWTH.
ANNUAL FEES AND COSTS (ESTIMATE)	0.16% P.A.

Market data

MARKET CAPITALISATION	$6573M
SHARES ON ISSUE	756M
SHARE PRICE (14-9-2023)	$8.70
52 WEEK HIGH/LOW SHARE PRICE	$9.65 / $8.60
NTA (31-8-2023)	$9.06
52 WEEK HIGH/LOW NTA	$9.25 / $8.13
SHARE PRICE PREM/(DISC) TO NTA	-3.97%

Board of Directors

NO. OF DIRECTORS	7
MAJORITY INDEPENDENT DIRECTORS	YES
CHAIRPERSON	RUSSELL HIGGINS

About the Investment Manager

INVESTMENT MANAGER	INTERNALLY MANAGED

Investment Team

PORTFOLIO MANAGER	JASON BEDDOW
INVESTMENT TEAM SIZE	7
INVESTMENT TEAM TURNOVER	LOW

Investment process

STYLE	CORE WITH A MILD VALUE BIAS
BENCHMARK	S&P/ASX 200 ACCUMULATION INDEX
TYPICAL TRACKING ERROR (P.A)	NOT TARGETED
TYPICAL STOCK NUMBERS	90 – 100
TYPICAL CAPITALISATION BIAS	LARGE CAP
STOCK & CASH LIMITS	UNCONSTRAINED
DERIVATIVES	OCCASIONALLY USED – BUY/WRITE OPTIONS
CAPITAL OR REVENUE ACCOUNT ELECTION	CAPITAL

Company rating history

SEPTEMBER 2023	RECOMMENDED
SEPTEMBER 2022	RECOMMENDED
SEPTEMBER 2021	RECOMMENDED

What this Rating means

The **'Recommended'** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Scope of this rating

- Lonsec has used a holistic approach in forming an opinion on this Listed Investment Vehicle's (LIV) ability to meet its stated investment objectives. The rating model includes an assessment of the underlying investment capability in addition to the vehicle's effectiveness. When assessing the underlying investment capability Lonsec has relied upon its Managed Funds research process. Vehicle effectiveness considers a range of characteristics in combination with empirical observations.
- The rating should not be considered, or in any way interpreted, as Lonsec's forward-looking opinion or otherwise on the 'intrinsic value' of the LIV and whether Lonsec believes this to be 'overvalued' or 'undervalued' relative to the prevailing traded price.

Strengths

- Multi-decade track record of growing dividends (excluding exceptional circumstances), with the structure allowing pass through of capital gains tax concessions to shareholders.
- Diverse Board of Directors and experienced investment team capably led by the Managing Director Jason Beddow.
- Very low management cost (annual fixed cost of 0.16% of NTA).

Weaknesses

- Sell discipline is diminished due to requirements to maintain very low portfolio turnover for philosophical and tax reasons.
- Relatively unconstrained portfolio management process results in less concentrated portfolio than peers.
- Long-term NTA based total return (net of fees) has fallen slightly behind the benchmark as at 31 July 2023.

Argo Investments Limited

Company Risk Characteristics

	LOW	MODERATE	HIGH
CAPITAL VOLATILITY			●
CORPORATE RISK		●	
RELATED-PARTY RISK		●	
VALUATION RISK		●	
SECURITY CONCENTRATION RISK	●		

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIOmetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME	●		

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE	●		
FEES VS. ASSET CLASS	●		
FEES VS. SUB-SECTOR	●		

Fee BIOmetrics are a function of expected total fee as a percentage of expected total return.

What is this Company?

- Argo Investments Limited (ARG or 'the Company') is the second largest LIC by market capitalisation on the Australian Securities Exchange (ASX). First listed in 1948, ARG has a market capitalisation of $6.6bn (30 June 2023) and has over 95,000 shareholders.
- ARG is internally managed and its investment objective is to maximise returns through a combination of capital and dividend growth. ARG is a firm believer in the 'cumulative' effect of holding quality companies over multiple cycles. ARG will opportunistically seek to add to its core positions during shorter-term share price volatility, which introduces a mild value-bias to the portfolio.

The Structure

- ARG's focus is on paying a growing stream of fully franked dividends.
- By virtue of being internally-managed, ARG is not constrained by a pre-defined investment mandate. Rather, the ARG Board of Directors (Board) drives the strategic initiatives of the Company. While dedicated to meeting ARG's investment objectives, the Board has added funds management to its business model, however the following arrangement to manage Argo Global Listed Infrastructure Ltd (ASX Code: ALI) was largely opportunistic and Lonsec does not expect funds management revenue to become a material source of income for ARG.
- ARG via Argo Services Company Pty Ltd (ASCO) receives an annual fee for managing the operations of the listed vehicle ALI. The services provided by ASCO do not extend to investment management, which has been outsourced to US-based asset management firm Cohen & Steers.
- ARG is a substantial shareholder in ALI (it currently holds 13m shares or 7.4% of its issued capital) as at 30 June 2023. ARG and ALI also share two directors. Lonsec highlights the related-party risk inherent in this shareholding, while noting that ARG has clear defined policies and procedures in place to manage such conflicts.
- Being internally-managed, shareholders in ARG do not have the impost of paying a management fee to an external fund manager. Rather ARG incurs a relatively fixed level of operating costs during the course of its operations. The major costs are employee remuneration, director fees and shareholder-related expenses.
- Due to economies of scale in running a reasonably large equities portfolio (approximately $6.8bn as at 30 June 2023), the Fund has a relatively low fixed management cost base of circa 0.16% p.a. This compares favourably with externally-managed LICs/ETFs and is in line with similar sized managed funds with a broad exposure to Australian equities.
- A key risk for investors in any LIC is the possibility for such structures to trade at a substantial discount to NTA for extended periods of time. Lonsec considers that while such trading is a risk for ARG, it is less of a risk than for many smaller LIC peers. The reasons for this are two-fold. Firstly, ARG has a large market cap, reasonable liquidity and a lengthy track record of paying fully-franked dividends. Secondly, ARG's Board has a solid capital management record. This includes an on-going share buy-back facility, DRPs close to NTA and Shareholder Purchase Plan (SPP) at a premium to NTA. The most recent SPP was in March 2022, when over 20 million new shares were issued, raising $191.8 million.

The Investment Strategy

- Lonsec highlights that ARG has a diversified portfolio of 89 stocks as at 30 June 2023, which has reduced from around 100 over the last few years. ARG's portfolio turnover is expected to be very low due both to its 'buy and hold' approach and its tendency to be an infrequent seller. While partly attributed to its investment philosophy, the very low portfolio turnover also allows ARG to maintain its 'capital account' election. This allows it to pass through capital gains tax concessions to its shareholders in the form of 'LIC capital gain dividends'.
- Lonsec continues to expect ARG to generate the majority of its income from harvesting dividends received from its large-cap oriented portfolio. However, ARG does have the scope to generate additional income from interest earned on cash deposits, option premium received from writing exchange-traded options ('buy-write') and a small trading account. The 'buy-write' portion will be tightly constrained and the portfolio will rarely be more than 5% over-written.

Argo Investments Limited

Using this Company

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- ARG is subject to equity market risks and movements (both positive and negative) in the prices of the underlying securities in its portfolio. Potential investors should therefore be aware of, and comfortable with, the potential for ARG to experience periods of negative absolute returns which may result in capital losses being incurred on their investment. Lonsec recommends advisors consult the Lonsec Risk Profile Review and/or the Lonsec Risk Profile Definitions document/(s) for guidance on appropriate asset allocations to Australian Equity within a diversified investment portfolio.
- Lonsec notes that the income stream is an outcome of ARG being principally invested in dividend-paying Australian equities. There is no guarantee that such entities will be able to continue to pay out a growing level of dividends on an annual basis.
- The Company is a 'long only' Australian equity product which will predominately be fully invested in the Australian equity markets. As such ARG will generally sit within the growth component of a diversified investment portfolio. As a core style product, Lonsec considers it suitable for blending with other Australian Equity strategies including growth, GARP, value, small cap, long short, or absolute return products.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
	●	●	●	●	●

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Anne Brennan, independent non-executive director, departed the board in October 2022.
- Peter Warne, independent non-executive director, joined the board in November 2022.
- Lonsec has not been advised of any further changes to the firm, investment team or process since the previous review.

Lonsec Opinion of this Company

Board of directors

- ARG's Board comprises seven members with a mix of skill set, gender and industry expertise. The last two years have seen the departure of two tenured independent non-executive directors, Joycelyn Morton and Anne Brennan, having both served over ten year's on the board. That being said, Lonsec notes ARG replaced them with two experienced professionals, Lianne Buck and Peter Warne. The average tenure of the board is six years. Lonsec is a firm believer that extensive co-tenure is a critical determinant of cohesive decision making.
- Lonsec notes that outside of Managing Director Jason Beddow, all other directors have been classed as independent by ARG. This includes Non-Executive Chairman, Russell Higgins AO. Higgins joined the Board in 2011 and was appointed Chairman on 1 July 2018. Lonsec considers Higgins to be an experienced company director, with an extensive background in the energy and infrastructure sectors. Higgins is also Chairman of Argo Global Listed Infrastructure Ltd.
- The governance function of the Board is enhanced by the delegation to the Remuneration Committee (RC) and the Audit & Risk Committee (A&RC). The membership of these sub-committees is derived from the Non-Executive Directors. ARG has shown its commitment to 'best practice' in governance by ensuring that the sub-committees are chaired by individuals other than the ARG Chair. Lianna Buck chairs the A&RC and Roger Davis the RC. Both Buck and Davis have relevant industry backgrounds.

People and resources - Investment manager

- Unlike a number of its LIC peers, ARG is internally-managed as opposed to outsourcing the investment function to an external party. Under the in-sourced model, ARG funds its own investment team who are employees of ARG. This model has provided ARG with considerable economies of scale as its operating expenses are largely fixed and do not grow in-line with net asset growth. This is one of the key reasons why ARG's fees are highly competitive.
- ARG's investment team reports through to Beddow who has ultimate accountability for the LIC's performance. Beddow also sits on the ARG Board as an Executive Director. Beddow is an experienced and capable investor who first joined ARG in 2001 as an Investment Analyst and has a diverse skill set including analysis, options trading and portfolio management. Over 20 years Beddow has held a variety of executive roles including CIO, CEO and now MD. The joint role of MD and CIO appears to be handled well by Beddow, with support from key executives Tim Binks (Chief Operating Officer and Company Secretary) and Andrew Hill (Chief Financial Officer). Lonsec considers the 'key person risk' (KPR) for ARG to be moderate.
- On the investment side, the analyst team is led by Senior Investment Officer Andrew Forster and comprises six staff total (including Forster). Forster has 25 years of industry experience including 13 years at the Company. Before ARG he held a variety of investment roles at Cannae Capital, Deutsche Asset Management and State Street. Lonsec considers Forster to be an appropriately qualified back-up to Beddow.
- ARG's investment team is highly experienced with an average industry professional experience of 21 years. The average co-tenure at ARG is 12 years.
- ARG's executives and investors have a strong variable component to their remuneration package. This is delivered via a combination of short and long-term incentive scheme (STI, LTI) which are driven by key financial indicators being met both over 12 months for STIs and four years for LTIs. These tests are that ARG achieves superior earnings per share (EPS) growth versus its LIC peer group and generates a superior total portfolio return (TPR) on an after-tax basis versus the Index. For STI remuneration only, the calculation is split 50% financial indicators with

the remaining 50% being earned for a variety of 'soft' skill indicators. 100% of the LTI calculation is due to the attainment of the financial metrics.

- The focus on achieving EPS and TPR targets to closely align the investment team with ARG's investment objectives and shareholders. In particular, the focus on an indicator that is vital to dividend sustainability such as EPS growth is important given the appeal of ARG to dividend focused investors.
- Lonsec highlights that for analysts only, their STI can also be augmented by the performance of a 'shadow' portfolio of their stock picks measured against their own specific investment universe (based on sector coverage) over rolling 12 months. This is an important factor in analyst retention due to ARG's very long-dated 'buy and hold' philosophy meaning that an analyst's 'best ideas' will not always be reflected in the portfolio at a weight commensurate with an analyst's conviction levels.
- Both the STI and LTI have a deferred component that acts to 'lock in' key staff for the longer term. For the STI, 50% of this amount is in the form of deferred ARG equity which will only vest after a two year period. For the LTI, this is offered in the form of a Performance Right Plan (PRP) which is measured over rolling four year periods that requires the individual to remain an employee at the vesting date.

Research and portfolio construction

- ARG has a diversified portfolio of stocks that it considers to meet its quality criteria and this sees the portfolio having a large absolute weight to the 'top 20' index constituents. Given ARG's focus on dividend growth and after tax outcomes, Lonsec considers it highly unlikely that this approach will change. This approach means that ARG's research process is more focused on maintenance and identifying high risk stocks, both from a capital preservation and a dividend sustainability perspective. This is different from many other 'bottom-up' research processes which seeks to re-generate the portfolio from time-to-time based on the opportunity set of best ideas.
- Despite the more static approach, Lonsec considers ARG's long-standing research process to be extensive and repeatable. Stock research is conducted along sectoral lines and is very much a traditional 'bottom-up' approach. The mainstay of the process is the extensive company visitation program, the extent of which is reportable to the Board. The visitation program is augmented by quantitative screening, the maintenance of detailed valuation models, industry research and a proactive approach to proxy voting. Any stock specific issues identified are then debated in a weekly research meeting.
- Lonsec highlights that outside of a commitment to diversification, portfolio construction for ARG is more 'art' than 'science'. Rather than critically evaluating its pool of stock ideas for potential portfolio inclusion, ARG has a very long-dated 'buy and hold' approach. Portfolio construction is also tempered by ARG's requirement to maintain its capital account election which allows it to pass through CGT concessions to its shareholders. This election is dependent on ARG continuing to pass the relevant ATO tests including portfolio turnover being below 10% p.a. Lonsec considers these factors to inhibit ARG's sell discipline versus competing strategies in the marketplace.
- Lonsec notes compared to peers, ARG tends to utilise its short-term trading account. This account can be used for the short-term purchases of stocks (under 12 months) to take advantage of IPOs, market mis-pricings and corporate actions. These short-term investments do not breach ARG's 10% turnover threshold as they are assigned to a segregated account. Lonsec view's ARG's occasional use of this account as pragmatic and to have the potential to positively contribute to overall returns.
- Additionally, Lonsec views positively ARG's occasional utilisation of options to generate additional income through buy-write and covered call option strategies (i.e. selling call options and selling put options). The option premium earned by selling short-dated put (call) options to enter (exit) stock positions which supplements the portfolio's capital returns and also creates a buffer against future price drops by lowering a stock's effective purchase price. Prudently, Lonsec notes that ARG has established price targets prior to writing options and therefore is not prone to forfeiting 'potential upside' in their view if a call option written by ARG is exercised.
- Lonsec further notes that income earned from options will generally be less tax efficient for Australian taxpayers than fully franked dividends. However, unlike capital gains, option premium provides greater certainty of returns, which is attractive particularly during volatile markets.

ESG Integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the portfolio is as well as how well it integrates into the overall investment process and the Company's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the portfolio or the Company's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level Lonsec views the Company's overall ESG policy framework and disclosure as behind peers. The Company has an articulated commitment to the integration of ESG within their investment process, however, there is limited evidence in their public positioning. The ESG policy is freely available on the firm's website. While the policy includes proxy voting guidelines, the strength of the policy framework remains rather generic. The level of disclosure with respect to proxy voting guidelines and reporting is lagging peers with the policy lacking depth compared to peers. Reporting on voting outcomes is publicly available in a summary format. The Company does not provide any details on engagement outcomes or policy.
- The Company has indicated that their Responsible Investment style is 'ESG Integration' and as such they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of 'Stewardship' the Company will usually focus their ESG strategy on Engagement and Voting as the key

tool in managing their ESG risks. While stewardship approaches are common across most Companies, they can form the key ESG strategy employed by some Companies. Due to the qualitative nature of this style Lonsec highlights the need for Companies to provide clear and detailed reporting on both engagement and voting activities and recommends investors review the portfolio stewardship reporting where available.

- Within the management of this specific portfolio Lonsec notes:
  - While the Company is sourcing data from an external ESG data provider, it is less comprehensive than some peers. Storage of that data facilitates sharing through the organisation.
  - There are clear signs of defined ESG elements within the research process for the portfolio. Research is undertaken in a structured manner with a clear scorable output from the research process providing the option of overall portfolio level analysis. Research storage is robust, further Lonsec notes favourably a structured approach to ensuring appropriate calibration of ESG scoring across analysts and companies.
  - Transparency on the transmission from research to portfolio construction is more opaque. The Company has indicated that the primary transmission is based on the research providing qualitative information to portfolio.
  - While there is monitoring of ESG characteristics of the portfolio across a number of ESG and sustainability dimensions, this plays a no clear role in overall portfolio construction. There are no portfolio level ESG based limits or targets in place for the portfolio.
  - Engagement is a component of the Company's approach but is managed in a less structured manner than with some leading peers. While there is a system for prioritising engagement, the Company could improve its tracking and measurement of engagement success. Evidence of more constructive engagements with companies is limited.
  - While ESG does not form a component of the Companies broader compliance framework, Lonsec looks very favourable on the level of transparency the Company provides into portfolio holdings. Pleasingly voting on the portfolio is directed by the portfolio's Company directly.

Risk management

- ARG has a separate and experienced Board that provides it with its primary level of investment governance oversight. The Board's role is defined by ARG's Board Charter which stipulates that it is entrusted with stewardship of all strategic, delegation and supervision, risk, governance, nomination and remuneration matters.
- In terms of its supervisory role, this includes the Board providing oversight of the MD's performance and succession plans, monitoring of the portfolio performance and ratifying all portfolio transactions. The Board also sets the upfront investment authority limits.
- In terms of risk management, the Board takes advice on this from the separate A&RC, specifically tasked with providing oversight for financial reporting, internal controls, risk management systems and external audit functions. The A&RC is comprised of three independent directors and chaired by Lianne Buck who is well qualified for this role.
- Lonsec notes that ARG has a strong focus on income and capital growth. Hence Lonsec considers the risk for the LIC to be of income and/or capital losses. Lonsec considers ARG's quality investment philosophy to be critical in ensuring that risk management is embedded within its investment process and focused on these risks.
- ARG has good risk management systems in place, with the investment team having access to a proprietary Macquarie risk management system to monitor all relevant factor, stock, and sector exposures. This means that while ARG does not employ hard sector limits, such exposures are continuously monitored to ensure that no unintended risks or biases are present.

Fees

Lonsec notes that the fixed management cost base of circa 0.16% p.a., compares favourably with externally-managed LICs/ETFs and is meaningfully cheaper than similar sized managed funds with a broad exposure to Australian equities, although the Fund is less active than most.

Product

A key risk for investors in any LIC is the possibility for the structure to trade at a substantial discount to NTA for an extended period. As at 30 June 2023, ARG was trading at -3.0% discount to pre-tax NTA, which is a tighter spread when compared to peers in the Australian large-cap equities closed end listed investment market. The Company has a reasonable track of paying dividends and also has an ongoing dividend reinvestment plan.

Funds under management

- As at 30 June 2023, ARG managed an Australian equities portfolio with a mark-to-market valuation of $6.8bn. At this level, ARG is a mid-sized manager in terms of funds under management within Lonsec's wider Australian equities peer group.
- ARG does not have a formal view on an appropriate capacity limit for its portfolio. Lonsec notes that by virtue of its closed-end structure, future growth in the portfolio will mostly be driven by performance rather than future inflows. ARG's portfolio also has a distinct large cap bias with approximately 60% of its portfolio being in the top 20 stocks. This segment of the market tends to be the most liquid. Nonetheless, ARG does have a large tail of smaller cap stocks and capacity would increasingly become an issue were the portfolio to grow substantially from this point forward.
- While Lonsec understands why ARG is less capacity focused than other active managers operating in the market, Lonsec would welcome any efforts to formally incorporate such studies into its risk management process. Nevertheless, Lonsec notes that the Company has been prudent in raising additional capital.

Argo Investments Limited

Performance

- ARG has a lengthy operating track record in the market. A hallmark of this record in Lonsec's opinion has been ARG's ability to both deliver consistent earnings and dividend growth (excluding exceptional circumstances such as the COVID-19 pandemic).
- Lonsec considers this consistency to be a key reason why its share price tends to trade in a much closer band to its NTA when compared to some LIC peers. As at 30 June 2023, the Company's share price traded at a Discount of 3.0% to its pre-tax NTA, which compares to the average one year premium of 1.6% and five year premium of 1.5%.
- In the year to 30 June 2023, ARG recorded a net profit of $273m (-13.2%) and EPS excluding one-off, non-cash income of 36.1cps (+5.2%). The dividend was 34.5cps fully franked compared to 33.0cps for the previous year.
- Over the year to 30 June 2023 ARG's total return based on NTA was 11.4% (after all costs and tax, before franking credits) underperforming by -3.4% the S&P/ASX 200 Accumulation Index return of 14.8%. ARG's total return based on the share price was 3.2% underperforming the index by -11.6%.
- Over the five-year period ending 30 June 2023, ARG's total return based on NTA was 5.9% p.a., and based on share price was 5.7% p.a. compared to the benchmark of 7.2% p.a. (all figures after costs and tax, before franking credits).

Overall

- Lonsec has provided the Company with a **'Recommended'** rating during this review. The Company has a long track record of both dividend and capital growth across different investment cycles.
- ARG has a well qualified and cohesive Board with appropriate structures in place to oversee the experienced executive investment team.
- The Company has a conservative investment philosophy with a low turnover 'buy and hold' approach, which assists the pass through of tax advantages to shareholders.
- Competitive advantages include the low management cost, plus the active utilisation of its short-term trading account and occasional use of derivatives to generate higher income.

People and Resources

Corporate overview

Argo was established in 1946 and is a long-term investment company listed on the Australian Securities Exchange (ASX code: ARG).

Argo shares offer investors a professionally managed and diversified exposure to the Australian equity market.

The Company has over 95,000 shareholders and a market capitalisation of $6.6bn (June 2023).

Size and experience - Board of directors

NAME	POSITION	YEAR JOINED
RUSSELL HIGGINS	INDEPENDENT NON-EXECUTIVE CHAIR	2011
JASON BEDDOW ^	MANAGING DIRECTOR	2014
PETER WARNE	INDEPENDENT NON-EXECUTIVE DIRECTOR	2022
CHRIS CUFFE	INDEPENDENT NON-EXECUTIVE DIRECTOR	2016
ROGER DAVIS	INDEPENDENT NON-EXECUTIVE DIRECTOR	2012
ELIZABETH LEWIN	INDEPENDENT NON-EXECUTIVE DIRECTOR	2018
LIANNE BUCK	INDEPENDENT NON-EXECUTIVE DIRECTOR	2022

^ – Joined ARG in 2001 in an investment analyst role.

The Board has the responsibility for ensuring that the Company is managed to protect shareholder interests.

Russell Higgins, AO (Independent Non-Executive Chairman) had an extensive career in the energy and government sectors. He is also Chairman of Argo Global Listed Infrastructure Ltd and Telstra Foundation Ltd. Previously, he was a non-executive Director of APA Group, Telstra Corporation Ltd, Ricegrowers Ltd and Leighton Holdings Ltd.

Higgins is a member of ARG's Remuneration Committee and Chair of ASCO.

Peter Warne (Independent Non-Executive Director) has an extensive knowledge of the financial services and investment banking sectors. He is currently Chairman of IPH, a non-executive director of UniSuper and a non-executive member of the NSW Net Zero Emissions and Clean Economy Board. He previously held non-executive director roles which include Chairman of Macquarie Group, ALE Property Group, OFX Group and New South Wales Treasury Corporation.

Chris Cuffe AO (Independent Non-Executive Director) has more than 30 years of experience in wealth management. He is the former CEO of Colonial First State and Challenger Financial Group. He is currently Chaiman of Hearts and Minds Investments and a Non-Executive Director of Global Value Fund Ltd. Cuffe has previously been a director of Antipodes and Class Ltd.

Cuffe is a member of ARG's Audit & Risk Committee.

Roger Davis (Independent Non-Executive Director) has over 30 years of relevant experience in global banking and investment management, including 20 years working with Citigroup and as Group Managing Director at ANZ. He is now a consultant at Rothschild Australia, chairman of AIG Australia and a non-executive director of Charter Hall Retail. Previously, he was a non-executive director and chairman of Bank of Queensland and Charter Hall Office REIT and a non-executive director of Ardent Leisure, The Trust Company and Aristocrat Leisure.

Davis is the Chair of ARG's Remuneration Committee.

Elizabeth Lewin (Independent Non-Executive Director) has over 25 years of international experience in the financial services sector, with an extensive background in wealth management, investment banking and superannuation as a director and a senior executive (including in Europe and Australia with UBS Wealth

Management). Lewin is also a Non-executive Director of Australian Chamber Orchestra.

Lewin is a member of ARG's Remuneration Committee.

Lianne Buck (Independent Non-Executive Director) has over 20 years of experience in Australian and global investment markets. She commenced her executive career in Canada as a Chartered Accountant before working in various roles for Macquarie Group, Westpac Banking Corporation, Hastings Funds Management and NSW Treasury Corporation where she was head of Direct Investments and Infrastructure. Buck is a director of AusNet Services and ISPT, and a prior director of Spark.

Jason Beddow (Managing Director) was appointed to his position in February 2014 after four years as Chief Executive Officer. He has over 20 years' experience in the investment industry. Beddow joined funds management in 2001 as an investment analyst for Argo. Beddow was subsequently appointed Chief Investment Officer of Argo in 2008 and Chief Executive Officer in 2010.

Board remuneration

Non Executive Directors' (including the Chair) remuneration in aggregate must not exceed a limit that has been approved by shareholders via a formal vote. The last time this was voted on was ARG's Annual General Meeting (AGM) in 2015, where a maximum aggregate limit at $1.1m p.a. in total was set.

Size and experience - Investment team

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JASON BEDDOW	MANAGING DIRECTOR	25 / 22
ANDREW FORSTER	SENIOR INVESTMENT OFFICER	25 / 13
PAUL FROST	INVESTMENT ANALYST	26 / 14
BRYDIE LLOYD-ROBERTS	INVESTMENT ANALYST	24 / 19
COLIN WHITEHEAD	INVESTMENT ANALYST	23 / 11
ANDREW MOLLER	INVESTMENT ANALYST	23 / 6
JAMES SEWELL	JUNIOR INVESTMENT ANALYST	3 / 1
AVERAGE	-	21 / 12

The Board has delegated responsibility for the day-to-day management of ARG to Beddow, operating within approved authority limits. He is ultimately accountable to the Board for all company matters.

In terms of investment matters, Beddow is assisted in this task by ARG's investment team of five analysts. This is a very experienced and stable team.

Outside of investment management, Beddow is assisted by two key senior executives in Tim Binks who acts as Chief Operating Officer / Company Secretary and Andrew Hill who acts as Chief Financial Officer. Binks and Hill are supported by a team of five who implement all back and middle-office functions.

The wider ARG team is co-located with the MD and investment team in Sydney, with the middle and back-office teams based in Adelaide.

Management Investment Sub-committee

During any absences of the MD, a Management Investment Sub-Committee (MIS) will be responsible for the day-to-day investment transactions subject to the same delegated investment authority limits. The MIS will comprise any two of Forster, Binks and an investment analyst.

Investment team remuneration

Key executives and investment staff have both a fixed and variable component in their remuneration packages. In terms of variable remuneration, this is also a mix of short and longer-term incentives (STI, LTI) which are linked to both Company and individual performance measures. Such measures are at least 50% financially based. Staff can earn a bonus consisting of STI and LTI components, with the STI component up to 80% of annual fixed remuneration and the LTI component up to 50% of annual fixed remuneration. For the MD, the LTI component can be up to 100% of annual fixed remuneration.

Short-term Incentives (STI)

The primary driver of the quantum of STI are two financial performance indicators; the first is the requirement that ARG achieves superior operating EPS growth relative to its LIC peer group and the second is that ARG produces a superior one-year total portfolio return (TPR) adjusted for tax paid versus the S&P/ASX 200 Accumulation Index.

Both these tests have been deliberately selected with ARG's investment objectives in mind. The EPS indicator tests the ability of ARG to grow dividends over the longer-term. The TPR indicator is calculated using ARG's NTA per share and tests its ability to provide both growth in shareholder returns and outperformance versus the market.

For analysts only, stock picks for each analyst are recorded and measured against their own specific investment universe (based on sector coverage) over rolling 12 months.

50% of the STI awarded in any year is in the form of deferred equity which will vest after a two-year holding period with the other half paid in cash.

Long-term Incentives (LTI)

ARG has a Performance Rights Plan (PRP) driven by three financial indicators, two of which (EPS & TPR) are the same as the STI. Hence the PRP has been designed to create a strong link between increasing long-term shareholder value and employee remuneration.
The third financial indicators is the 10-year Total Shareholder Return (TSR) of the company must exceed the movement in the S&P ASX 200 Accumulation Index 10-year return. The PRP allows the Board to grant performance rights to acquire shares in ARG to a monetary value up to 50% of the fixed remuneration for investment staff and 100% for the MD. The three performance indicators are measured over four years with no re-testing allowed.

If ARG outperforms the Index over four years but produces a negative absolute return, then the Board has the right to adjust the LTI component downward. Also, the individual must still be with ARG at the vesting date to be awarded the shares.

Argo Investments Limited

Research Approach

Overview

INVESTMENT STYLE	CORE WITH A MILD VALUE BIAS
RESEARCH UNIVERSE	S&P/ASX 200 ACCUMULATION INDEX
STOCKS FULLY RESEARCHED	200
COMPANY VISITS	PORTFOLIO STOCKS MEET WITH AT LEAST BI-ANNUALLY AND MORE TYPICALLY 3-4 TIMES P.A.
INITIAL STOCK FILTERS	LIQUIDITY, EARNINGS, YIELD, VALUATION
TOP DOWN	20%
BOTTOM UP	80%
RESEARCH INPUTS	COMPANY VISITATION PROGRAM, PROPRIETARY FUNDAMENTAL 'BOTTOM-UP' ANALYST RESEARCH
QUALITATIVE FACTORS	FRANCHISE STRENGTH, BOARD AND MANAGEMENT, BALANCE SHEET.
USE OF BROKER RESEARCH	IDEA GENERATION ONLY
VALUATION APPROACH	DISCOUNTED CASH FLOW (DCF), NET PRESENT VALUE (NPV), ENTERPRISE VALUE TO EARNINGS BEFORE INTEREST, TAX, DEPRECIATION & AMORTISATION (EV/EBITDA), PRICE TO EARNINGS (P/E), SUM OF THE PARTS (SOTP)

Stock ideas for potential inclusion in the portfolio are generated from a variety of quantitative and qualitative techniques. The key qualitative sources include the margin of safety between ARG's internally generated stock valuation relative to current share price, assessment of management and board rankings, ESG considerations, industry structure and financial strength. Ideas can also be generated from company meetings, meetings with sell-side broker analysts and IPOs.

ARG's quantitative stock rankings are maintained internally by the investment team and are incorporated into FactSet. FactSet is then used to highlight stocks which are subject to meaningful earnings revision, higher yielding stocks and peer relative rankings on certain valuation measures such as P/E or price-to-cash flow.

While the FactSet screening process is not intended to be used as a primary stock selection tool or to create a buy-list of ranked stocks, it can be an additional source for ideas while also ensuring that ARG does not miss any stock specific developments.

Once potential stocks have been identified, all aspects of these companies operations, strategy, management and the relevant industry dynamics are thoroughly investigated. This is conducted by the designated sector analyst who prepares an internal report and recommendation for debate in peer review. The analyst will also generate a qualitative company score which acts as a factor in the portfolio construction process.

Currently 15 qualitative factors are analysed (having recently added five factors and merged two) to take into account technology disruption risk, cash conversion, and increased ESG focus. The following factors are also used to monitor existing holdings:

- Franchise Strength – competition; capital intensity; exogenous factors; bargaining power; and technology disruption risk.
- Management & Board – operational execution; capital deployment; and ESG considerations.
- Financial strength – balance sheet strength; earnings predictability; cash conversion; dividend sustainability and growth; history of earnings growth; history of returns; Board & Management shareholding.

Portfolio Construction

Overview

NUMBER OF STOCKS IN PORTFOLIO	89 (JUNE 2023)
BENCHMARK	S&P/ASX 200 ACCUMULATION INDEX
INVESTMENT OBJECTIVES	CAPITAL GROWTH AND SUSTAINABLE FULLY FRANKED DIVIDEND GROWTH
PORTFOLIO DECISIONS	MANAGING DIRECTOR, BOARD
STOCK SELECTION	BOTTOM-UP
MARKET CAP BIAS	LARGE
EXPECTED PORTFOLIO TURNOVER	VERY LOW, LESS THAN 5% P.A
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	40.6% (JUNE 2023)

ARG's portfolio construction process is broadly unconstrained outside of a commitment to appropriate stock and sector diversification. This approach is plausible given ARG's very low portfolio turnover approach.

Having said this, new positions are added to the portfolio from time-to-time and longer-term portfolio holdings can be added to during periods of market volatility or dislocation.

Under such circumstances, the final portfolio decision takes into account:

- The qualitative score for a stock.
- The need for both diversification and liquidity across stocks and sectors.
- ARG's investment objectives.
- Tax considerations – the need to pay fully franked dividends and the ability to pass on capital gain discounts to shareholders. For the former, this means that ARG actively screens for items such as the 45 day rule and the need to hold stocks for 12 months to qualify for capital gains tax discounts.

Risk Management

Risk limits

SEPARATE RISK MONITORING	YES
STOCK LIMIT	NO HARD LIMIT
SECTOR LIMIT	NO HARD LIMIT
CASH LIMIT	NO HARD LIMIT

The Board has delegated all investment transactions at both an aggregate and an individual stock limit to the MD or, in his absence, the MIS.

For aggregate transactions, these apply to the total amount of transactions that occur between Board meeting ratification. The delegated authority limit (DAL) for the MD in this instance is $100m for purchases and the same for sales. Should the MD not be contactable for the entire period, then the DAL for the MIS is set at $50m for each.

Delegated authority limits have also been set for individual stock purchases and sales. For the MD, this is $40m for each category. Were the MD to be absent for these transactions, the authority limit for the MIS is $20m for each.

Risk monitoring

The primary risk management monitoring for ARG is performed by its Board, which has delegated some of its oversight duties to the separate Audit & Risk Committee. As a listed entity, the Company also has to meet the ASX Listing Rules which is an additional oversight. ARG is well resourced from a systems perspective and the investment team has access to both a proprietary Macquarie risk management system and FactSet.

Risks

An investment in the Company carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the Prospectus and should be read in full and understood by investors. Lonsec considers major risks to be:

Equity Market

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Derivatives

ARG actively utilises a 'buy-write' strategy. Derivatives cannot be used to lever the Company.

Investment

Being an LIC, its securities may trade on the ASX at a discount to its NTA for extended periods of time.

Argo Investments Limited

Quantitative Performance Analysis - annualised after-fee % returns (at 31-8-2023)

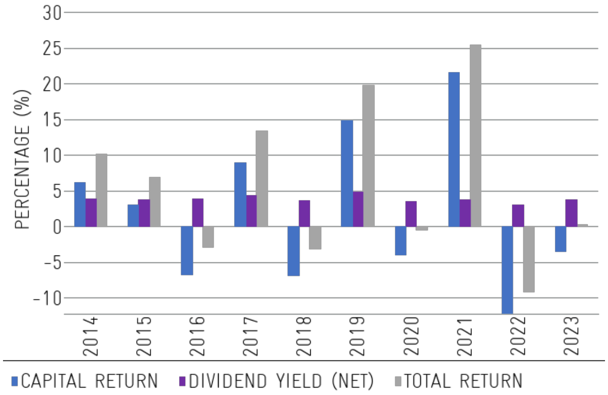
Performance metrics

	1 YR	3 YR	5 YR	10 YR
TOTAL RETURN (% PA)	-2.85	8.16	5.18	6.19
STANDARD DEVIATION (% PA)	9.27	12.62	14.36	11.39
EXCESS RETURN (% PA)	-12.42	-2.51	-1.83	-1.78
WORST DRAWDOWN (%)	-6.21	-12.15	-22.16	-22.16
TIME TO RECOVERY (MTHS)	NR	NR	10	10
TRACKING ERROR (% PA)	7.24	10.43	9.94	9.45

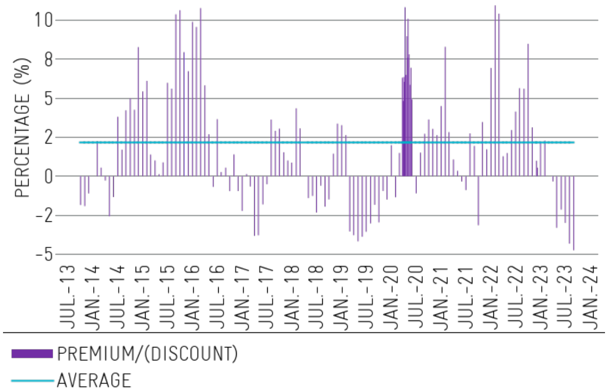
PRODUCT: ARGO INVESTMENTS LIMITED
PRODUCT BENCHMARK: S&P/ASX 200 TR INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of $10,000 over 10 years

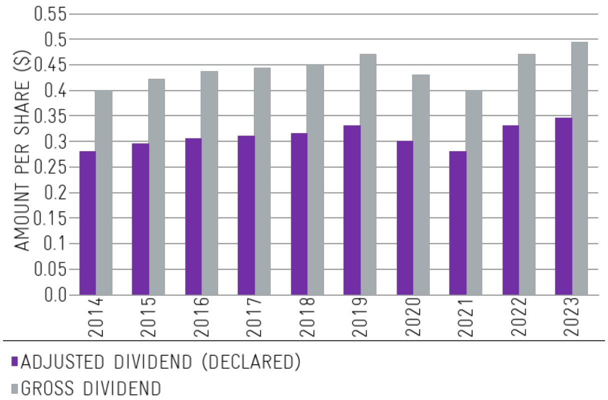
Calendar Year Returns over 10 years



Share Price Premium/Discount to NTA over 10 years



Dividend Record over 10 years



ISSUE DATE 15-09-2023

ANALYST: CONOR GALVIN | APPROVED BY: ELLIOT LUCAS

Argo Investments Limited

Glossary

Click here for the glossary of terms.

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.