

Argo Investments Limited
(ARG)

Listed Managed Investments
June 2021

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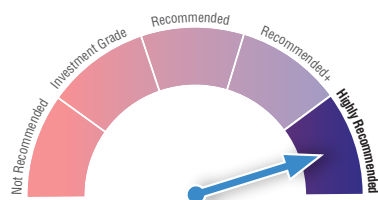
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Share Price as at 31 May 2021	\$8.77
Market cap (\$M)	6,357.9
Shares on issue (M)	725.0
Options on issue (M)	0.0
Shares traded (\$M p.a)	492.8
12-month L/H (\$)	7.10/9.05
Listing date	1948

Fees

Management Expense Ratio (%)	0.15
Performance incentives (%)	na

Premium/Discount to Pre-tax NTA

As at 31 May 2021	-0.34%
3 year average	0.64%

Dividend Yield*

	%
FY18	3.6ff
FY19	3.8ff
FY20	3.4ff

*Based on share price at 31 May 2021.

COMPANY OVERVIEW

ARG is an older-style LIC, listing on the ASX in 1948. It is the second largest ASX listed LIC by market cap. ARG has a conservative approach to investing, with a long term investment horizon, and a focus on providing investors with capital and dividend growth.

INVESTMENT OBJECTIVE

The company seeks to maximise long-term returns to shareholders through a balance of capital and dividend growth. Argo does this by investing in a diversified portfolio of Australian equities, which is actively managed in a tax-aware manner within a low-cost structure.

STYLE AND PROCESS

ARG has a buy-and-hold investment style, aiming to overlook short-term market volatility. It is a value investor with a bottom-up approach to investment analysis. 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 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 have sound management and good earnings growth potential.

PORTFOLIO CHARACTERISTICS

ARG invests in a diversified portfolio of ASX-listed securities. It has a long-term approach to investing and portfolio churn is low. The portfolio is typically weighted to large cap stocks with a heavy weighting to top 50 stocks. ARG has a heavy weighting to the Financials sector with 25.6% of the portfolio invested in Banks and Other Financials as at 31 May 2021, although is slightly underweight the sector compared to the S&P/ASX 200 Index. The company has a significant overweight position in MQG and RIO and a significant underweight position in CBA and NAB.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

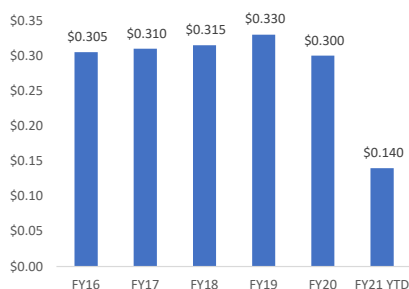
ARG has a long track-record in achieving its investment objectives, particularly in delivering a steady, growing and fully-franked dividend. The company provides low cost access to the Australian market in a single transaction. The team is well-qualified and stable and is supported by a strong board. It has a culture of no surprises and, given the rigour of the investment process, we believe past performance is very much repeatable. The management expense ratio of 0.15% is one of the lowest in the industry. ARG holds 8.5% of the capital issued in Argo Global Listed Infrastructure Limited (ASX: ALI), a LIC investing in a portfolio of global infrastructure securities. While there is a conflict of interest with this investment, it is common place for LICs to invest in related funds.

The Board decreased the interim dividend paid in March due to the reduced income generated throughout 2020, primarily as a result of a number of their key holdings cutting dividends. We note that ARG's dividend reduction was less than the dividend cuts and suspensions for the broader market which were down about one-third. The portfolio (pre-tax NTA plus dividends) has performed largely in line with the benchmark over the longer-term, however, has underperformed over the shorter-term. This is primarily attributed to the company not holding FMG and the underweight position in CSL. The company also doesn't typically invest in technology companies, which have performed well in recent times, due to the fact that they are unprofitable and do not pay dividends. The company has traded in a band of -4.2%- 8.30% from a premium/discount perspective over the last 5-years. We see periods of when the company is trading at a discount to be buying opportunities.

SECTOR BREAKDOWN

Sector	31 May 2020	31 May 2021
Materials	14.5%	15.6%
Banks	13.5%	14.9%
Healthcare	12.4%	10.9%
Other Financials	10.5%	10.7%
Consumer Staples	9.5%	9.7%
Industrials	7.6%	8.5%
Consumer Discretionary	5.6%	7.2%
IT & Telcos	6.2%	6.4%
Energy	4.7%	4.1%
Listed Investment Companies	4.8%	4.1%
Property	3.3%	3.1%
Utilities	3.9%	2.3%
Cash	3.5%	2.5%

Dividend History



Board of Directors

Russell Higgins AO	Chairman
Jason Beddow	Managing Director
Joycelyn Morton	Director (Non-Executive)
Anne Brennan	Director (Non-Executive)
Chris Cuffe AO	Director (Non-Executive)
Roger Davis	Director (Non-Executive)
Elizabeth Lewin	Director (Non-Executive)

PERFORMANCE ANALYTICS

Performance as at 31 May 2021				
	3 Month	1 year	3 year (p.a)	5 year (p.a)
Pre-tax NTA + Dividends (%)	8.1%	28.5%	7.6%	8.0%
S&P/ASX 200 Acc Index (%)	8.5%	28.2%	9.9%	10.1%
Share Price + Dividends (%)	4.8%	21.9%	8.0%	8.1%
Tracking Error (%), Pre-tax NTA + Dividends	3.0%	2.3%	2.2%	2.0%

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

OTHER DATA

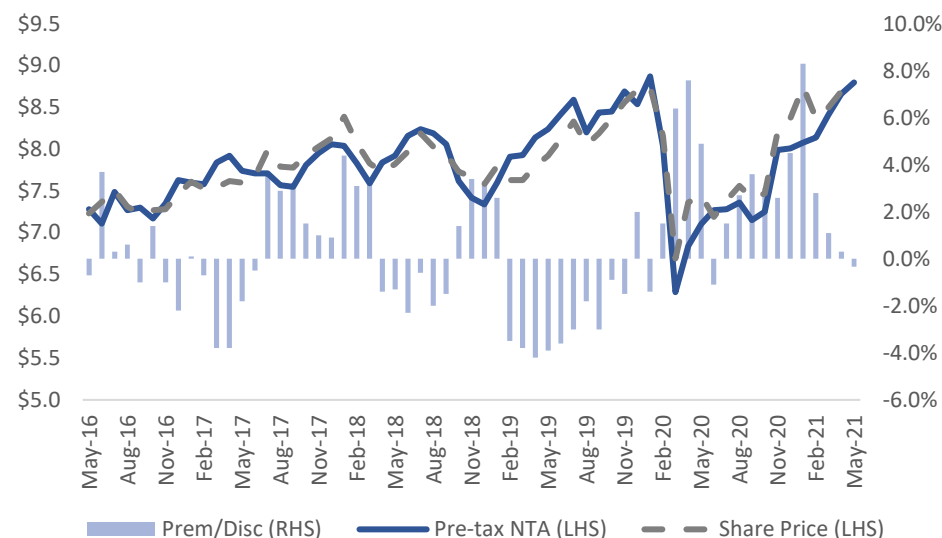
- ◆ **Dividend policy** – ARG pays dividends from income received from its investments and realised capital gains.
- ◆ **Capital management policy** – ARG actively manages its capital through on-market buybacks when its shares are trading at a discount to NTA, SPP, DRP and other share issues.
- ◆ **LIC tax concessions** – Yes
- ◆ **DRP available** – Yes, at a 2% discount to the market price.

ARG's Portfolio (Top 10) Weighting

Code	Portfolio (%)	S&P/ASX 200 (%)
MQG	5.8	2.5
BHP	5.7	6.4
CSL	5.0	6.0
CBA	4.7	8.0
WES	4.3	2.9
RIO	4.0	2.1
WBC	3.9	4.4
ANZ	3.7	3.7
TLS	2.6	1.9
NAB	2.5	4.0
Total	42.2	41.9

Source all figures: ARG/Independent Investment Research/IRESS. All data as at 31 May 2021 unless otherwise specified.

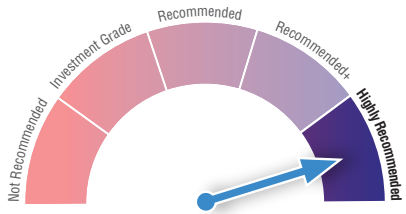
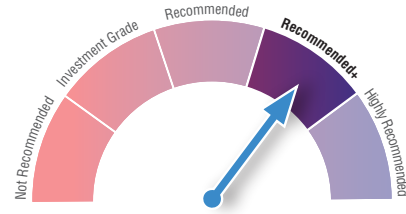
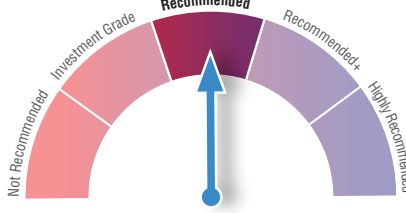
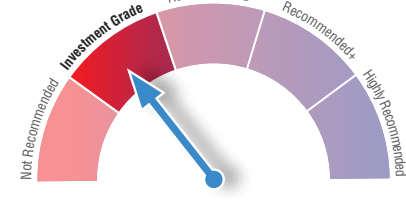
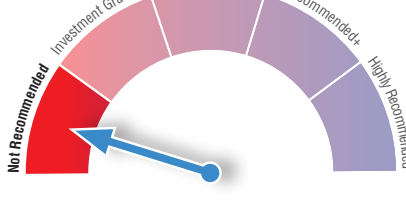
Pre-tax NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

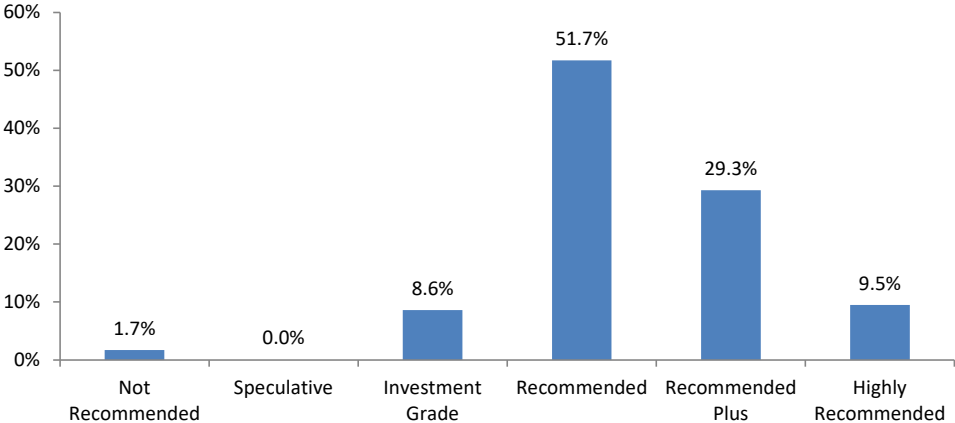
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>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 risk/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.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>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.</p>
<p>Recommended</p> 	<p>70–79</p> <p>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.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

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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