AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Argo Investments Limited (ASX: ARG)

Review

25 February 2025

INDEPENDENT
INVESTMENT RESEARCH

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1) The research process has complete editorial independence from the company and this is included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
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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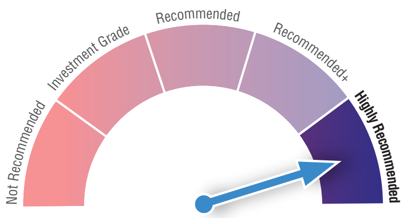
Note: This report is based on information provided by Argo Investments Limited as at 31 October 2024.

Rating



Key Investment Information (as at 31 January 2025)	
ASX Code	ARG
Share Price	$9.02
NTA* per share	$10.37
Shares on Issue (m)	763.3m
Market Cap ($m)	$6,884.6m
Trailing 12-month Dividend Yield (Net)	3.8.%
Trailing 12-month Dividend Yield (Grossed-Up)	5.46%
Dividend Frequency	Semi-annually
Listing Date	1948
Structure	Listed Investment Company (LIC)
IIR Investment Classification	Australian Large Cap
Investment Manager	Internal
Benchmark	S&P/ASX 200 Acc. Index
Fees:	
Management Fee (p.a.)**	0.15%
Performance Fee	na

*NTA includes tax on realised gains but not tax on unrealised gains.
**Management Expense Ratio (MER) for FY24 period.

Key Exposure	
Underlying Exposure	The Company provides exposure to a diversified portfolio of Australian listed companies.
FX Exposure	The Company is primarily exposed to domestic securities and therefore has little to no direct foreign currency exposure.

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.

PRODUCT SUMMARY

Argo Investments Limited (ASX: ARG) is one of the oldest listed investment companies (LICs) on the ASX with the Company formed in 1946 and listed in 1948. The Company provides exposure to a highly diversified portfolio of ASX-listed securities with the objective of delivering long-term shareholder returns through reliable fully franked dividends and capital growth in a risk-controlled manner. The portfolio typically comprises 80-110 securities. The investable universe for the Company is all stocks on the ASX, however practical considerations typically reduces the universe to the top 300 stocks. ARG's mandate provides for an all cap portfolio, however the size and liquidity of a stock will have a major influence on the portfolio weighting, which results in the portfolio being heavily weighted to its large cap exposures. While the portfolio does not seek to mimic the benchmark, the investment approach is benchmark aware with the Manager ensuring there is no large, concentrated exposure, relative to the benchmark, in one specific industry or sector. ARG is a long-term investor with the portfolio managed in a tax aware manner. Turnover is very low (5% to 10% per annum) with the team very mindful that increased turnover, particularly of long-term holdings, could compromise the capital account status for accounting and tax purposes. The Company adopts a bottom-up, fundamental approach to managing the portfolio with the investment team seeking to invest in quality companies at a discount to fair value that can generate sustainable capital and dividend growth over the long-term. The Company seeks to distribute the bulk of income to shareholders in the form of fully franked dividends. The portfolio is internally managed and provides a low cost option for investors with an MER of 0.15% for the FY24 period. The low MER means there is very little fee leakage for investors.

INVESTOR SUITABILITY

An investment in ARG is suitable for those investors seeking exposure to the domestic market through a highly diversified portfolio that seeks to deliver long-term capital growth and income through exposure to the market in a risk-controlled manner. The benchmark aware nature of the investment approach will result in the portfolio delivering returns that tend to be similar to the market, with portfolio positioning delivering slight out/under performance. This is highlighted by the low tracking error of the portfolio as well as by the performance analytics provided in the below report. The portfolio is managed in a conservative and tax aware manner. This combined with the size and liquidity of the Company makes ARG suitable as a core investment for a portfolio.

RECOMMENDATION

Independent Investment Research (IIR) has maintained a **Highly Recommended** rating for Argo Investments Limited (ASX: ARG). The Company has a long history of delivering on its investment objective, growing to be the second largest LIC on the ASX. The Company has a stable and highly experienced investment team that has applied the investment process and strategy consistently over the long-term. The Company is trading at discounts not seen since 2001. We view the discount to be cyclical with the premium/discount in recent years largely being driven by the interest rate environment. The portfolio has recently underperformed relative to the market as a result of the underweight exposure to the big four banks, which are trading at stretched valuations. While this has resulted in short-term relative underperformance in the event there is a rotation out of bank shares, the portfolio is in a position to deliver relative outperformance. This combined with the potential for interest rate cuts in 2025 is expected to have a positive impact on the discount. Discounts of this size for the Company provide a unique opportunity for investors to enhance returns with the discount providing the expected added benefit of downside protection in the event markets decline.

SWOT

Strengths

- ARG is the second largest LIC on the ASX with a market cap of almost $7 billion and over 760 million shares on issue. The size and number of shares on issue provides high levels of liquidity for investors.
- The structure of the Company provides low cost exposure to the portfolio with an MER 0.15% for the FY24 period and no performance fees. The fee structure means there is minimal fee leakage with investors significantly benefiting from the low cost structure.
- The Company has a long track record of delivering on its objective of long-term capital growth and a reliable fully franked dividend stream.
- The Company pays out the bulk of the income generated by the portfolio with dividends growing over time. The LIC structure allows the Company to smooth dividends during periods of Net Profit volatility, which typically results from movements in income received from the underlying companies in the portfolio. The benefit of the LIC structure was highlighted in FY20, which saw EPS decline by 32.4% yet the dividend paid only declined 9.1%. This compared to the SPDR S&P/ASX 200 Fund (ASX: STW), the distributions of which fell 32.0% in FY20.
- The investment team is experienced and stable with very little turnover in the team. We view this as important for the ARG strategy given its long-term objectives and requirement for stability for consistency in the delivery of the investment process. Further to this, the team have short-term and long-term incentives that align the interests of the team with meeting the objectives of the Company.
- The portfolio has delivered risk and return metrics that are true to name. The portfolio has delivered market exposure with the portfolio providing similar market cap and sector exposure to the market (with some variances) with market-like returns over the long-term.

Weaknesses

- While the shareholder returns have delivered similar returns to the NTA over the long-term, the move from a premium to a discount has resulted in a significant variance in the return shareholders have realised compared to the portfolio return in the short-term. We note that this has been a function of the interest rate environment and largely outside the control of the Company.

Opportunities

- The Company is currently trading at the largest discount in over a decade. We view the elevated discount as an opportunity for investors to potentially enhance their return with the expectation that the discount will narrow with interest rates decline in 2025.
- The positioning of the portfolio has resulted in the portfolio lagging the market in recent times, in particular due to the underweight exposure to banks which have been one of the best performing sectors over the last 18-months. While this has been a drag on performance, given the share price appreciation has largely been a result of multiple expansion we view the positioning of the portfolio to be prudent and expect the relative performance of the portfolio to improve in the event of a rerating of the multiples, in particular for CBA.
- The focus on quality companies provides the opportunity to gain exposure to a portfolio that provides market-like exposure with the benefit of a fully franked dividend with lower levels of portfolio volatility.

Threats

- The premium/discount at which the Company has traded has been significantly influenced by interest rates. In the event interest rates remain higher for longer, this may see the Company continue to trade at a discount for longer than expected.
- The Company has a sizable overweight position in MQG. In the event this stock underperforms the broader market, this will have an adverse impact on the relative performance of the portfolio.

PRODUCT OVERVIEW

ARG is one of the oldest LICs on the ASX, with the Company formed in 1946 and listed in 1948. Over its 70+ year history, the Company has delivered on its objective of delivering long-term shareholder returns through reliable fully franked dividends and capital growth in a risk-controlled manner.

The Company provides exposure to a highly diversified portfolio of ASX-listed securities with the portfolio typically comprising 80-110 securities. The investable universe for the Company is all stocks on the ASX, however practical considerations typically reduces the universe to the top 300 stocks. ARG's mandate provides for an all cap portfolio, however the size and liquidity of a stock will have a major influence on the portfolio weighting. While the portfolio does not seek to mimic the benchmark, the investment approach is benchmark aware with the Manager ensuring there is no large, concentrated exposure, relative to the benchmark, in one specific industry or sector.

The investment approach results in the portfolio delivering market-like returns over the long-term with the tracking error expected to range between 2% and 4%. There is a focus on quality with respect to stock selection which provides a degree of capital preservation in down markets.

The Company seeks to be largely invested at all times with the portfolio holding less than 6% cash and on average will hold 2% to 3% cash.

ARG is a long-term investor with the portfolio managed in a tax aware manner. Turnover is low (5% to 10% per annum) with the team very mindful that increased turnover, particularly of long-term holdings, could compromise the capital account status for accounting and tax purposes. It is this status that allows the Company to distribute LIC capital gains as part of the distributions to Argo shareholders. In addition, profits on any sales will incur tax, and reinvesting post-tax returns is often much more challenging when looking at an alternative investment opportunity.

The Company can and does write options on stocks in the portfolio to generate additional income. The Company only trades exchange traded options. Call options are limited to 10% of the portfolio value and put options are limited to $100 million in aggregate, subject to 1x available cash coverage (including debt) on the current month's expiry. In addition to generating additional income for the portfolio, options provide another way to actively manage positions.

The investment process remains largely unchanged. The Company adopts a bottom-up, fundamental approach to managing the portfolio with the investment team seeking to invest in quality companies at a discount to fair value that can generate sustainable capital and dividend growth over the long-term. The Company seeks to distribute the bulk of income to shareholders in the form of fully franked dividends.

The Company provides a low cost option for investors. The portfolio is managed internally through the Argo Service Company Pty Limited subsidiary (wholly owned) with an MER of 0.15% for the FY24 period. Given the portfolio is internally managed, there are no performance fees. The fee structure means there is minimal fee leakage for investors.

Board and Investment Team Update

The Board is highly experienced and majority independent, with Jason Beddow being the only Non-Independent director.

After 13 years on the Board (6 as Chair), Russell Higgins retired, effective 31 December 2024. Perter Warne has taken on the position of Chair. Peter was appointed to the Board in 2022 and is Chair of the Remuneration Committee. Peter is an experienced director with extensive knowledge of the financial services and investment banking sectors.

There has been a renewal process underway in recent years with the Board recognising there was a number of long-standing directors. We view this as a positive with the Board being renewed at an appropriate pace with highly experienced directors being added to the Board.

Board			
Name	**Position**	**Independence**	**Appointed to Board**
Peter Warne	Chair	Independent	2022
Chris Cuffe AO	Director	Independent	2016
Elizabeth Lewin	Director	Independent	2018
Melissa Holzberger	Director	Independent	2023
Lianne Buck	Director	Independent	2022
Jason Beddow	Managing Director	Non-Independent	2014

The investment team is highly experienced with the team having an average of 21 years industry experience. The team includes 7 investment professional with the team led by the Managing Director, Jason Beddow. Given the team's focus is on the single portfolio of ARG, the team is of sufficient size.

The responsibility of portfolio construction lies with the Managing Director, with significant input from the team. Each of the Investment Analysts (including the Senior Investment Officer) have sector responsibilities with the Junior Investment Analyst assisting the team where required.

There tends to be little turnover in the team with an average tenure with ARG of 12 years. This is a positive for a strategy such as this, with the long tenure providing continuity of investment process over the long-term to ensure the Company's objectives are met.

Investment Team			
Name	**Position**	**Industry Experience (years)**	**Tenure with ARG (years)**
Jason Beddow	Managing Director	25	22
Andy Forster	Senior Investment Officer	25	13
Brydie Lloyd-Roberts	Investment Analyst	24	19
Colin Whitehead	Investment Analyst	23	11
Paul Frost	Investment Analyst	26	14
Andrew Moller	Investment Analyst	23	6
James Sewell	Junior Investment Analyst	3	2
Average		**21**	**12**

PORTFOLIO POSITIONING

ARG provides exposure to a highly diversified portfolio of domestic equities, predominately from within the ASX 300. The Company has an all cap mandate and provides exposure to both large and small companies, however is benchmark aware and therefore the weighting of a stock will be guided by its size and liquidity. As such, the portfolio will be weighted to large cap stocks, with the top 20 stocks in the ASX accounting for over 60% of the benchmark index and the top 50 stocks representing over 80% of the benchmark index as at 31 October 2024.

The largest holding in the portfolio as at 31 October 2024 was MQG with a 7.9% allocation. This represents a material overweight exposure relative to the benchmark. We note the increased exposure to MQG is a result of share price appreciation with the Company not adding to this investment during the FY24 period. The other two positions that are greater than 5% are BHP and CSL While the second and third largest positions in the portfolio, both are underweight relative to the benchmark.

The largest underweight position is CBA. Multiple expansion has seen CBA become the largest stock in the benchmark index at over 9% at October-end. The Company took the opportunity to trim its position in CBA given the stretched valuations and has reallocated some of this capital to NAB and WBC which reported results and paid dividends in late 2024.

Top 20 Holdings by Security (as at 31 October 2024)				
Company Name	**Ticker**	**ARG Portfolio**	**S&P/ASX 200 Index**	**Active Weight**
Macquarie Group Limited	MQG	7.9%	3.4%	4.5%
BHP Group Limited	BHP	5.6%	8.2%	-2.6%
CSL Limited	CSL	5.1%	5.3%	-0.2%
Commonwealth Bank of Australia	CBA	4.7%	9.1%	-4.4%
Wesfarmers Limited	WES	3.9%	2.9%	1.0%
Westpac Banking Corporation	WBC	3.7%	4.2%	-0.5%
Rio Tinto Limited	RIO	3.4%	1.7%	1.7%
ANZ Group Holdings Limited	ANZ	3.3%	3.5%	-0.2%
Aristocrat Leisure Limited	ALL	3.2%	1.5%	1.7%
National Australia Bank Limited	NAB	3.0%	4.5%	-1.5%
Santos Limited	STO	2.6%	0.8%	1.8%
Telstra Group Limited	TLS	2.4%	1.7%	0.7%
QBE Insurance Group Limited	QBE	2.2%	1.0%	1.2%
Technology One Limited	TNE	2.2%	0.3%	1.9%
Computershare Limited	CPU	1.9%	0.6%	1.3%
Suncorp Group Limited	SUN	1.8%	0.9%	0.9%
Origin Energy Limited	ORG	1.7%	0.6%	1.1%
Transurban Group	TCL	1.5%	1.5%	0.0%
Woolworths Group Limited	WOW	1.5%	1.4%	0.1%
Reece Limited	REH	1.5%	0.6%	0.9%
Total		**63.1%**	**53.7%**	

The Company seeks to provide exposure to a portfolio in which there is no large, concentrated exposure to a specific sector or industry relative to the benchmark. This results in the portfolio being exposed to all sectors in the market, albeit heavily weighted to Financials and Materials given the concentration of the benchmark to these two sectors. While the portfolio provides exposure to all sectors in the market, the portfolio does have some sizable overweight and underweight positions to some sectors. The largest sector exposure and the largest overweight sector exposure as at 31 October 2024 was Other Financials. The overweight position can largely be attributed to the overweight exposure to MQG, currently the largest holding in the portfolio.

Despite being the second largest sector exposure, the largest underweight exposure was to Banks. The portfolio included all four major banks but was underweight all of them at October-end, with a material underweight position in CBA. As mentioned above, CBA's share price has performed strongly over the last 12-months with the company now the largest weighting in the benchmark. The rally has largely been driven by a multiple expansion as opposed to earning growth and as such the Company took the opportunity in FY24 to trim the position. The underweight position in banks has been a drag on the portfolio relative to the benchmark. We note that when you combine the Other Financials and Banks, the exposure to Financials is only slightly underweight the benchmark.

The Company also has a large underweight exposure to Materials. Given the focus of the investment approach, the Company will typically have an underweight exposure to Materials a given a number of these companies do not meet the investment criteria for inclusion in the portfolio. BHP and RIO make up 9% of the allocation to the Materials sector.

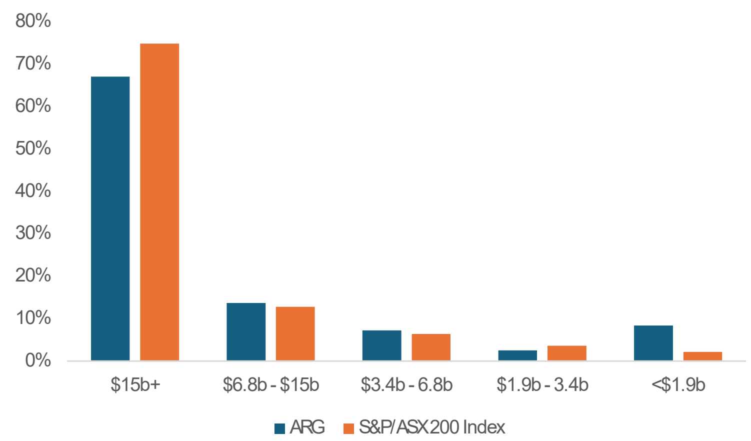
The portfolio has a small exposure to LICs which includes exposure to three LICs - Argo Global Listed Infrastructure Limited (ASX: ALI), Australian United Investment Company Limited (ASX: AUI) and Diversified United Investment Limited (ASX: DUI). The investments in AUI and DUI are long held and are a legacy from a strategic decision when ARG was looking for acquisition opportunities in the LIC sector. The Company is slowly disposing of these holdings where appropriate pricing can be obtained. The investment in ALI was part of a strategic position taken when ALI listed. ARG is the largest investor in ALI. While possible, it is unlikely that ARG would be seeking to further increase its position in ALI.

Sector Allocation (as at 31 October 2024)			
Sector	**ARG Portfolio**	**S&P/ASX 200 Index**	**Active Weight**
Other Financials	15.2%	9.5%	5.7%
Banks	14.8%	21.9%	-7.1%
Materials	14.3%	20.2%	-5.9%
Health Care	10.3%	9.9%	0.4%
Telcos & I.T.	8.7%	8.1%	0.6%
Consumer Staples	8.0%	3.5%	4.5%
Industrials	7.4%	7.6%	-0.2%
Consumer Discretionary	7.4%	7.3%	0.1%
Energy	7.0%	4.0%	3.0%
Property	2.8%	6.7%	-3.9%
Utilities	1.3%	1.2%	0.1%
LICs	2.0%	-	2.0%
Cash	0.8%	-	0.8%

Source: ARG, Iress, IIR.

As we have discussed in the above report, the portfolio seeks to provide market exposure without a large concentration to a single sector/industry relative to the market. Further to this the investment approach is benchmark aware which results in a large portion of the portfolio allocated to large caps. The market exposure objective and benchmark aware investment approach is highlighted by the below market cap breakdown of the ARG portfolio compared to the benchmark index. The exposures are largely the same, with a small underweight exposure in the largest stocks in the index and small overweight to the smallest stocks in the benchmark.

Market Cap Exposure (as at 31 October 2024)



Portfolio Turnover

The Company is a long-term investor and seeks to invest in a tax aware manner, which results in the portfolio having a low level of turnover. Annual portfolio turnover is expected to average between 5% and 10%. The below table shows the annual portfolio turnover over the last five financial years. The portfolio has been true to name with very low levels of turnover with an average annual turnover of 4.0% over the last five financial years.

Portfolio Turnover	
Financial Year	**Annual Turnover**
FY20	2.8%
FY21	5.8%
FY22	5.2%
FY23	1.9%
FY24	4.0%
Average	**4.0%**

PERFORMANCE ANALYTICS

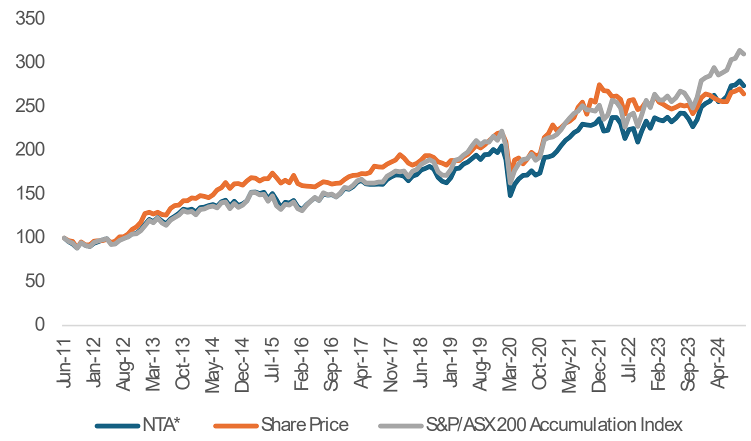
The below chart shows the cumulative total return of the NTA (after tax on realised capital gains and before tax on unrealised gains) and the share price compared to the S&P/ASX 200 Accumulation Index (benchmark) from 30 June 2011 to 31 October 2024.

The portfolio has started to deviate from the benchmark since the COVID market decline in early 2020. While the underweight exposure to the Materials sector has been a positive contributor to the performance of the portfolio over the last 12-months, 3 and 5 year periods, it has been a relative detractor from performance. Stock selection in the Information Technology sector has also been a detractor over this period. In the short-term, the underweight exposure to the Financials sector, in particular CBA, has been a detractor from the relative performance of the portfolio.

While there has been relative underperformance in the shorter-term, the tracking error relative to the benchmark remains low and a rerating of the multiples of some of the large cap underweight exposures in the portfolio will likely see relative outperformance of the portfolio.

The share price has delivered a cumulative total return similar to that of the NTA over the long-term, however as the chart highlights, there have been periods of prolonged outperformance of the share price returns as a result of the share price trading at a premium to NTA.

Cumulative Total Returns (30 June 2011 to 31 October 2024)



*NTA includes tax on realised capital gains but not tax on unrealised gains.
Source: ARG, Iress, IIR

The below table looks at the performance metrics of ARG's NTA and share price compared to the S&P/ASX 200 Accumulation Index to 31 October 2024 over a range of periods. The undperformance relative to the benchmark over the 10 year period reflects the recent relative underperformance of the portfolio.

Of note is the dislocation in the performance in the share price relative to the NTA. A feature of listed closed-end funds is that the share price may dislocate from the portfolio value as a result of the supply and demand dynamics in the market. These dynamics are discussed in the Premium/Discount section below.

From a volatility perspective, the ARG portfolio has delivered returns with slightly lower volatility than the market on a consistent basis. This is to be expected given the investment approach and focus of the Company.

The benchmark aware nature of the portfolio is highlighted by the tracking error which is less than 3% over all periods. This is within the expected 2% to 4% outlined by the Company and reflects that the relative returns are likely to be similar to the market, despite some under/out performance during certain periods.

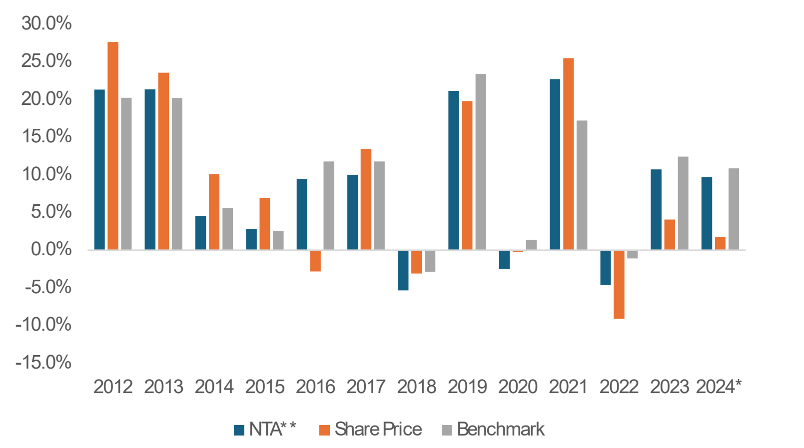
Performance Analytics (to 31 October 2024)			
	NTA*	Share Price	S&P/ASX 200 Accumulation Index
Cumulative Total Return:			
1 year	20.6%	9.4%	24.9%
3 year (p.a.)	6.2%	0.9%	8.0%
5 year (p.a.)	7.0%	4.6%	8.2%
10 year (p.a.)	6.8%	5.0%	8.3%
Standard Deviation:			
1 year	8.7%	7.3%	9.7%
3 year (p.a.)	12.5%	10.3%	13.7%
5 year (p.a.)	16.0%	14.5%	16.5%
10 year (p.a.)	13.3%	11.4%	13.9%
Sharpe Ratio:			
1 year	1.84	0.67	2.11
3 year (p.a.)	0.14	-0.35	0.26
5 year (p.a.)	0.15	0.01	0.22
10 year (p.a.)	0.17	0.05	0.28
Tracking Error:			
1 year	2.6%	5.7%	na
3 year (p.a.)	2.8%	9.2%	na
5 year (p.a.)	2.6%	9.8%	na
10 year (p.a.)	2.6%	9.3%	na

* NTA includes tax on realised capital gains but not tax on unrealised gains.

The below chart shows the calendar year returns of the portfolio and share price compared to the S&P/ASX 200 Accumulation Index from 2012 to 2024 (to 31 October 2024). The chart highlights that in most calendar year periods, the portfolio has delivered returns that do not vary greatly from the benchmark, which reflects the benchmark aware investment approach of the Company. In a number of periods, the portfolio slightly lagged the benchmark. We note that the portfolio performance is represented by the NTA which includes tax paid. This compares to the benchmark which does not include any taxes.

This chart highlights that an investment in the Company is suited to those investors seeking market exposure with the benefit of a fully franked dividend stream. ARG does not have an alpha seeking mandate but a mandate to deliver market exposure in a risk-controlled manner to deliver long-term capital growth and a reliable income stream to investors.

Calendar Year Returns vs S&P/ASX 200 Accumulation Index (2012 to 2024)

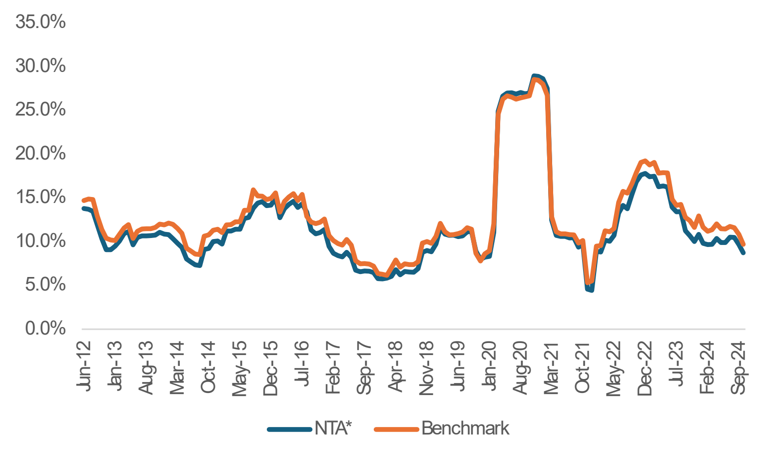


*To 31 October 2024.

**Includes tax on realised gains.

The quality and earnings focus of the Company combined with the diversification of the portfolio results in the portfolio being slightly less volatile than the market.

Rolling 12-month NTA Return Volatility (30 June 2011 to 31 October 2024)



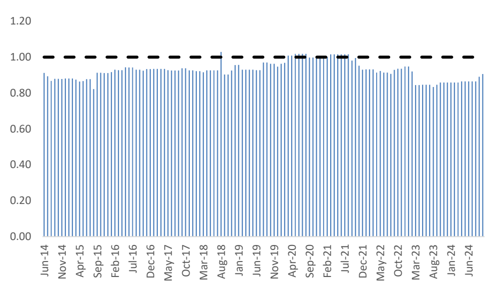
Source: ARG, Iress, IIR

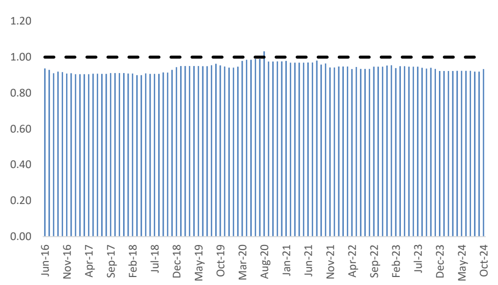
Capital Preservation

The focus on quality companies has resulted in the portfolio providing a small level of capital preservation in down markets, as is highlighted by the charts below. The Company intends to have a high level of exposure to the market at all times with an expected average cash allocation of 2% to 3%. This combined with the intent to provide exposure to all sectors without a material concentration relative to the benchmark, means the level of capital preservation in down markets will be limited.

Rolling Down Market Capture Ratio (30 June 2011 to 31 October 2024)

Rolling 3 Year	Rolling 5 Year



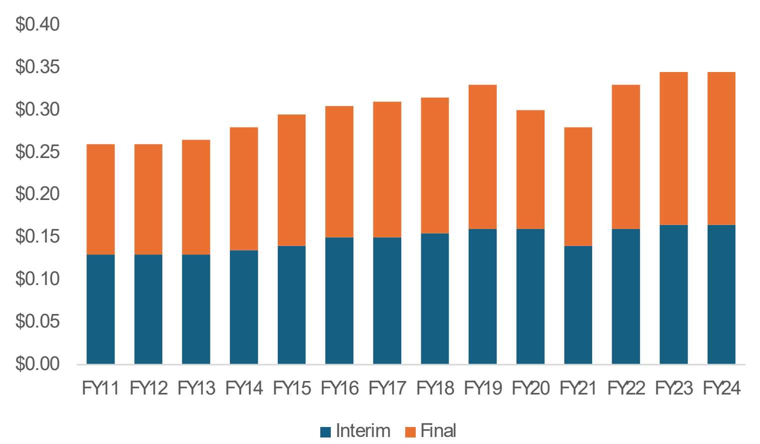


Source: ARG, Iress, IIR

Dividends

The Company has steadily grown ordinary dividends over time. All dividends paid since 1994 have been fully franked. The low level of turnover means the Company qualifies as an investor as opposed to a trader and can therefore pass on LIC capital gains discounts in the event of the realisation of assets held for the long-term. Investors may be eligible for additional tax benefits from LIC capital gains.

Dividends Declared by Financial Year (FY11 to FY24)



Source: ARG, Iress, IIR

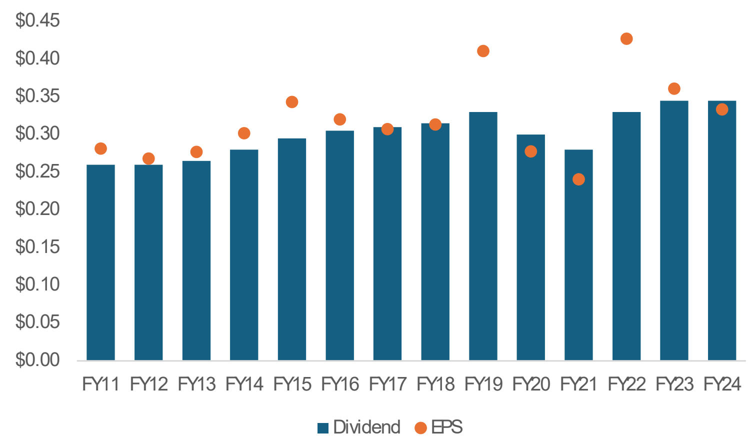
Dividends are paid by dividends/distributions received from investee companies in combination with realised capital gains with the Company seeking to pass through the bulk of income generated by the portfolio to shareholders.

The below chart shows the Basic EPS reported by the Company compared to the full year dividends declared for the financial year periods from FY11 to FY24. This highlights that the Company pays out the bulk of the earnings generated by the portfolio in any given financial year. During certain periods, the EPS has been materially greater than the dividend on the back of special dividends received by the Company. While the Company has paid special dividends in the past, it does so infrequently.

During periods where the EPS declines due to lower income received from the portfolio of investments, the Company can use its retained profits and realised capital gains reserve to top up dividends. While it had the capacity to maintain dividends in FY20 and FY21, due to the heightened level of uncertainty in the market at the time, the Board took the conservative approach to reduce dividends during the period. The dividend quickly recovered with the FY22 dividend being in line with the FY19 dividend and subsequently being increased in FY23 and FY24.

We view the risks to the dividend as low at this time. The Company has sizable reserves and franking credit balance which should result in the Company being able to maintain the dividends, unless there is a material market event.

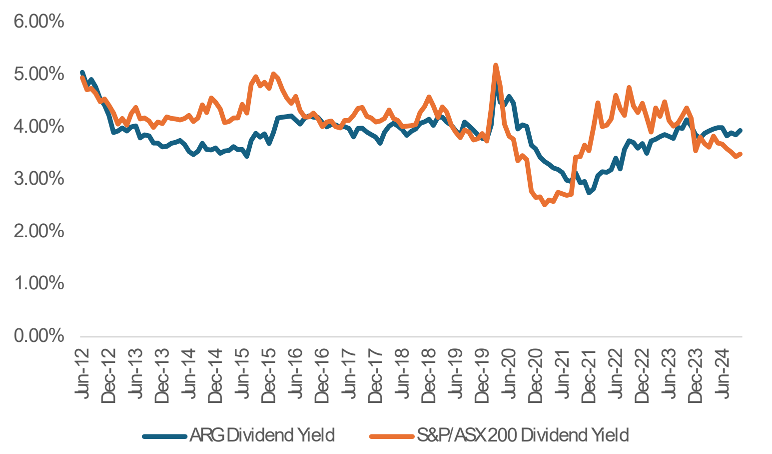
EPS vs. Full Year Dividend Declared



Source: ARG Annual Reports, IIR.

As shown by the below chart, ARG's dividend yield has varied around the dividend yield of the benchmark. In recent months the yield has moved above the benchmark as a result of the elevated discount at which the Company has been trading. During 2021 and 2022, ARG's dividend yield was lower than the market with the low interest rate environment during this period resulting in increased demand for yielding products, such as ARG, which pushed the share price to a sizable premium to NTA, having a negative impact on the yield. For the income component of an investment in ARG, investors should be seeking a reliable fully franked dividend stream as part of the total return from the investment. Investors should not be seeking an above market dividend yield, although may be able to receive an above market yield if shares are acquired at elevated discounts.

Trailing 12-month Dividend Yield



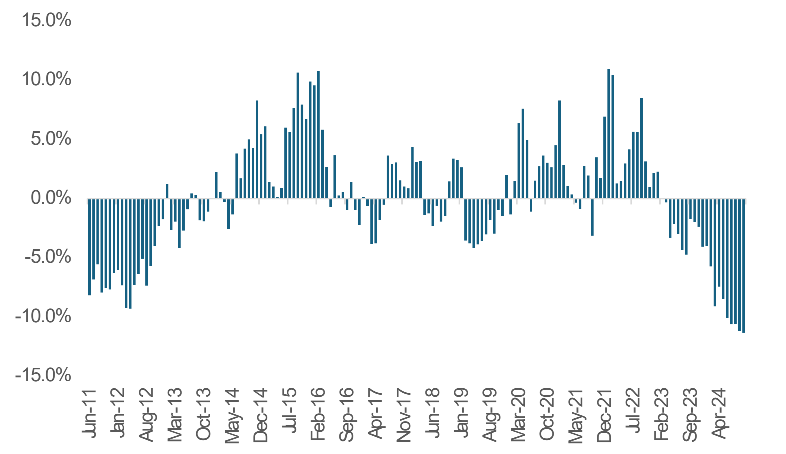
Source: Iress, IIR

Premium/Discount

The Company has traded at both premiums and discounts throughout its history. The premium/discount in recent year has been largely driven by the interest rate environment. Post the pandemic, ARG's shares were trading at a sizable premium as investors searched for yield with ARG viewed as a reliable source of yield for investors. This environment saw an unusually large number of new shareholders on the register. As the interest rate environment reversed, those that had invested for yield were now able to get competitive income streams from other assets, including term deposits. This has put pressure on the share price with the share price now trading at the largest discount in over a decade.

We view the discount to be cyclical with the potential decline in interest rates in 2025 seeing the discount narrow. We believe the discount provides a unique opportunity for investors to enhance the return.

Historical Premium/Discount (based on month-end data)



Source: ASX, Iress, IIR

PEER COMPARISON

The below provides a comparison of the key features and performance of the relevant peers of ARG. The peer group includes LICs that have a focus on large cap ASX-listed equities. While all LICs in the peer group have a focus on ASX-listed large cap stocks each of the LICs have a different strategy and mandate. For example, ARG has a long-term low turnover investment approach. This compares to WLE, which has a highly active style of investing resulting in high levels of turnover.

Like ARG, AFI, AUI and BKI all have a similar long-term, tax aware investment approach. However each of these vehicles offers exposure to a different mandate. For example, BKI seeks to provide an above-market yield, AFI has a focus on large cap stocks with a moderately concentrated portfolio, AUI also has a moderately diversified portfolio focused on large cap stocks, while ARG provides exposure a highly diversified portfolio across the market cap spectrum.

Peer Group				
Name	**Ticker**	**Structure**	**Management**	**Market Cap ($m)***
Australian Foundation Investment Company Limited	AFI	LIC	Internal	$9,342.3
AMCIL Limited	AMH	LIC	Internal	$371.9
Argo Investments Limited	**ARG**	**LIC**	**Internal**	**$6,693.5**
Australian United Investment Company Limited	AUI	LIC	Internal	$1,361.3
BKI Investment Company Limited	BKI	LIC	External	$1,384.2
Perpetual Investment Company	PIC	LIC	External	$448.7
Whitefield Industrials Ltd	WHF	LIC	External	$659.8
WAM Leaders Limited	WLE	LIC	External	$1,871.9

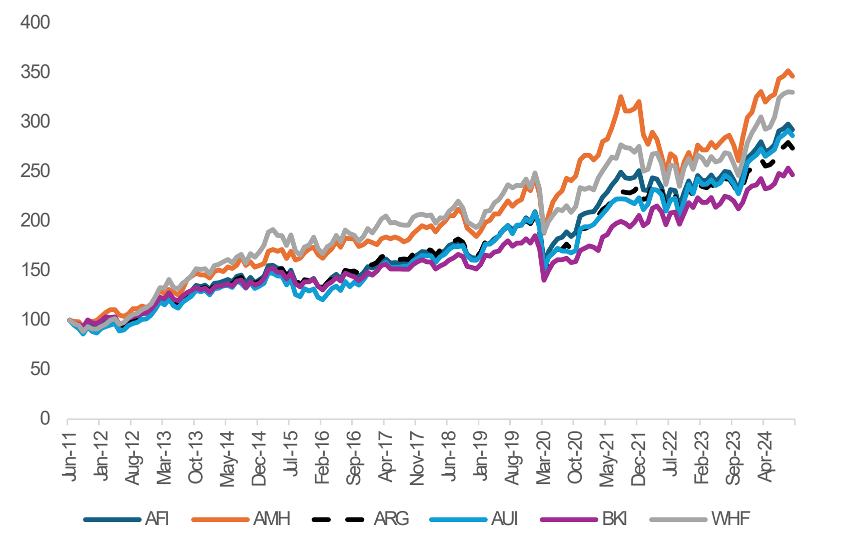
*As at 31 October 2024.
Source: ASX, IIR.

From a fee perspective, ARG's fees are highly competitive. The portfolio is internally managed. This combined with the size of the Company results in low levels of fees for investors. The low level of fees and no performance fees means the fee leakage for ARG is low.

Peer Group Fee Comparison				
LIC Name	**ASX Ticker**	**Management Fee, ex GST**	**Performance Fee**	**Performance Fee Hurdle**
Australian Foundation Investment Company Limited	AFI	0.14%	na	na
AMCIL Limited	AMH	0.46%	na	na
Argo Investments Limited	**ARG**	**0.15%**	na	**na**
Australian United Investment Company Limited	AUI	0.10%	na	na
BKI Investment Company Limited	BKI	0.17%	na	na
Perpetual Investment Company	PIC	1.00%	na	na
Whitefield Industrials Ltd	WHF	0.25%	na	na
WAM Leaders Limited	WLE	1.00%	20.0%	S&P/ASX 200 Acc. Index

With regards to NTA performance relative to its peers that have a history dating back more than a decade, over the period 30 June 2011 to 31 October 2024 ARG has provided an absolute return similar to AFI and AUI. Over this period, AMH and WHF portfolios have excelled relative to their peers, while BKI has lagged the peer group.

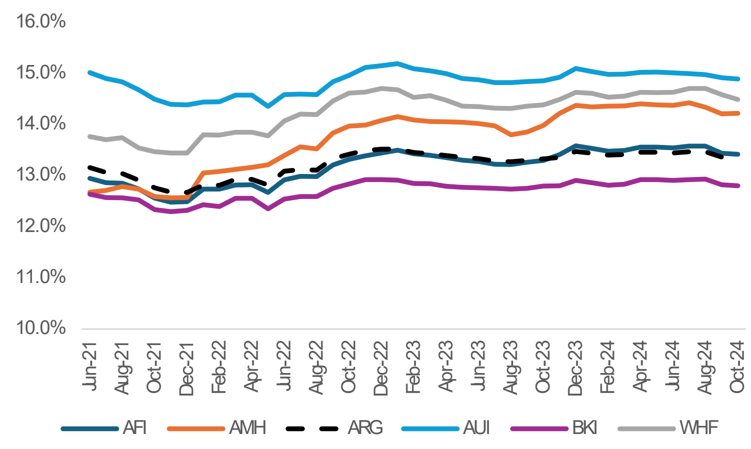
NTA Cumulative Total Return



Source: ASX, Iress, IIR

For those peers that have a history of more than 10 years, we have taken a look at the long-term rolling standard deviation of NTA returns. Over rolling 10 year periods, the annualised standard deviation for most vehicles is relatively stable. ARG's standard deviation over this period has ranged from 12.6% to 14.4%. Of note is that the standard deviation of ARG's NTA returns over the long-term is lower than many of its peers. This is attributed to the high levels of diversification and investment approach of the Company. The results suggest ARG is suited to those seeking exposure to a lower volatility portfolio.

Rolling 10 year NTA Return Annualised Standard Deviation (30 June 2011 to 31 October 2024)



Source: ASX, Iress, IIR

Given not all peers have a history as long as ARG, we have included the NTA risk and return metrics below as at 31 October 2024. A number of the portfolios delivered strong returns over the 12-months to 31 October 2024. ARG lagged some of its internally managed peers given the positioning of the portfolio compared to some of the other vehicles. Industrials have performed particularly well over the period, with WHF's portfolio delivering the highest absolute return over the 12-month period.

While ARG's portfolio returns lagged some of its peers over the 12-month period, the portfolio experienced lower volatility than all portfolios in the peer group, improving returns on a risk-adjusted basis.

Of note is that for many of the LICs, the shareholder returns have underperformed the NTA returns over the 12-months to 31 October 2024 with share prices for many vehicles not following the NTA. ARG's share price has seen one of the bigger dislocations between the share price and NTA over this period.

Risk & Return Metrics (as at 31 October 2024)

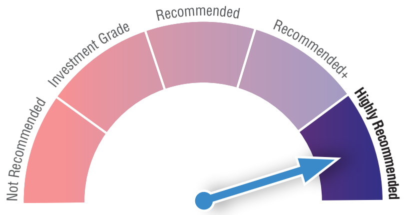
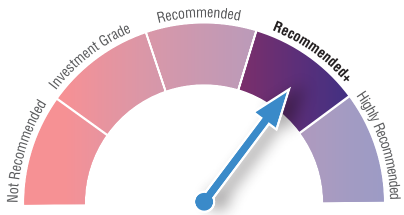
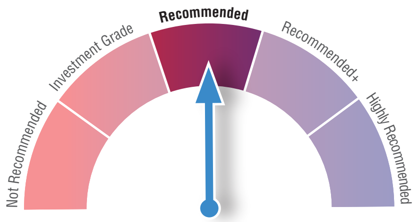
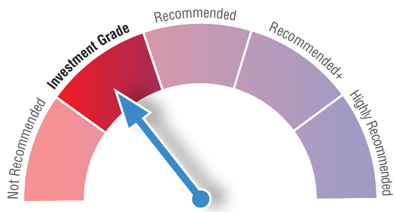
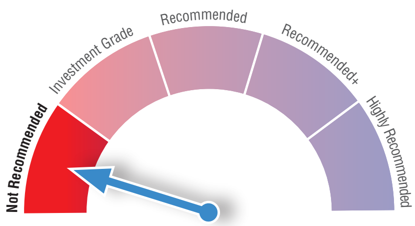
	AFI	AMH	ARG	AUI	BKI	PIC	WHF	WLE
NTA Cumulative Total Returns								
1 year	26.3%	32.7%	20.6%	25.7%	16.2%	17.0%	34.1%	12.6%
3 year (p.a.)	6.4%	3.6%	6.2%	9.2%	8.3%	2.2%	6.4%	3.9%
5 year (p.a.)	8.3%	9.3%	7.0%	7.9%	6.8%	8.7%	7.0%	7.5%
10 year (p.a.)	7.4%	8.1%	6.8%	7.6%	5.9%	na	7.0%	na
NTA Standard Deviation								
1 year	10.8%	12.0%	8.7%	9.9%	10.0%	9.7%	10.8%	11.1%
3 year (p.a.)	14.1%	16.2%	12.5%	13.9%	12.4%	13.4%	15.6%	12.3%
5 year (p.a.)	15.8%	17.5%	16.0%	17.1%	15.0%	16.6%	16.7%	14.4%
10 year (p.a.)	13.4%	14.2%	13.3%	14.9%	12.8%	na	14.5%	na
NTA Risk/Return Ratio								
1 year	2.44	2.72	2.35	2.61	1.62	1.75	3.15	1.14
3 year (p.a.)	0.45	0.22	0.50	0.66	0.67	0.16	0.41	0.32
5 year (p.a.)	0.53	0.53	0.44	0.46	0.45	0.52	0.42	0.52
10 year (p.a.)	0.55	0.57	0.51	0.51	0.46	na	0.49	na
Shareholder Returns								
1 year	17.5%	31.0%	9.4%	23.1%	6.8%	15.7%	12.7%	3.9%
3 year (p.a.)	0.0%	1.4%	0.9%	7.2%	6.4%	2.4%	2.9%	2.1%

Risk & Return Metrics (as at 31 October 2024)								
	AFI	**AMH**	**ARG**	**AUI**	**BKI**	**PIC**	**WHF**	**WLE**
5 year (p.a.)	6.1%	8.7%	4.6%	7.0%	5.2%	8.8%	5.9%	8.7%
10 year (p.a.)	6.2%	7.0%	5.0%	7.1%	5.5%	na	7.0%	na

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system.

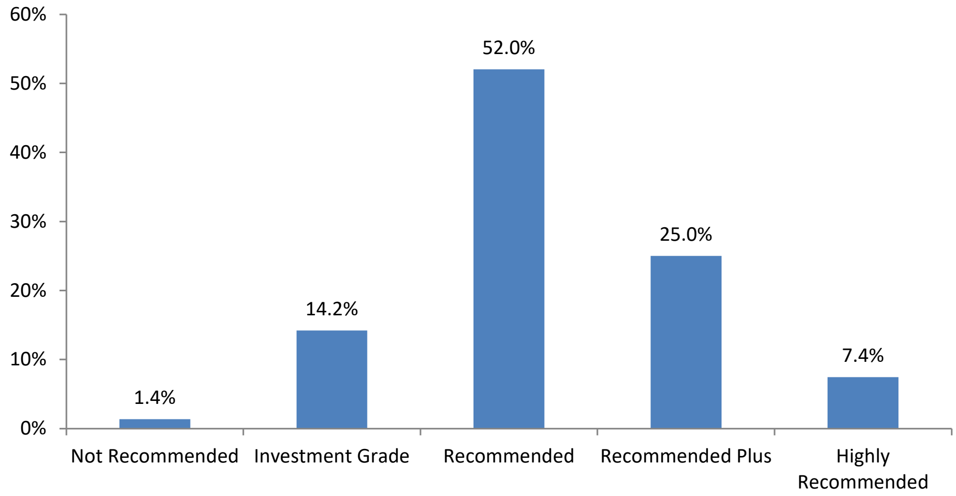
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; 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 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.
Recommended +	79–83
	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	70–79
	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.
Investment Grade	60-70
	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.
Not Recommended	<60
	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.

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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