Argo Remuneration Framework becomes clear

Company/ASX Code	Argo Investments/ARG
AGM time and date	10:00AM ACDT Monday, 21 October
Location	Central Time, at Adelaide Convention Centre, North Terrace, ADL.
Registry	Boardroom
Type of meeting	Physical with simultaneous livestream (view only)
Monitor	Greg OConnell assisted by Bob Ritchie
Pre-AGM Meeting	Yes, in Argo offices with Chief Operating Officer Timothy Binks and, by video, with Chairman Russell Higgins and Chair of Remuneration Peter Warne. ASA represented by Greg OConnell and Bob Ritchie.

Monitor Shareholding: No individual (or their associates) involved in the preparation of this voting intention has any shareholding in this company.

a. How we intend to vote

No.	Resolution description	
2	Adoption of the Remuneration Report	For
3	Re-election of Director – Ms. Elizabeth Lewin	For
4	Re-election of Director – Ms. Lianne Buck	For

b. Summary of Issues and Voting Intentions for AGM

Remuneration Incentives

Argo's changes to their Remuneration Framework, particularly to Long Term Incentives (LTI) four years ago, in FY20 changed the framework previously agreed between ASA and Argo and came as a surprise to ASA. ASA voted against the Remuneration report in FY20 and continued to vote against the Remuneration Report in subsequent years.

Four years of discussion and information exchange between ASA and Argo peaked this year (FY24). ASA now has a better understanding of the Remuneration Framework changes made in FY20, the likelihood of LTI being triggered, the level of trigger and appropriateness of resulting payments:

- ASA has updated the remuneration spot checks we did last year FY23, for this FY24 AGM comparing Argo and peer AFI (with adjustments for organisational complexity). This updated comparison (at Appendix 4) shows results in line with the Argo Remuneration Survey from FY22, leading us to believe that Argo's remuneration is fair and competitive.
- ASA recognises Argo is now a very large, broad based active investor in the Australian share market. As an active manager, Argo incurs costs and any out-performance against its benchmark is an achievement that deserves recognition.
- Argo's FY20 revised LTI incentives maintain both the benchmark (triggering payment) and cap (determining the maximum payment) of the previous framework and ASA analysis in FY24 of historic 4-year investment returns leads us to consider the revised Framework is appropriate.

With this additional context and detailed understanding of both likely performance and recognition of that performance in remuneration, ASA now plans to vote FOR Argo's FY24 Remuneration Report.

Ongoing, we will monitor underlying assumptions and actual Argo performance and update our views as necessary.

Governance and culture

Argo has a period of Board renewal behind it and has multiple directors who are well within the 9 year term for ASA (and Argo) to consider them to be Independent. This is a positive achievement.

We have raised (again) ASA's general preference for hybrid AGMs (where shareholders can participate remotely) with Argo. Argo advise their experience and shareholder polling does not highlight this as a strong need.

Director elections/re-elections

As noted, and discussed in prior years with Argo, Argo provides Aggregated Director skills in a Skills Table on their website - rather than "per director" skills in a Skills Matrix.

This makes it challenging for retail shareholders to understand Board skill needs and assess level of contribution of directors. We discussed this with Argo in the FY2024 pre-AGM meeting. Argo described an internal process for assessing individual skills and considering degree of "fit" used when seeking and selecting candidates with this information summarised in the tables posted on their website.

For now, we will put this lack of a "per director" Skills Matrix to one side. We plan to vote in Favour of the motions for re-election of Ms Elizabeth Lewin and Ms Lianne Buck.

See ASA Voting guidelines and Investment Glossary for definitions.

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
Total Assets $	7.4b	6.9b	6.4b		
NPAT ($m)	253	272	313	174	199.5
UPAT ($m)			313	174	199.5
Share price ($)	8.64	8.76	8.80	8.93	7.19
Dividend (cents)	34.5	34.5	33	28	30
Simple TSR (%)	2.6%	3.9%	2.24%	28.5%	-7.76%
EPS (cents)	33.3	36.1	42.7	24.1	27.8
CEO total remuneration, actual ($m)	1.34	1.24	1.35	1.03	1.23

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Remuneration Incentives

Argo and ASA have held different views, since FY20, of the Remuneration Framework changes made by Argo in FY20.

In FY20, ASA was surprised when Argo adjusted the framework for performance-based long term incentive remuneration (LTI), particularly as the prior Framework had been discussed with previous Argo Chairman Ian Martin, and was understood and supported by ASA. The FY20 change, made without a seeming clear rationale for the change or a clear description of the likely remuneration consequences, was difficult for ASA to understand and support.

ASA voted against the Remuneration report at the AGMs of 2020, 2021, 2022 and 2023.

The resultant against vote was a significant 17% in each of those years.

A summary of the timeline follows:

Brief history - prior to 2020

a. Argo's long-term performance (20 years) up to FY20 and tabled as part of Argo's reporting to retail shareholders, showed marked outperformance against Argo's Benchmark, the S&P/ASX 200 Accumulation Index.

b. With the expectation of future performance having some similarity to past performance, a Remuneration Framework with aspirational targets and corresponding financial rewards was seen as very appropriate by both ASA and Argo.

Brief history - 2020 onwards to current

a. Regarding performance, it has become apparent Argo's increased size and broad-based investments in Australian equities, with some costs, mean that outperformance of its Benchmark is not likely to happen frequently or to a large degree and outperformance of any measure is a significant event to be rewarded. This opinion is supported several items of information:

- ASA Analysis in FY24 of 20-year long term Argo performance data utilised in FY19 & FY20 discussions shows historic outperformances were driven by quite atypical 10% to 14% outperformances in 2001, 2002 around the time of the early 2000s Global Financial Crisis (Refer Appendix 3).
- During the FY23 AGM, SPIVA performance reports were referenced by the Argo Chairman (refer Appendix 2) showing how 80% of active Australian Fund managers underperform their benchmark over 5 years. It is a significant achievement for broad based active (i.e. incurring costs) investment managers (such as Argo) to match the S&P/ASX 200 Benchmark.
- Analysis in FY24 by ASA, using data provided by Argo, developed rolling 10 year returns of Argo's actual performance against its benchmark (refer Appendix 3) with the last 8 years of rolling 10 year performances being less than Benchmark (and 11 of the previous 12 years). Argo's LTI payments are triggered by 4 year returns matching and/or outperforming the Benchmark and ASA's analysis of rolling 4 year returns in FY24 (Refer Appendix 3) shows these events have not been frequent or to a marked degree.

b. Regarding Remuneration levels:

- Prior to, and during the FY23 AGM, Argo advised they had conducted a review of Remuneration in CY22 which supported Argo's Remuneration as competitive and fair. Argo's Remuneration report is confidential to Argo. ASA is not privy to that report, is not aware of the comparison peer group or to the report outcomes.
- For the FY23 AGM, ASA conducted a simple single-point comparison of Argo CEO remuneration over the prior four years, to the CEO remuneration of Australian Foundation Investment Company (AFI). At that time our comparison did not support Argo's statement of Remuneration being competitive and fair.
- During our FY24 pre-AGM meeting, ASA/Argo discussion identified differences in organisational complexity between the two comparison organisations (Argo has a smaller team than AFI covering similar functions; the Argo MD manages both Argo and Argo Listed Infrastructure) justifying a re-weighting of Remuneration for Argo in our comparison. This reweighting results in a comparison (Appendix 4) which is in line with that reported by Argo and does support Argo's statement of Remuneration being competitive and fair.

- ASA has examined Argo's Long-Term Incentive (LTI) Framework in more detail (summarised in Appendix 4) confirming changes in FY2020 maintaining the LTI eligibility criteria of meeting the Benchmark and maintaining the payment cap at 100%.

In summary, from bottom-up analysis with current information, we can now see the adjustments Argo made to the LTI performance Framework in FY20 are reasonable and, on a top-down basis, the single Remuneration check we have conducted also support Argo's statement that the resulting Remuneration paid is competitive and fair (i.e. the LTI criteria for award are working).

Accordingly, the ASA and Argo difference of opinion over the FY20 changes are addressed.

Director elections/re-elections

As ASA commented in FY23, Argo provides Aggregated Director skills in a Skills Table rather than "per director" skills in a Skills Matrix. This makes it challenging to determine Board skill needs and assess which skills are attributed to individual directors.

Director tenures are summarised below:

Board Member	Appointed	Years served at	Years to reach	Independent?
		24-Oct-24	9	
Russell Higgins	01-Sep-11	13.2	Past limit	NO
Chris Cuffe	25-Aug-16	8.2	0.8	YES
Elizabeth Lewin	01-Jul-18	6.3	2.7	YES
Lianne Buck	01-Jul-22	2.3	6.7	YES
Peter Warne	01-Nov-22	2.0	7.0	YES
Melissa Holzberger	30-Aug-23	1.2	7.8	YES
Jason Beddow	03-Feb-14	10.7		NO

We assess Director workload as reasonable particularly considering past discussions with the Chairman highlighting the lighter workload of "other non-listed" directorships.

Director Russell Higgins' tenure exceeds Argo's tenure limit of 9 years for directors and also exceeds ASA's tenure limit of 12 years for being considered independent. ASA voted FOR the re-election of Director Russell Higgins in FY23 after a period of Board renewal. We raised the question of independence of the Chair, based on tenure, during the FY24 pre-AGM meeting and the new Chair of Remuneration, Peter Warne, described the pre-AGM process he undertook where he touched base with all Directors who confirmed their support of the Chairman and their unanimous assessment of his independence.

We plan to vote for the re-election of Ms. Elizabeth Lewin who has served on the Board for 6.3 years, and Ms. Lianne Buck who has served on the Board for 2.3 years.

Governance and culture

Argo has a period of Board renewal behind it and has multiple directors who are well within the 9-year term for ASA to consider them to be Independent. This is a positive achievement.

The Chairman, Russell Higgins, has a tenure exceeding 13 years. This exceeds Argo's tenure guidelines and exceeds ASA's internal criteria for being considered independent by ASA. (see notes above regarding independence).

The board has a majority of independent directors.

Argo's gender diversity target (https://www.argoinvestments.com.au/files/Corporate-Governance-Statement-Argo-2024-final-aug24.pdf at 30 September 2024) is for a minimum of one-third of each gender while ASA's diversity target is for 40% of each gender. Argo meets its own target and also meets ASA's target.

As also observed by ASA in FY23, Argo Skills Matrix (https://www.argoinvestments.com.au/files/Corporate-Governance-Statement-Argo-2024-final-aug24.pdf at 30 September 2024) comprises two lists of aggregate Director skills. We see this demonstrates skills assessment occurring internal to Argo but does not make it easy for shareholders to determine what skills are being lost/gained as Directors depart/join and elections/re-elections for Directors are considered and how these meet Board needs.

Argo's Securities Trading policy as updated and released to ASX on 13 May 2024. Changes are described as administrative with no change to prohibited periods.

Neither Director Melissa Holzberger nor Director Peter Warne have a published ARG shareholding. Neither of them has reached the end of their third year of service at which time there will be a requirement in accordance with Argo's minimum shareholding requirement. (Board Charter https://www.argoinvestments.com.au/files/Board-Charter-Aug-24-approved.pdf dated August 2024 at 30 September 2024.*)*

Argo's current Auditors, PricewaterhouseCoopers have been auditing Argo for 19 years, since 2006, the audit partner has been changing every five years (as required by law). During pre-AGM discussion, Argo advised the last full tender was in 2021.

ASA's preference in assessing companies follows government recommendations made, but **NOT enacted**, for companies to "include in their annual report the tenure of the audit firm and the lead audit partner, and why the entity has not undertaken a public tender process in the last 10 years". We have proposed to Argo this information could reasonably be included in the Annual Report. Argo are not rushing to add additional information to their Annual Report which is not yet legislated.

Key events

Excluding one-off, non-cash income, Argo's profit and Earnings-per-share decreased from last year; Argo's Full year dividends were maintained at last year's level.

An ongoing Dividend Substitution Share Plan was proposed by Argo and approved, at the FY23 AGM, as a new option for shareholders and subsequently implemented.

Argo offered Dividend Reinvestment Plans and Dividend Substitution Share Plans for both Dividend payments this financial year.

Argo's investment performance, measured by NTA return after all costs and tax, and adjusted for Company tax paid, was +11.0% compared to the S&P/ASX200 Accumulation Index return of +12.1%.

The Management Expense Ratio (MER) was 0.155% in FY2023 and 0.15% in FY2024 – Argo describes this as "back to normal" following COVID.

Total shareholders reduced from 95,600 in FY2023 to 93,000 in FY2024 - Argo explains this as a further investor change of focus driven by interest rate changes in the market.

Key Board or senior management changes

Chief Financial Officer, Andrew Hill retired 31-August 2024 and Mr Stephen Mortimer promoted as his successor effective 1September 2024.

Sustainability/ESG

Argo does not have a large social or environmental presence.

Argo has an ESG Web page at:

https://www.argoinvestments.com.au/esg-proxy-voting-statistics/

This includes an explanation of how ESG issues are considered an inherent part of the investment process and influences voting decisions for companies in the Argo portfolio. Voting statistics on this page summarise Argo's proxy voting record for the period FY14 to FY24 showing 89 meetings, 1 Remuneration AGAINST vote, 4 AGAINST(Other) and 1 abstain voted made in FY2024.

4. Rationale for Voting Intentions

Resolution 2 Adoption of Remuneration Report

Discussed in detail above.

Resolution 3 Election of Director Ms Elizabeth Lewin

No material comment.

Resolution 4 Election of Director Ms Lianne Buck

No material comment.

Appendix 1
Remuneration detail FY2024

CEO Rem. Framework for FY2024	Max. Opportunity $m	% of Total
Fixed Remuneration	0.805	36%
STI – Cash	0.322	14%
STI – Equity	0.322	14%
LTI Tranche-1	0.322	14%
LTI Tranche-2	0.322	14%
LTI Tranche-3	0.161	7%
Total	2.254	100%*

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *does not add to 100% due to rounding.

These are always a summary, refer to the Annual report for the full and detailed information.

Appendix 2

Information provided by Argo Chairman during FY23 AGM regarding Performance and Remuneration

2023 AGM Chairman address (==1h:07:17mins):

"A recent study published by Firstlinks using S&P Dow Jones Indices and Morningstar data showed that over 5 years, 80% of Australian equity managers underperform their benchmark. This means that a manager who meets or beats their benchmark is in the top 20% of performers. We think that meeting or beating the index over 4 years, I should just note - after covering all of the Company costs over those 4 years and producing a reliable fully franked dividend stream is good performance, and I think most of our shareholders do too. We think that deserves reward.

We also, last year in 2022, commissioned an expert remuneration company to review our Remuneration plan to provide an independent assessment of our Remuneration Plan and they concluded that our remuneration was competitive and fair. They also found that our LTI opportunities and vesting outcomes over the life of the plan had been below the industry mean. The change to LTI was made 4 years ago and has been voted …………

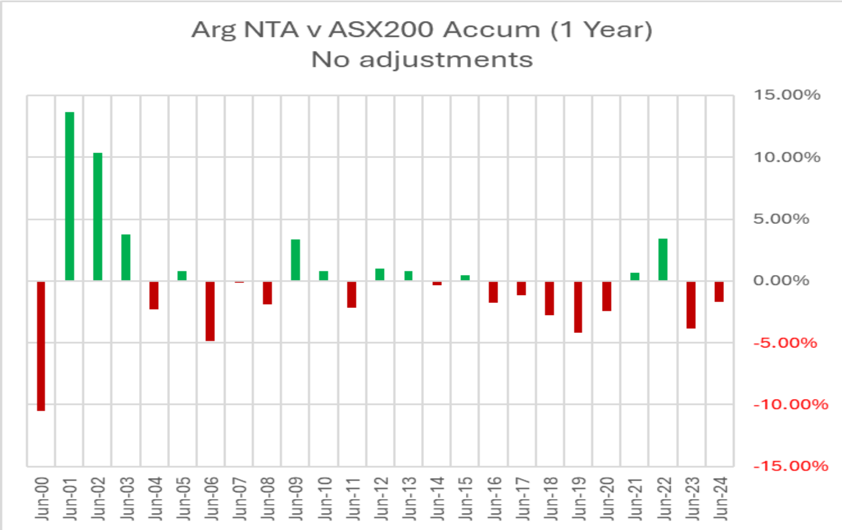
In October 2024, ASA advises the current SPIVA Australia Scorecard to end 2023 is available at:

https://www.spglobal.com/spdji/en/spiva/article/spiva-australia/

Appendix 3

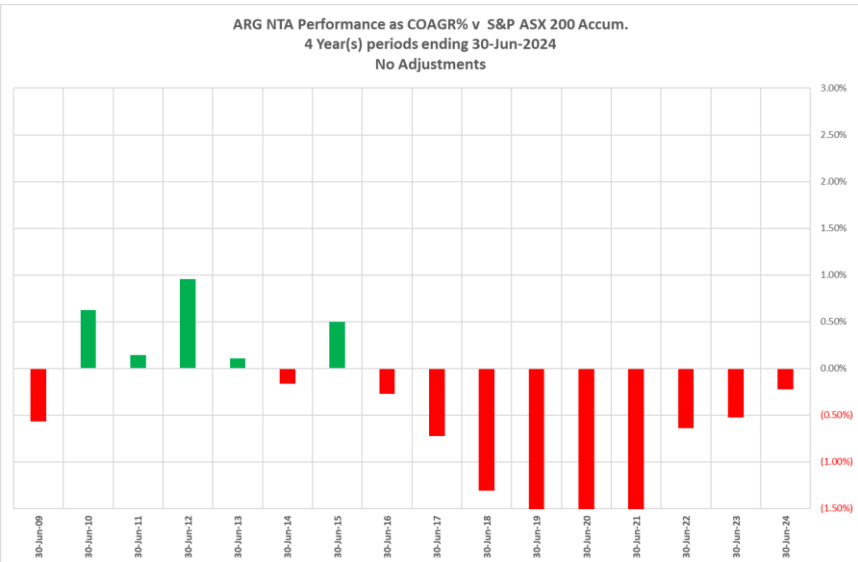
Argo –1-year investment returns early 2000s to FY24

During discussion between ASA and Argo, Argo have provided public performance data to assist ASA analysis. A long-term view of Argo's annual performance relative to the S&P/ASX200 Accumulation Index is presented below, highlighting the very large annual outperformances in Financial Years 2001 and 2002.



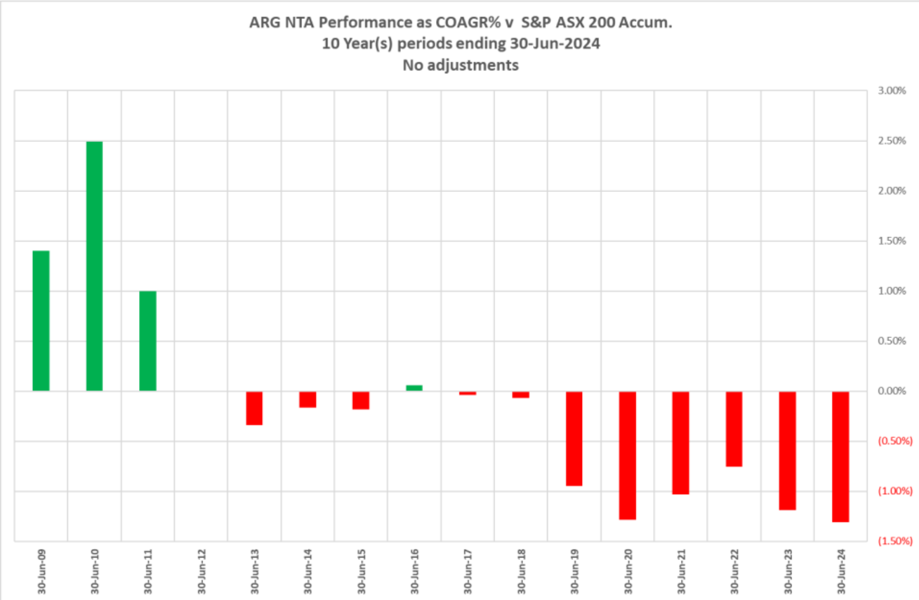
Argo - Rolling 4-year performance vs benchmark to FY24

Argo LTI awards are based on 4-year performance exceeding the S&P/ASX 200 benchmark. Using performance data provided by Argo, ASA has further processed that data to produce rolling 4-year return comparisons of Argo's actual NTA plus dividends plus Franking credit returns against the S&P/ASX 200 Accumulation Index to provide an indication of historic LTI triggers and level of trigger.



Argo - Rolling 10-year performance vs benchmark to FY24

ASA shareholders are, generally, long-term holders of equity investments with holding times of 10 years and greater. Using performance data provided by Argo, ASA has further processed that data to produce rolling 10-year return comparisons of Argo's actual NTA plus dividends plus Franking credit returns against the S&P/ASX 200 Accumulation Index.

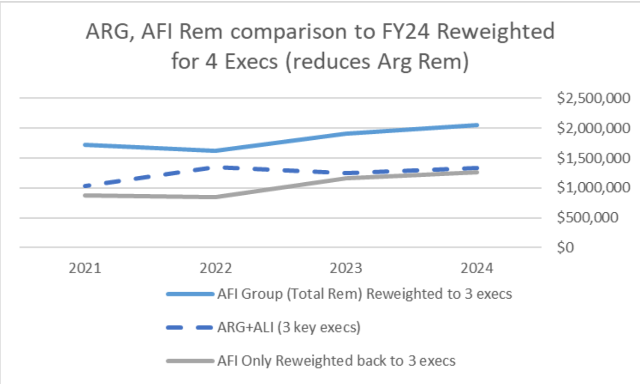


Appendix 4 – Argo Remuneration

Remuneration Comparison – Argo and AFI

This year (FY24), ASA updated the Argo Remuneration comparison for Argo's MD, with peer LIC, Australian Foundation Investment Company (previously included in the FY23 VI report) and incorporating feedback from Argo.

In this comparison, recognizing Argo is smaller than AFI, that ARG plus its subsidiary Argo Infrastructure has some greater complexity than AFI alone and that the Argo team is smaller than the AFI team with that smaller team covering similar responsibilities, the following chart as a single point cross-check shows Argo adjusted MD Remuneration sitting between AFI (Alone) and the AFI Group. This supports Argo's Remuneration Survey report indicating that Argo's Remuneration is fair and competitive in the marketplace.



Argo Long Term Incentive (LTI) Framework comparison – in a picture

The following chart highlights the changes made in the Remuneration Framework in FY20.

Key point is the change from a "proportional" outperformance in the OLD scheme to an "absolute" outperformance of 100 basis points in the NEW scheme. This is illustrated by the two "OLD" scheme lines in the following graph. In the first the Benchmark delivered 1% resulting in 100% payment with an Argo performance of 1%+0.3%=1.3% whereas, with the second, a Benchmark performance of 10% results in a 100% payout with an Argo performance of 10%+3%=13%. The NEW scheme requires outperformance of 100 basis points "absolute" for full payment.

Initial payment level changes while the payment cap is unchanged.