Argo Investments Limited
ABN 35 007 519 520

Head Office
GPO Box 2692
Adelaide, South Australia 5001
Level 12, 19 Grenfell Street,
Adelaide, South Australia 5000

Telephone (08) 8210 9500
Facsimile (08) 8212 1658
Email invest@argoinvestments.com.au

Sydney Office
GPO Box 4313
Sydney, New South Wales 2001
Level 37, 259 George Street,
Sydney, New South Wales 2000

Telephone (02) 8274 4700
Facsimile (02) 8274 4777

www.argoinvestments.com.au

10 March 2017

Dear Shareholder,

Result for the half-year ended 31 December 2016
Argo Investments Limited (Argo or Company)

The Directors have maintained a steady interim dividend of 15 cents per share fully franked and the Company has recorded a half-year profit of $104.1 million.

Summary of financial results	*Half-year to 31.12.15*	***Half-year to 31.12.16***	*change*
Profit	$114.2 million	**$104.1 million**	-8.9%
Earnings per share	17.0 cents	**15.2 cents**	-10.6%
Interim dividend per share	15.0 cents	**15.0 cents**	-
Net tangible asset backing (NTA) per share	$7.28	**$7.63**	+9.6%
Number of shareholders	79,606	**80,880**	+1,274

Overview

The lower first half profit was primarily due to a reduction in dividends received from a number of the larger companies held in the investment portfolio. In addition, income from option writing and trading activities declined from the high levels achieved in last year's first half. There was increased interest income on cash deposits, due to higher cash balances on hand during the half-year, and administration expenses decreased slightly.

The very positive reaction of equity markets to Donald Trump's victory in the US election was widely unexpected. Cyclical stocks in the US responded strongly, and this optimistic view spread globally and extended the Australian market's strong performance in the second half of the calendar year, particularly in the resources sector.

The surge in resources stocks was the main reason that Argo's portfolio performance slightly lagged the broader Australian equity market over the six months to 31 December 2016. Argo's net tangible asset backing performance returned +9.6% after all costs and tax, compared to the ASX200 Accumulation Index which returned +10.6% without any allowance for costs or tax. The share price performance was +3.4%, with Argo shares moving from a premium to NTA backing at 30 June 2016 to a slight discount at 31 December 2016.

During the half-year, the Share Purchase Plan raised $60.5 million and the Dividend Reinvestment Plan $19.9 million, for further portfolio investments.

Investment portfolio

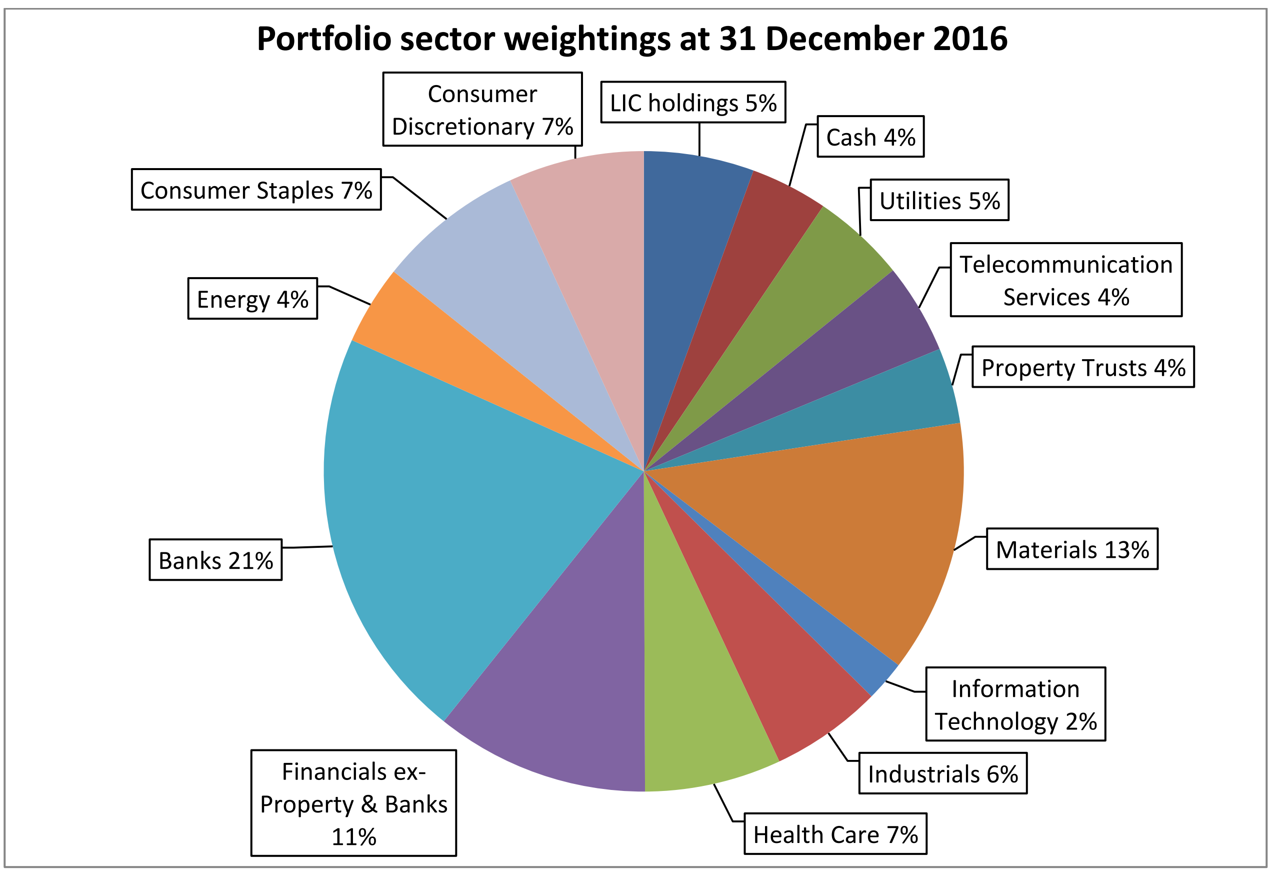
During the six months to 31 December 2016, Argo purchased $89 million of long-term investments. Proceeds of $98 million were received from long-term investment sales, including $55 million due to the takeover of Asciano. The larger movements in the portfolio during the half-year included:

Purchases	*Sales*
Estia Health	Asciano (takeover) *
Vocus Communications	Milton Corporation
QANTM Intellectual Property	ASX *
Boral	Scentre Group
Rural Funds Group	Coca-cola Amatil
oOh!media	Fletcher Building

* Sale of complete position. Other stocks exited during the half-year were Sims Metal Management and Reliance Worldwide Corporation.

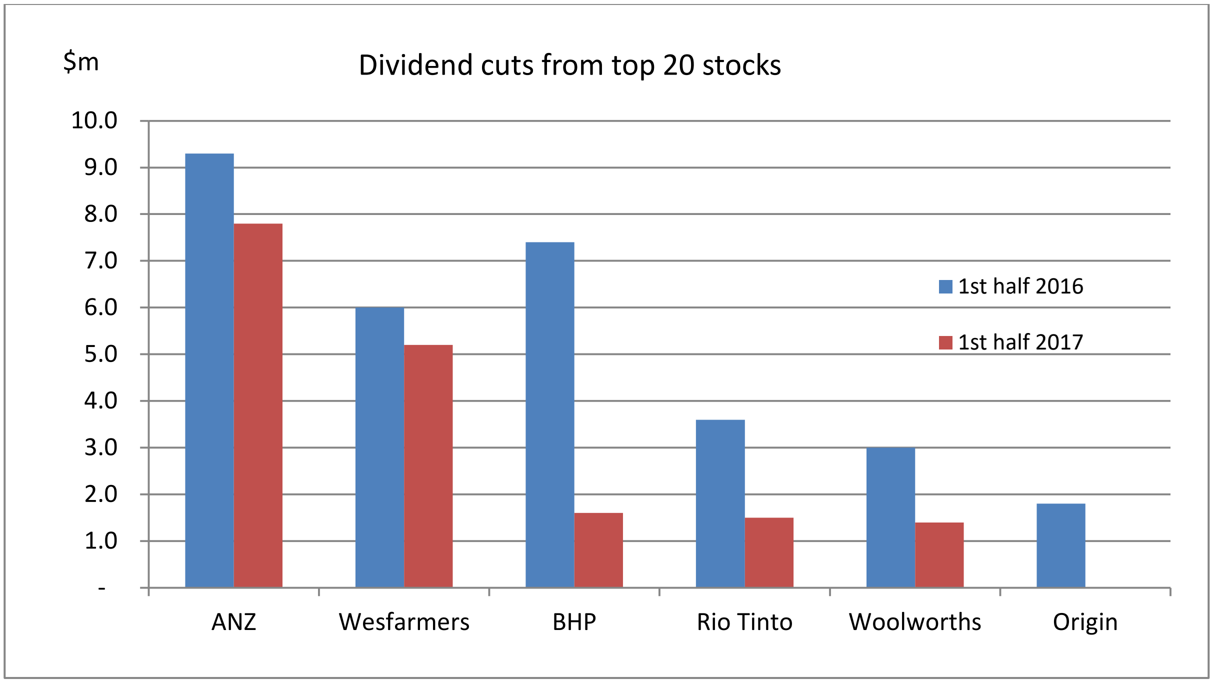
Continuing the trend noted in the 2016 full year result commentary, the majority of Argo's recent purchases have focused on smaller and mid-sized company opportunities. New investments were made in QANTM Intellectual Property, oOh!media, Speedcast International and Murray River Organics Group.

Overall, the number of stocks held in the portfolio decreased slightly over the half-year to 99. The cash balance at 31 December was $209 million, representing 3.9% of the Company's total assets of $5.3 billion.



Dividend income received in the portfolio

At the Annual General Meeting in October last year, we highlighted that we were expecting dividend income pressure due to dividend cuts from several of the larger companies in the portfolio. The chart below shows the quantum of the cuts in dividends received from companies in our top 20 holdings this half-year, compared to the previous corresponding half-year. Although the result was impacted to some extent, we were still able to maintain a steady interim dividend to Argo shareholders.



Wesfarmers and Rio Tinto have recently reported financial results and both have announced increases in their next dividends, giving us some confidence that we may be returning to dividend growth and indicating an improved outlook.

Investment performance

The following table provides annual return statistics for various periods ended 31 December 2016. When analysing this table, it should be borne in mind that Argo's total portfolio performance (measured by the movement in NTA per share assuming dividends paid are reinvested) is calculated after deducting all administration expenses and tax, whereas share market indices do not take account of these costs.

Accumulated performance (per annum)	*1 year*	*3 years*	*5 years*	*10 years*	*15 years*
Argo portfolio return	+9.5%	+5.6%	+11.6%	+4.6%	+8.2%
Argo share price return	-2.8%	+4.6%	+12.5%	+3.7%	+8.2%
S&P/ASX 200 Accumulation Index	+11.8%	+6.6%	+11.9%	+4.5%	+8.0%

At a sector level, Argo's underweight position in the materials sector was the main contributor to relative underperformance over the calendar year, as resource stocks performed very strongly on rebounding commodity prices and better than expected economic activity in China, capped off by expectations of expansionist policy making in the US. Interestingly, and reflecting these volatile times for investing, the reverse was true for the corresponding period last year, when our underweight stance on resources was a benefit to Argo's relative performance.

Outlook

Global stock markets appear to have priced in plenty of good news on pro-growth policies following the US election, which in our mind leaves room for some disappointment in the future.

The policies laid out during Trump's election campaign suggest higher US growth, most likely accompanied by higher interest rates and a stronger US dollar. Confidence levels have improved on the hope of increased investment and wage growth. However, many of these policies will require Congressional approval.

Political risks will remain a focus for markets in the year ahead, with significantly increased uncertainty and a number of potential sources of market volatility. We remain cautious as to the flow-on implications of forthcoming European elections this year in the Netherlands, France and Germany, as well as the ongoing steps that Britain needs to undertake to complete its withdrawal from the European Union.

Although resource stocks have seen significant upgrades to earnings expectations in recent months, increasing the overall earnings for the Australian market, it is prudent to remember that less than 12 months ago, the same resource companies were slashing dividends and aggressively cutting costs just to remain profitable.

Argo remains cautious on the market at these high levels, as broader company earnings will need to improve in order to justify current stock valuations.

In this volatile environment, we are likely to be patient with further meaningful investments, unless the market weakens or opportunities arise through the corporate results reporting season.

Yours faithfully,
ARGO INVESTMENTS LIMITED

Jason Beddow
Managing Director