

## 2019 Annual General Meeting

### CHAIRMAN'S ADDRESS

*Delivered by Mr. Russell Higgins AO at the 73rd Annual General Meeting of Argo Investments Limited (Argo or Company) held at the Adelaide Oval on Monday 21 October 2019 at 10.00am.*

### STRONG FINANCIAL RESULTS

Argo Investments Limited is focussed absolutely on its objective of maximising returns to our shareholders. I am pleased to note that for the seventh consecutive year, we have increased our annual fully franked dividends paid to our shareholders.

Argo's reported profit of \$292.7 million for 2018-19 represents an increase of +33.7% on the previous full year result and was significantly bolstered by income resulting from the demerger of Coles Group from Wesfarmers. Excluding this one-off, non-cash income item, Argo's profit was \$256.6 million, an increase of +17.2%. Dividend income was enhanced by significant special dividends paid by several Australian companies during the financial year, most notably BHP Group, Rio Tinto and Wesfarmers. Argo also benefited from improved ordinary dividends from those three companies and several others including Macquarie Group, Ramsay Health Care and Transurban Group, although these were somewhat offset by dividend cuts from Telstra Corporation, National Australia Bank and Woolworths.

### SUSTAINABLE DIVIDEND GROWTH

In August this year the Board was pleased to declare a fully franked final dividend of 17.0 cents per share. Together with the interim dividend of 16.0 cents per share, the Company paid shareholders annual dividends of 33.0 cents per share fully franked, which represents an increase of +4.8% on last year and is another record high for the Company.

We appreciate the importance of providing sustainable and growing tax-effective dividend income to our shareholders, particularly in the current low interest rate environment. In our latest shareholder survey, which we reported at last year's Annual General Meeting (AGM), you told us that receiving dividends was the most important reason for investing in Argo. We have ensured we continue to make this a priority, as evidenced by the increased fully franked annual dividend to shareholders. Argo's listed investment company (LIC) structure, which allows us the flexibility to smooth dividend payments over time, also helps in meeting this objective.

This year's final dividend also included a LIC capital gain component of 4.0 cents per share, due to some portfolio sales during the year crystallising significant capital gains. When Argo makes a discounted capital gain by selling a stock in our long-term portfolio, we can pass this tax benefit through to our shareholders as though each shareholder owned and sold the stock themselves. Most individual and self-managed superannuation fund (SMSF) shareholders can claim a tax deduction in relation to these capital gains, in addition to the benefit of franking credits. Argo is one of only a

handful of companies able to provide this benefit to shareholders due to our special tax status as a genuine, long-term investor, not a trader, established by our extensive track record of investing over more than seven decades.

### **INVESTMENT PERFORMANCE**

Over the 12 months to 30 September 2019, Argo's investment portfolio delivered a net tangible asset (NTA) return of +9.0%, after all costs and tax. This compares to the S&P/ASX 200 Accumulation Index which returned +12.5%.

When comparing the portfolio's performance with the broader share market index over this period a number of points should be borne in mind.

First, as a company, Argo must pay corporate tax on profits and realised capital gains. Our NTA performance figures are calculated after deducting the tax we pay, as well as management expenses. In years when significant capital gains are crystallised in the portfolio, such as this one, the tax expense can be quite significant when comparing to the share market index which does not take into account tax or any costs of management.

Second, due to our primary objective of providing our shareholders with sustainably growing dividends over the long-term, the portfolio is weighted to mature companies with reliable cash flows and higher dividend payout ratios. The investment portfolio does not include meaningful positions in mid-cap mining or technology stocks. Companies in these sectors do not generally pay dividends to shareholders, although with investors favouring growth stocks, they have delivered significant capital growth in recent times.

This latter point raises an issue for the company at present. The share prices of companies in industry sectors which pay reliable and more substantial dividends have underperformed the more growth-oriented stocks in recent times. We are seeing less companies delivering capital appreciation and dividend growth concurrently, although in the past many of those 'blue chip' stocks have achieved both for us. Consequently, the challenge of producing both a growing fully franked dividend stream and capital appreciation has become more difficult. This is something that the Board and Management are monitoring closely and whilst the portfolio will continue to evolve, we do not see the justification to substantially change our investment approach at present.

Our managing Director, Jason Beddow, will speak in more detail about a number of relevant aspects of the portfolio shortly.

### **MARKET OUTLOOK**

Domestically, the Hayne Royal Commission has had a tangible impact on Australia's banks and continues to have regulatory and reputational ramifications for many segments of the financial services sector. Like many of our shareholders, we have been troubled by the revelations arising from

the Royal Commission and we have actively engaged with the Boards of many of these companies to express our concerns.

At last year's AGM, I commented that the prognosis for the Australian and global economy was generally positive, albeit with some potential clouds gathering on the horizon. In fact global markets declined sharply in the December quarter. Following the decline, markets were then driven higher, partly due to accommodative monetary policy in major economies. The outlook this year appears more challenged with a number of risks to worldwide growth. These include heightened US/China trade tensions, ongoing civil unrest in Hong Kong, the uncertainty arising from the protracted Brexit negotiations and rising tensions and conflict in the Middle East. Each of these risks has the potential to deteriorate with major geopolitical and economic ramifications. We are closely watching developments and Jason Beddow will discuss Argo's investment outlook further and how our portfolio is positioned in response to the prevailing market conditions.

### **RESILIENT BUSINESS MODEL**

Despite these uncertain times we believe that Argo has a resilient business model. Argo has no debt and a well-diversified investment portfolio. Our internally managed, low-cost business model and long-term investment philosophy has stood the test of time over many difficult economic cycles and major disruptive events including the Global Financial Crisis, major international conflicts and natural disasters.

As testament to the attractiveness and resilience of Argo's simple, transparent structure and investment approach, we continue to attract new investors, with 2,618 shareholders joining the register in financial year 2019. We now have over 87,000 shareholders including around 30,000 regular participants in the Dividend Reinvestment Plan, demonstrating your commitment to the Company and long-term approach to investing.

### **THANK YOU**

In conclusion, I would like to thank our Managing Director, Jason Beddow, and the Argo team for their ongoing and valued contribution to the Company. We have a small team of talented and dedicated individuals who are committed to creating value for our shareholders.

I also thank my fellow Board members for their continued hard work and the important role they play in the Company.

On behalf of the Board, I sincerely thank you, our loyal shareholders, for your ongoing support of the Company. To our new shareholders, we welcome you to Argo.