



ARGO INVESTMENTS LIMITED

ABN 35 007 519 520

2018 Annual General Meeting CHAIRMAN'S ADDRESS

*Delivered by Mr. Russell Higgins AO at the 72nd Annual General Meeting of Argo Investments Limited
(Argo or Company) held at the Adelaide Oval on Monday 22 October 2018 at 10.00am.*

Strong financial results

Argo's straightforward business model and proven investment philosophy have once again delivered a positive outcome for our shareholders. I am pleased that for the sixth consecutive year, we have increased annual fully franked dividends after reporting a full year profit of \$218.9 million for the year ended 30 June 2018.

Our revenue for the year increased by 2.3%, driven by dividend increases from Macquarie Group, BHP and Rio Tinto. Income from trading and option writing declined, although income from interest received on cash deposits increased due to higher cash balances on hand.

On the expense side, Argo's costs rose by just 1.0% and due to our stronger balance sheet, the Management Expense Ratio dropped to 0.15% of average assets held over the year, which is significantly lower than most other actively managed products.

Continued dividend growth

We appreciate that for our shareholders, providing sustainable and growing tax-effective dividend income is very important, particularly while interest rates on cash are at very low levels. A significant benefit of the listed investment company (LIC) structure, is the ability to smooth dividend payments to shareholders over time. In contrast, a managed fund with a trust structure must distribute all profits to unit holders every year. This can result in their distributions fluctuating considerably from year to year. The flexibility of the LIC structure has helped Argo maintain steadily growing dividends in recent years.

The Board was pleased to declare an increased fully franked final dividend of 16 cents per share. Together with the 15.5 cents per share interim dividend, this brought full year dividends to a record 31.5 cents per share, fully franked.

As in recent years, the dividend included an LIC capital gain component. This is because when Argo makes a discounted capital gain in its portfolio, it can pass through the capital gains tax discount to its shareholders as though the shareholder held and sold the stock themselves. Argo is one of only a handful of companies in Australia with the ability to do this because the Australian Tax Office recognises Argo to be a genuine, long-term investor, not a trader. This has been established by our track record of investing over many decades, in fact since 1946.

Most individual and self-managed superannuation fund shareholders can claim a tax deduction due to the LIC capital gain component of the dividend, in addition to the benefit of franking credits. Details are on the relevant dividend statements and I urge you to carefully examine whether you can take advantage of this tax deduction.

Investment performance

Argo's latest performance figures show an NTA return of +11.0% for the 12 months to 30 September 2018. When coupled with the record high dividends paid for the year, this is a strong outcome for shareholders. However, Argo's NTA return underperformed the S&P/ASX 200 Accumulation Index, which returned +14.0% for the same period. I have two important points to make about this difference.

Firstly, Argo is an internally managed company which must pay tax on its profits and realised capital gains. Our NTA performance figures are calculated after deducting our costs of management and the tax we pay, whereas the share market index does not take account of any costs or tax. Secondly, our portfolio composition is influenced by the need to generate a reliable dividend stream to Argo shareholders. Obviously, we would like to outperform the market every year, but we structure the portfolio to sustain and grow dividends as a long-term investor, and this may mean we will underperform at times when certain sectors grow quickly.

For example, Argo holds underweight positions in the Metals and Mining sector, particularly among the smaller and mid-size mining companies which generally pay little or no dividends. The share prices of many of those companies have performed extremely well in recent times, which has impacted Argo's performance relative to the index. Our Managing Director will speak about the portfolio in more detail later in the Meeting.

Opposition to the removal of refundable franking credits

As you are no doubt aware, the Labor Party has adopted a policy to abolish refundable franking credits. That is, if the policy were legislated, the Government would no longer provide cash refunds of excess franking credits.

In Australia a company pays tax on its taxable income, and franking credits recognise that tax already paid when the income is distributed by way of dividends to the shareholders, that is the owners, of the company. These franking credits should have the same value to all Australian taxpayers regardless of their marginal tax rate. To do otherwise is inequitable. To suggest that taxpayers with a zero marginal tax rate have paid no tax is wrong – the company has already paid tax on that dividend income on the shareholders' behalf.

We have received correspondence from many of our shareholders who are deeply concerned about these proposed changes. We share these concerns and strongly oppose the removal of refundable franking credits on the grounds that it would have a fundamentally inequitable impact. If implemented, Labor's policy would unfairly and disproportionately affect many individual and SMSF investors. It would have a particularly negative impact on low-and-middle income earners. For Australian shareholders reliant on the income from refundable franking credits, the policy would amount to a 30% tax increase.

Argo has taken several proactive steps to advocate on behalf of shareholders who are likely to be affected by this policy should it be implemented. We recently made a formal submission to the House of

Representatives Standing Committee on Economics Inquiry into the implications of removing refundable franking credits, which strongly voices our objections.

In addition, Argo is a member of two LIC associations – the Australian Listed Investment Companies Association, which is a body formed many years ago by some of the traditional LICs operating at that time, and the newly established Listed Investment Companies and Trusts Association, which also includes many of the newer LICs and listed investment trusts. Both of these bodies are making submissions to the Inquiry. We will put all three submissions on our website once they are released by the House of Representatives Committee.

Survey results

This time last year we conducted a survey of Argo shareholders at the AGM, subsequent investor information meetings and online. I would like to share some of the findings with you today:

- Almost 50% of respondents have been Argo shareholders for 10 or more years;
- 50% of shareholders made their decision to invest in Argo based on their own research, and another 25% were advised to invest by friends or family;
- Dividend income is the dominant reason for shareholders to own Argo shares, closely followed by long term capital growth;
- Nearly 40% of shareholders did not understand the LIC capital gain component of some Argo dividends. This is why we are taking a range of steps to help shareholders understand this unique benefit, including explaining it today and in our recent shareholder letters;
- Over 90% of shareholders are satisfied with the current level of information we provide; and
- Pleasingly, 96% of our shareholders would recommend Argo to other investors.

Thank you to our shareholders who completed this survey. Surveys such as these help us to deepen our understanding of you as shareholders and the issues of importance to you. We welcome all feedback and if you have any suggestions, including on how we can improve our communication and shareholder engagement, please get in touch with our staff. Contact details will be available at the end of today's presentation.

Directorate

On 30 June 2018, Mr. Ian Martin AM retired from Argo's Board after 14 years of service, including the last six years as Chairman. Ian joined the Board of Argo in 2004 and was appointed Chairman in 2012. During his many years of service, Ian provided strong leadership and helped ensure Argo navigated its way safely through the global financial crisis and the post-GFC climate. He has played a pivotal role in Argo's growth and success, ensuring we maintain our position as one of Australia's largest and most respected LICs.

On behalf of the Board, I would like to take this opportunity to formally express my appreciation and thanks for the invaluable contribution Ian has made to Argo.

Following a formal search, Ms. Elizabeth (Liz) Lewin was appointed as an independent, Non-executive Director, with effect from 1 July 2018, and I am pleased to introduce her to shareholders today. The Board unanimously believes her experience in the investment management and superannuation industries make her ideally suited to being a Director of Argo. She has over 25 years of Australian and international experience in the financial services sector as a director and a senior executive. Liz will provide more detail about her background and experience when her election by shareholders is considered later in the meeting.

Market outlook

Now moving to a few comments on the outlook.

Global economies continue to experience largely synchronised growth and most indicators remain positive. The US economy is particularly strong as evidenced by a very tight labour market and strong business and consumer sentiment. The Federal Reserve is optimistic in their assessment of economic conditions and is flagging further interest rate rises over 2019 and 2020. However, some clouds are gathering on the horizon, including the potential for trade wars to escalate. Further increases in tariffs or taxes on trade could have a negative impact on global growth.

Australia's economy is strengthening further and is now expanding 'above trend'. Business conditions are positive with infrastructure expenditure and increased trade supporting growth. Despite signs of momentum, household debt remains high and wage growth is low. Equities are trading at relatively high valuations with some sectors, such as technology, now trading on exceptionally high price-to-earnings ratios.

The Managing Director will discuss in further detail the outlook for markets and how Argo's portfolio is positioned in the current investment climate.

Company outlook in the context of financial services industry developments

Following the extensively reported revelations in the Hayne Royal Commission, community trust in some sections of the financial services sector has declined. In this environment, it is timely for me to remind you that Argo's reputation, developed over decades of ethical and consistent business practices, remains strong. We continue to add new shareholders, with over 3,500 joining in the last year, perhaps attracted by the simplicity and transparency of Argo's efficient business model which is arguably more relevant than ever in the midst of an increasingly complex financial services industry.

We are internally managed for the benefit of the shareholders who own the Company. Our large size, built up over more than 70 years of long-term investing, gives us a cost advantage that the newer LICs and most managed funds cannot compete with. In addition, our long-term investment philosophy has proven to be resilient through market cycles, varying economic conditions and unexpected events.

Thank you

I would like conclude by thanking Jason Beddow and the team at Argo for their continued efforts. We have a small team of talented individuals who are committed to creating value for our shareholders.

I would also like to thank my fellow Board members for their valuable contributions to Argo.

Finally, on behalf of the Board, I warmly thank our loyal shareholders for their ongoing support and to our new shareholders, welcome to Argo.