



26 October 2020

The Manager
Company Announcements
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

2020 Annual General Meeting Chairman's Address

Please find attached the Chairman's Address given by Mr. Russell Higgins AO at today's Annual General Meeting of Argo Investments Limited.

Yours faithfully,

T.C.A. Binks
Chief Operating Officer & Company Secretary

2020 Annual General Meeting

CHAIRMAN'S ADDRESS

Delivered by Mr Russell Higgins AO at the 74th Annual General Meeting of Argo Investments Limited (Argo or Company) held online on Monday 26 October 2020 at 10.00am (Adelaide time).

INTRODUCTION

Since our last Annual General Meeting (AGM), our lives, the economy and the share market have been impacted by a series of unprecedented events. Chief among these, of course, and overshadowing everything else, is the global coronavirus pandemic – a health and economic crisis posing enormous challenges for the nation, our leaders and the world.

As you would be well-aware, the threat of COVID-19 led to one of the steepest share market falls on record. In less than five weeks, Australian shares plunged by nearly 40%. Given the highly uncertain outlook, companies in sectors particularly impacted by physical distancing and the lockdowns withdrew profit guidance. Many companies responded by cancelling, postponing or cutting their dividends, with total dividends paid to shareholders across the share market down by approximately one third over the year. Dividends from the banks fell particularly sharply. Of the three banks that reported following the onset of the COVID-19 crisis, their collective dividends were down -90% on the prior period.

Amidst the considerable uncertainty and volatility, Argo's investment team maintained its focus on applying our established investment process and generating sustainable dividends for shareholders. Argo's approach and business model remained unchanged. COVID-19 necessitated changes to Argo's own operations; however, importantly, we were able to operate efficiently under COVID-safe conditions almost immediately.

FINANCIAL RESULTS

Argo's reported profit for the 2019-20 financial year was \$199.5 million. This represents a decrease of -22.2% on the 2018-19 full year result, excluding the one-off, non-cash income from the demerger of Coles Group from Wesfarmers in the previous year.

Argo's profit is reliant on dividend income from the companies in our portfolio. Due to COVID-19, this income has been significantly impacted (particularly in the second half) with dividends being postponed, cancelled or cut, often substantially, by numerous companies in our investment portfolio. The largest negative impacts on Argo's income are attributable to our holdings in Westpac and ANZ, which both deferred their dividends, and NAB, which cut its dividend.

FULLY FRANKED DIVIDENDS

The Board declared a fully franked final dividend of 14.0 cents per share. Together with the 16.0 cents per share interim dividend, annual fully franked dividends totalled 30.0 cents per share, down -9.1% on the previous year. Given the uncertain outlook, Argo's Board considered it prudent to lower the final dividend to ensure the Company is well positioned to weather what may prove to be a prolonged economic downturn.

A key strength of Argo's listed investment company (LIC) structure is our ability to smooth dividends over time and provide a relatively reliable stream of income to our shareholders. In contrast, managed funds with a trust structure must distribute their profits every year which can result in their distributions fluctuating considerably from year to year.

This benefit was well demonstrated this year. In 2019-20 dividends from ASX200 companies fell by approximately -30%. In contrast, Argo's dividend paid to shareholders in 2019-20 was down only 9%, partly due to the composition and management of our portfolio, and partly due to Argo's ability to smooth dividends by drawing on reserves from prior year gains.

PERFORMANCE

Over the 12 months to 30 September 2020, Argo's investment portfolio delivered a net tangible asset (NTA) return of -12.0%, after all costs and tax. This compares to the S&P/ASX 200 Accumulation Index which returned -10.2%, without making any allowance for costs or tax. Over the same period, Argo's share price fell just -6.0%.

The portfolio's underperformance relative to the broader Australian share market is due to a combination of factors, including having no holding in Fortescue Metals Group, which increased more than 80% over the year, and an underweight position in CSL, as well as gold and technology stocks.

In recent months, Australia's technology sector has achieved staggering capital growth, albeit off a low base. However, these companies generally do not pay dividends, and many are not yet profitable. As our key objective is to provide sustainable dividends to our shareholders, it is hard for Argo to own market weights of technology stocks and this can impact our portfolio performance relative to the index.

Our Managing Director, Jason Beddow, will provide further details about Argo's investment portfolio shortly.

OUTLOOK

Although the share market has rebounded in recent months, the road to recovery remains largely obscured. As evidenced by the second waves of infection in Australia and overseas, current conditions may be with us for some time. The outlook is largely contingent on the course of the coronavirus pandemic, which in turn could be heavily influenced by the discovery of an effective and widely available vaccine. Furthermore, the outlook will be influenced by the ongoing response of governments, policymakers and central banks. Consequently, it remains very difficult to forecast with any confidence the outlook for individual companies and the share market more broadly. However, short-term volatility seems assured.

With a strong balance sheet, no debt and a well-diversified portfolio, Argo's business remains resilient in this environment. Providing sustainable and tax-effective dividend income to our shareholders continues to be a priority for us, particularly given the very low interest rates on cash deposits. We remain focused on finding long-term value by consistently applying Argo's established investment process which has served us well in varying market conditions since 1946.

Our internally managed, low-cost business model and long-term investment approach continues to attract new shareholders. Shareholder numbers increased considerably in financial year 2020, particularly during the period of considerable market volatility, with nearly 6,000 shareholders joining the register. Argo now has over 93,100 shareholders, with approximately 35% participating in our Dividend Reinvestment Plan, demonstrating a commitment to the Company and our long-term investment approach.

THANK YOU

I would like to conclude by thanking our Managing Director, Jason Beddow, and his dedicated team for their continued hard work. The team adapted quickly and well to a new working modus operandi necessitated by the coronavirus. I commend them for their resilience and flexibility.

I would also like to thank my fellow Board members for their valuable contributions to the Company through what has been a challenging year.

Importantly, on behalf of the Board, I sincerely thank you, our loyal shareholders. To our new shareholders, I welcome you to Argo.