ARGO INVESTMENTS LIMITED ACN 007 519 520

ASX / Media Release

13 August 2018

Argo raises dividends for sixth successive year

Argo Investments Limited (ASX code: ARG), a major Australian listed investment company (LIC) with net assets of over $5 billion, today announced a full year profit of $218.9 million and a final dividend of 16 cents per share fully franked. This dividend includes 4 cents per share relating to capital profits on investments sold during the year. Most individual and self-managed super fund shareholders can claim a tax deduction relating to these capital gains, in addition to the benefit of franking credits.

Argo's Managing Director, Mr. Jason Beddow, said that the Company was pleased to advise that for the sixth year in a row Argo's annual dividend has been raised, and that the 31.5 cents per share declared this year is another record high for Argo.

Summary of financial results	***2018***	*2017*	*change*
Profit	**$218.9 million**	$211.5 million	+3.5%
Earnings per share	**31.3 cents**	30.7 cents	+2.0%
Final dividend per share	**16.0 cents**	16.0 cents	steady
Full year dividends per share	**31.5 cents**	31.0 cents	+1.6%
Net tangible asset backing (NTA) per share	**$8.16**	$7.71	+5.8%
Number of shareholders	**84,120**	81,445	+2,675
Management Expense Ratio	**0.15%**	0.16%	

Mr. Beddow said "Argo's straightforward and resilient business model continues to produce increasing fully franked dividends and solid capital gains. We keep operating costs low and manage the portfolio in a tax-aware manner to focus on maximising long-term returns to our shareholders."

"Dividend increases from Macquarie Group, BHP Billiton and Rio Tinto boosted our revenue this year, which helped to deliver Argo's highest ever full year dividend" he said.

Argo's Management Expense Ratio, which is a measure of the costs required to run the Company relative to its assets, declined to just 0.15%, which is significantly lower than the cost of most other actively managed investment products.

Investment performance

Despite ongoing geopolitical uncertainty, synchronized economic growth in most regions of the world fuelled another very strong year for equity markets. The Australian market was no exception, although the underlying sector performance varied considerably, with the large banks and Telstra weaker, while Metals & Mining and

Technology rose sharply. Argo holds an underweight position in Metals & Mining, and more particularly the smaller and mid-size resources companies, which contributed to underperforming the benchmark index this year. This positioning is not unusual for Argo due to our general preference for companies that can generate dividend income, and it does sometimes result in underperformance when particular sectors are in favour.

Argo's investment (NTA) performance returned +10.2% after all costs and tax over the year. The share price is trading at a slight discount to NTA and returned +8.1% for the year (+9.9% including franking credits).

Investment portfolio

During the financial year, Argo purchased $259 million of long-term investments. Proceeds of $201 million were received from long-term investment sales. Some of the portfolio sales resulted in substantial capital gains being crystallised, which allowed Argo to include a 4 cents per share LIC capital gain component in its final dividend.

The larger movements in the portfolio during the year included:

Purchases	*Sales*
Boral	BHP Billiton
Event Hospitality & Entertainment	Milton Corporation
Nufarm	Rio Tinto
Oil Search	Wesfarmers
Ramsay Health Care	Westfield Corporation *
Suncorp Group	Woolworths
Tabcorp Holdings	WorleyParsons *
Westpac Banking Corporation	

* Sale of complete position. Westfield Corporation was sold on-market following a takeover offer.

Other holdings exited during the year were Fletcher Building, iSelect, Lex Property Fund (takeover), oOh!media, Motorcycle Holdings, Murray River Organics Group and Programmed Maintenance Services (takeover).

The new stocks introduced to the portfolio were Oil Search, Nufarm, Paragon Care, Bega Cheese and Novonix. We also added to 30 existing holdings. The total number of stocks held reduced by 5 to 93.

Directorate

On 30 June 2018, Mr. Ian Martin AM retired from the Board after 14 years' service, including the last 6 years as Chairman. Mr. Martin is a highly respected figure in the financial services industry and Argo has been fortunate to benefit from his many years of service, strong leadership and significant contribution to Argo.

Mr. Russell Higgins AO, who has been a Non-executive Director since 2011, succeeded Mr. Martin as Chairman of the Board. Ms. Elizabeth Lewin was appointed as a Non-executive Director with effect from 1 July 2018.

Outlook

Domestically, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has dominated headlines since the second round of public hearings commenced. The scope and fallout from the Royal Commission is much worse than we or the market may have been expecting, with major repercussions for executive management teams and Boards, reflected by the negative share price reactions in the financial services sector. The current timetable sees a final report of recommendations due in February, which is of particular importance to the Australian listed market due to the large proportion this sector represents.

Compounding the increased regulation and scrutiny for the banks, is the potential slowing of credit growth in the future, due to a combination of tighter lending standards, record household debt and softening house prices.

In Argo's portfolio we look for a balance between the companies with domestic earnings which produce the fully franked dividend streams which we can pass on to our shareholders, and the companies that invest and operate outside Australia which can give us greater diversification beyond the opportunities in the domestic economy. Those companies that succeed overseas can gain a growth pathway into markets which are many multiples of the size of Australia. However, the stronger growth profile in this part of the market has been the focus of many institutional investors, pushing share prices to levels above where we see value.

International economies continue to perform pretty well, with most economic indicators remaining positive, however we are cautious of any further escalation in tariffs or taxes on global trade which would negatively impact global growth.

The US Federal Reserve is likely to continue to lift interest rates throughout 2019 and some of this expectation is already being seen in bond markets, with the US 10-year treasury bond trading at a yield of around 3.0%, a level not seen since 2011. Any acceleration in the pace of interest rate rises in response to higher inflation could be dangerous for asset prices.

"In this environment, with consumer debt high, wage growth low and markets trading at relatively high levels, there is not a lot of margin for error. With this in mind, our cash balances are currently higher than in recent years, reflecting our view that market valuations are relatively high. This will allow us to take advantage of any increase in volatility or uncertainty in markets."

<u>Media contact:</u>
Jason Beddow
Managing Director
02 8274 4702