

Shareholder Update

FOR THE YEAR ENDED 30 JUNE 2020



JASON BEDDOW

Managing Director

BEng, GdipAppFin(Seclnst)

Dear valued shareholder,

Following a very challenging period for the share market, the economy, and the well-being of Australians, Argo Investments Limited (Argo) is pleased to report a solid full year profit and a fully franked final dividend of 14.0 cents per share.

FULL YEAR PROFIT RESULT

Argo's profit for the full year was \$199.5 million, a decrease of -22.2%* on the previous year. Argo's profit was significantly impacted by COVID-19 effects, with dividends being deferred, cancelled or cut (often substantially) by numerous companies in the investment portfolio. The largest negative impacts on Argo's dividend income came from Westpac and ANZ, which both deferred their dividends, and NAB which cut its dividend.

SUMMARY OF FINANCIAL RESULTS

	2020	2019	Change
Profit	\$199.5 million	\$256.6 million*	-22.2%
Earnings per share	27.8 cents	36.0 cents*	-22.8%
Final dividend per share (fully franked)	14.0 cents	17.0 cents	-17.6%
Full year dividends per share (fully franked)	30.0 cents	33.0 cents	-9.1%
Shareholders	92,342	86,740	+6.5%
Management Expense Ratio	0.16%	0.15%	

* Prior year figures exclude the \$36.1 million demerger dividend due to Wesfarmers divesting Coles Group. Including this one-off, non-cash income item, which boosted profit in the previous year, the decrease in profit was -31.9%.

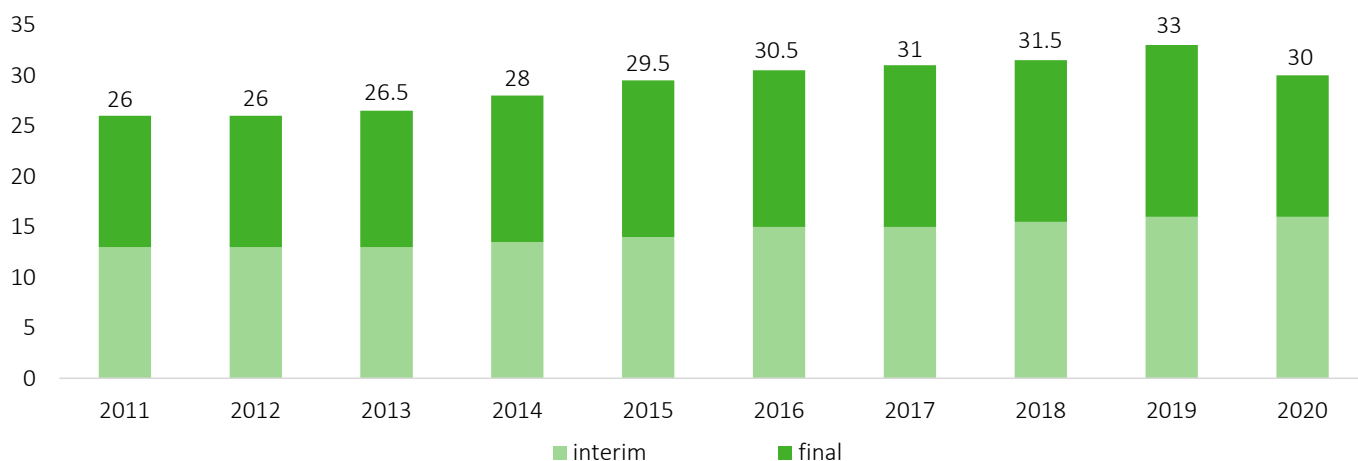
FULLY FRANKED DIVIDENDS

Argo's 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 this year totalled 30.0 cents per share, down -9.1% on the previous year.

In light of the uncertain economic outlook, Argo's Board considered it prudent to lower the final dividend to ensure Argo is positioned to weather a potentially protracted downturn with minimal volatility of dividends paid over time. While the global pandemic saw our half-year profit fall over 40%, the final dividend was reduced by only -17.6%. This is due to Argo's strong balance sheet and listed investment company (LIC) structure which allows us to access reserves from prior year gains to effectively 'smooth' dividends.

Providing sustainable and tax-effective dividend income to shareholders remains a priority for us, particularly in the current environment of very low interest rates on cash deposits.

ANNUAL DIVIDEND HISTORY CENTS PER SHARE (FULLY FRANKED)



INVESTMENT PORTFOLIO

In an extraordinary year for the share market, a majority of sectors posted negative returns, including energy, capital goods, insurance, consumer discretionary and property sectors. Banks were among the worst performers as ongoing industry-specific headwinds and broad exposure to Australia's rapidly weakening economy weighed on the sector.

In contrast, the sectors which held up well in the face of the coronavirus impacts were consumer staples, pharmaceuticals, IT and healthcare.

As a result of these price movements, together with active portfolio management decisions, the composition of Argo's top 10 portfolio holdings has changed over the year as shown in the table below.

Of note, Argo's portfolio exposure to the banks has fallen from 17.4% to 13.8% and remains underweight relative to the share market.

TOP 10 INVESTMENTS[^]

30 JUNE 2020	%	30 JUNE 2019	%
CSL	6.1	Westpac	5.7
Macquarie Group	5.6	Macquarie Group	5.2
BHP	5.1	BHP	5.1
Wesfarmers	4.3	ANZ	4.6
CBA	4.1	CBA	4.3
Westpac	4.1	CSL	4.0
Rio Tinto	3.9	Rio Tinto	3.6
ANZ	3.5	Wesfarmers	3.0
Telstra	2.7	NAB	2.8
Ramsay Health Care	2.6	Telstra	2.8

[^] As a percentage of the investment portfolio

During the financial year, Argo purchased \$243 million of long-term investments, which included adding to new positions. Over the same period Argo received \$127 million from sales and takeovers of long-term investments.

Details of larger movements in the portfolio are shown below:

PURCHASES

- AP Eagers (Automotive Holdings takeover)
- Downer EDI
- Freedom Foods Group
- Oil Search
- Ramsay Health Care
- Suncorp Group
- Treasury Wines*

* *New portfolio position*

SALES

- AMP
- Ansell
- Automotive Holdings (AP Eagers takeover)**
- Corporate Travel Management**
- Dulux Group (Nippon Paint takeover)**
- Milton Corporation
- Nufarm**

** *Fully exited position*

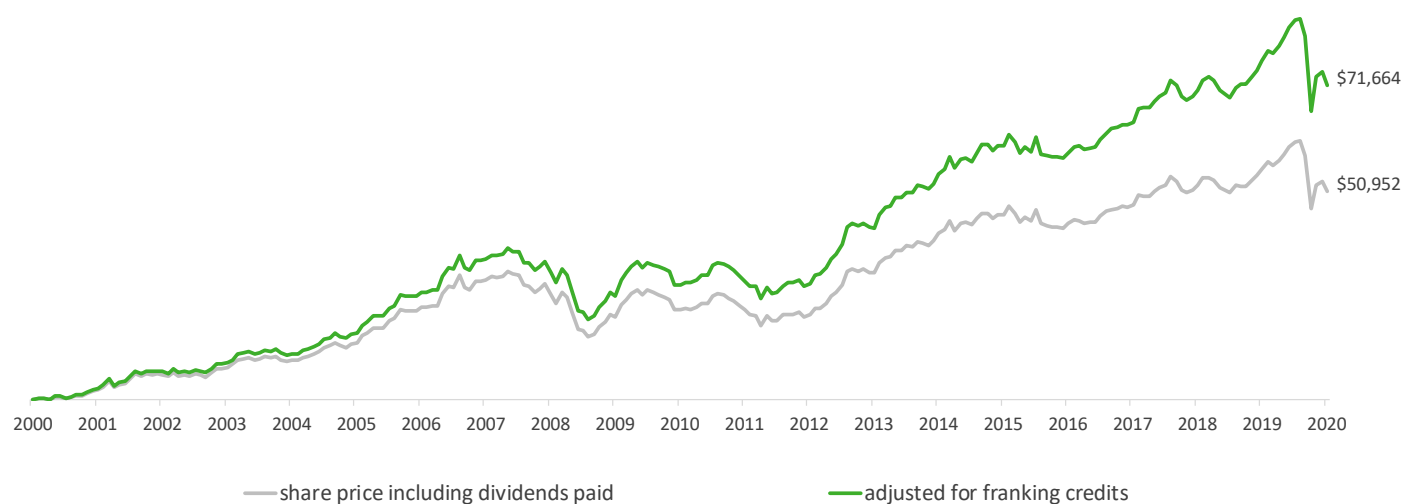
INVESTMENT PERFORMANCE

At the conclusion of a highly volatile and unprecedented year for shares, Argo's investment (NTA) performance returned -10.1% after all costs and tax. This compares with the benchmark S&P/ASX 200 Accumulation Index which returned -7.7%, without making any allowance for costs or tax.

Argo's underperformance relative to the broader Australian share market was due to a combination of factors, including having no portfolio exposure to Fortescue Metals Group (up +71% for the year) and being underweight in CSL (although it is our largest holding), as well as technology and gold stocks. However, Argo's underweight position in retail banks benefited relative performance.

“ Argo's objective is to maximise long-term returns to shareholders through a balance of capital and dividend growth. It does this by investing in a diversified Australian equities portfolio which is actively managed in a tax-aware manner within a low-cost structure. ”

TOTAL RETURNS 20 YEAR RETURN BASED ON \$10,000 INVESTED



A \$10,000 investment in Argo shares on 1 July 2000 would have grown to a value of \$50,952 at 30 June 2020. The tax effective value taking into account the benefit of franking credits is \$71,664.

MARKET OUTLOOK

With economic recovery very dependent on the trajectory of the global coronavirus pandemic, the outlook is largely obscured. In our view, there is the potential for further rapid and unexpected changes to trading conditions which could impact the profitability of Australian companies. Against this uncertain backdrop, we anticipate company boards will continue to take a very cautious approach to capital management, resulting in considerable downward pressure on dividends.

Given the Australian Prudential Regulator's guidance that banks should cap dividend payouts at 50% of earnings, we expect income from this sector will be particularly challenged. This was evidenced in Commonwealth Bank's latest result when its final dividend was cut by -58% to 98.0 cents per share.

We continue to take a consistent and conservative approach to managing Argo's portfolio, remaining faithful to our long-term investment philosophy which has proven resilient through difficult economic cycles and disruptive events over many decades.

With a well-diversified portfolio, no debt and cash available, Argo is well-positioned to capitalise on market volatility in the current environment.

VIRTUAL ANNUAL GENERAL MEETING

In light of the COVID-19 pandemic, and in the interests of the health and safety of our shareholders and staff, the Board has decided to hold a virtual Annual General Meeting (AGM) this year. This means that all shareholders will be able to attend electronically, although no physical venue will be nominated for the AGM.

You will be able to watch and participate in the AGM live via your computer or mobile device, with the opportunity to vote, comment and send questions during the meeting. You will find full details about how to attend and participate in the virtual AGM in the Notice of Meeting to be distributed to shareholders in mid-September.

I encourage you to participate in the AGM, particularly as this year we will be unable to hold our annual shareholder information meetings in various cities around Australia.

You can submit questions in advance of the AGM by completing the question sheet with your Notice of Meeting and Proxy Form and returning it to the share registry or emailing arg2020AGM@boardroomlimited.com.au by 9.00am (Adelaide time) on Friday 23 October 2020.



If you have any questions or comments about the Company, please don't hesitate to contact us by telephone on (08) 8210 9500 or by email to invest@argoinvestments.com.au.

To receive Company news and financial results on the day they are announced, I encourage you to join our email distribution list by clicking on the 'subscribe' button on our website at argoinvestments.com.au.

On behalf of the Board, I thank you for your ongoing and loyal support of Argo. We hope you and your families are staying safe and well during these difficult times.

Yours faithfully,

Jason Beddow
Managing Director