

Shareholder Update

For the year ended 30 June 2019



JASON BEDDOW

Managing Director

BEng, GdipAppFin(Seclnst)

Dear valued shareholder,

On behalf of the Board of Argo Investments Limited (Argo), I am delighted to report a strong profit result and an increased dividend for the 12 months to 30 June 2019.

STRONG PROFIT RESULT

Argo's profit for the full year was \$292.7 million, an increase of +33.7%. This large increase in reported profit was significantly influenced by a one-off, non-cash income item of \$36.1 million due to the demerger of Coles Group from Wesfarmers. Excluding this income item, Argo's profit was \$256.6 million, an increase of +17.2% on the previous full year result.

Argo's dividend income was boosted by a number of special dividends, with the larger ones from BHP Group, Rio Tinto and Wesfarmers. There were also improved ordinary dividends from BHP Group, Rio Tinto, Macquarie Group, Ramsay Health Care and Transurban. These were offset to some extent by dividend decreases from Telstra Corporation, National Australia Bank and Woolworths.

FINANCIAL RESULTS EXCLUDING COLES DEMERGER DIVIDEND

	2019	2018	change
Profit	\$256.6 million	\$218.9 million	+17.2%
Earnings per share	36.0 cents	31.3 cents	+15.0%
Management Expense Ratio	0.15%	0.15%	steady
Dividends per share (fully franked)	33.0 cents	31.5 cents	+4.8%
Net assets	\$5.3 billion	\$5.1 billion	+3.9%
Number of shareholders	86,740	84,120	+3.1%

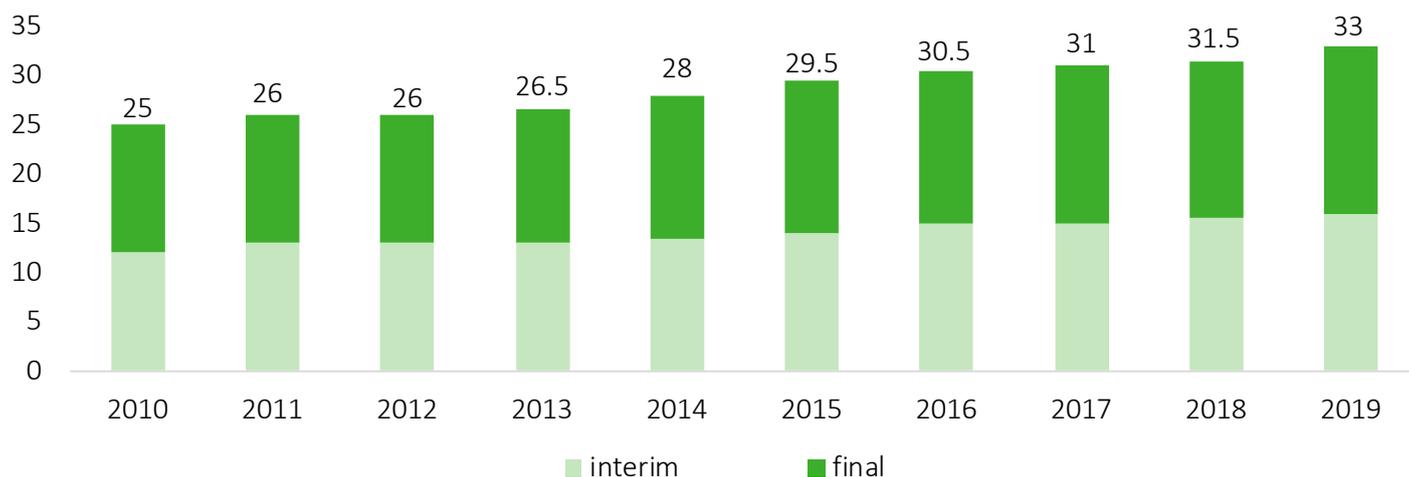
GROWING DIVIDENDS SUSTAINABLY

Argo's Board was pleased to declare a final dividend of 17.0 cents per share, fully franked. Together with the 16.0 cents per share interim dividend, annual dividends rose for the seventh consecutive year to 33.0 cents per share. This represents an increase of 4.8% on last year and another record high for Argo.

Some portfolio sales during the year resulted in significant capital gains being crystallised, allowing Argo to again include a capital gain component of 4.0 cents per share in the final dividend. Most individual and self-managed superannuation fund (SMSF) shareholders can claim a tax deduction relating to these capital gains, in addition to the benefit of franking credits. Further details are provided on the attached information sheet.

Providing sustainable and growing tax-effective dividend income to shareholders is a priority for us, particularly in the current environment of very low interest rates on cash deposits. Argo is proud to have paid dividends every year since our inception in 1946. Argo has franked every dividend payment since the introduction of Australia's imputation system in 1987.

ANNUAL DIVIDENDS HISTORY CENTS PER SHARE



Note: Chart above excludes the additional tax benefits of franking credits and LIC capital gain tax deductions.

INVESTMENT PERFORMANCE

Most sectors recorded positive returns for the year, including telecommunications, which rebounded after several poor years; materials, led higher by a surging iron ore price despite the threat of global trade wars; and information technology, which is being squeezed higher by growth-seeking investors chasing a small number of listed IT companies.

With investors continuing to favour growth stocks, the Australian equity market achieved new highs in the 2019 financial year. Argo's net tangible asset performance returned +7.3% after all costs and tax, compared with the S&P/ASX 200 Accumulation Index which returned +11.6% without any allowance for costs or tax.

Argo's performance reflects the composition of its long-term portfolio which tends to be weighted to mature companies with reliable cashflows and higher dividend payout ratios, rather than high growth stocks. This positioning reflects our primary objective of providing a growing income stream to Argo shareholders over the long-term, delivered efficiently by our low-cost business model.

PORTFOLIO MOVEMENTS

During the financial year, Argo purchased \$343 million of long-term investments which included adding to a number of existing holdings. Argo received proceeds of \$256 million from sales and takeovers of long-term investments. The details of the larger movements in the portfolio during the year are shown below.

PURCHASES

- Bega Cheese
- Boral
- Eclix Group*
- James Hardie Industries*
- Oil Search
- The Star Entertainment Group*
- Transurban Group
- Viva Energy*

* New position

SALES

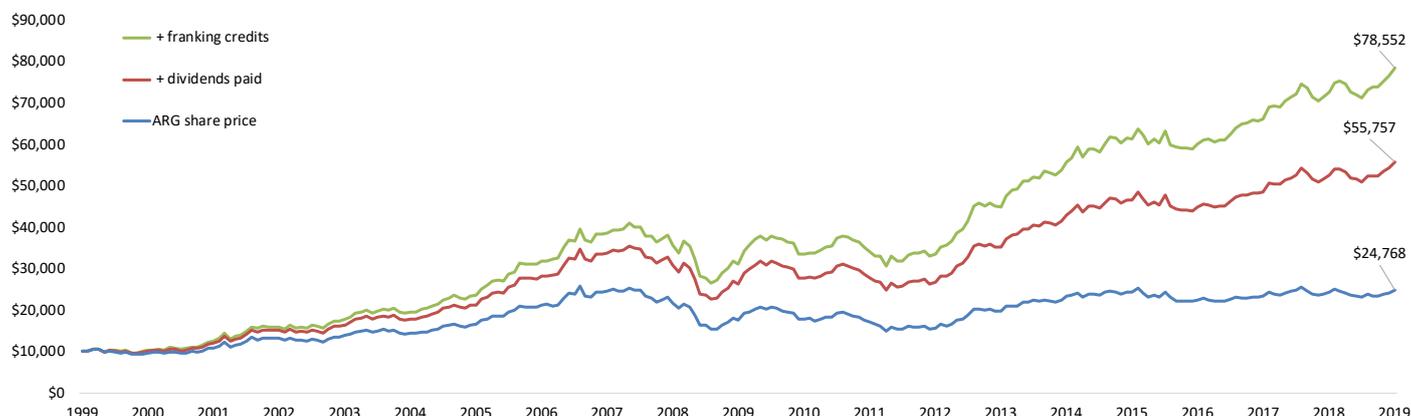
- Asaleo Care**
- BHP Group
- Coca-Cola Amatil**
- Incitec Pivot
- Milton Corporation
- Navitas**
- Rio Tinto
- Twenty-First Century Fox**

** Exited position

In addition, Coles Group has been added following its demerger from Wesfarmers. The other new stocks in the portfolio are Corporate Travel Management, Freedom Foods Group and Lynas Corporation.

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



MARKET OUTLOOK

Despite a weak December 2018 quarter and increased volatility, equity markets globally delivered a strong overall performance in financial year 2019, as investors seemed to shrug off the largely unresolved issues of trade wars and geopolitical tensions which were weighing on markets at the end of the last calendar year.

Sentiment has been bolstered by central banks globally cutting interest rates and showing a renewed willingness to consider additional quantitative easing measures. After raising rates in 2018, the US Federal Reserve promptly pivoted its view and recently cut interest rates for the first time since December 2008. Following the federal election in Australia, the Reserve Bank of Australia quickly cut interest rates in both June and July, to leave the headline cash rate at 1.0%.

Valuation ratios of listed companies look to be close to the upper end of historic ranges and despite improved sentiment, earnings growth appears to be challenged for the majority of the market with the exception of the resources sector. Although many stocks seem expensive based on fundamentals, investors continue to be drawn to the higher yields offered by the share market, compared to bonds and term deposits.

In our view, there is likely to be ongoing downward pressure on corporate earnings. Given this subdued outlook, Argo's investment team is focused on identifying companies with strong cashflows and dividend histories, as well as solid longer-term prospects, that will provide profit and dividend growth into the next phase of the economic cycle.

We expect continued market volatility in the months ahead as varying geopolitical conditions drive investor sentiment. With cash available, Argo is well-positioned to take advantage of opportunities created by short-term stock price fluctuations to further build our long-term investment portfolio.

AGM AND SHAREHOLDER INFORMATION MEETINGS

The schedule for the Annual General Meeting (AGM) and shareholder information meetings which follow will again be combined with that of Argo Global Listed Infrastructure Limited (Argo Infrastructure).

Argo Infrastructure meetings will follow Argo on the same day, with refreshments served in between. Argo shareholders are invited to also attend the Argo Infrastructure meetings, which start at 12.00 noon, except the AGM in Adelaide which will start at 1.00pm.

AGM	Time	Date	Location
Adelaide	10.00 am	Monday 21 October 2019	Adelaide Oval War Memorial Drive, North Adelaide
INFORMATION MEETINGS			
Melbourne	10.00 am	Tuesday 22 October 2019	Grand Hyatt 123 Collins Street, Melbourne
Sydney	10.00 am	Wednesday 23 October 2019	Radisson Blu Hotel (Western entrance) 66 Pitt Street, Sydney
Canberra	10.00 am	Thursday 24 October 2019	Hotel Realm 18 National Circuit, Barton
Brisbane	10.00 am	Friday 25 October 2019	Marriott Hotel 515 Queen Street, Brisbane
Perth	10.00 am	Thursday 31 October 2019	Duxton Hotel 1 St Georges Terrace, Perth

We hope to see you at Argo's AGM or one of our shareholder information meetings.

In the meantime, I encourage you to sign up to Argo's email distribution list to receive the latest Company news and announcements as they happen, as well as our investment and market insights.

Join our email list by clicking on the 'subscribe' button on our website at argoinvestments.com.au.

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

On behalf of the Board, I thank you for your ongoing and loyal support of Argo.

Yours faithfully,



Jason Beddow
Managing Director