21 October 2024

Company Announcements
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Annual General Meeting 2024

Please find attached the Chairman's Address, Managing Director's Address and the accompanying presentation slides for today's Annual General Meeting of Argo Investments Limited (ASX: ARG).

Yours faithfully,

Tim Binks
Company Secretary

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2024 Annual General Meeting
Chairman's Address

Delivered by Mr. Russell Higgins AO at the 78th Annual General Meeting of Argo Investments Limited (Argo or Company) at the Adelaide Convention Centre on Monday 21 October 2024 at 10.00am.

Full year profit result

During a period of continued high inflation and ongoing geopolitical tensions, Argo reported a solid profit and maintained its record-high annual fully franked dividends to our shareholders.

Argo delivered a full-year profit of $253.0 million for the 2024 financial year, down -6.9%. Profit fell overall due to lower dividend income from companies in the investment portfolio, including some of our largest holdings. Most notably dividends from BHP, Rio Tinto and Woodside Energy were down significantly reflecting lower commodity prices. Income generated from option writing and trading activities also declined, whilst income from special dividends increased.

Record high fully franked dividend maintained

In August, the Board was pleased to declare a final dividend of 18.0 cents per share. Together with the interim dividend of 16.5 cents per share, this brought annual fully franked dividends for the financial year to 34.5 cents per share, matching last year's record high.

This underscores an important advantage of the listed investment company (LIC) structure, which allows us to draw on reserves of retained earnings and franking credits to effectively 'smooth' our dividends over time.

In contrast, the cash dividend paid by the constituent companies of the S&P/ASX 200 Accumulation Index (Index) fluctuates over time. This volatility was particularly pronounced in the years since the start of the COVID crisis with the Index's cash dividend falling by as much as 45% compared to pre-pandemic levels. Furthermore, since 2019 the Index's level of franking has oscillated between 68% and 85%.

Throughout the same period, Argo's dividend has remained largely steady. Importantly, our dividend has been fully franked continuously since 1994. This is particularly valued by those investors seeking a stable and consistent after-tax return.

LIC capital gain tax benefit

The final dividend also included a listed investment company (LIC) capital gain component of 3.0 cents per share. This is due to capital gains being crystallised in our portfolio, including due to takeovers.

When Argo makes a discounted capital gain, the tax benefit this generates can be passed on to shareholders. In addition to the benefit of franking credits, eligible shareholders can claim a tax deduction in relation to this capital gain.

We are one of only a handful of Australian companies able to provide our shareholders with this benefit due to our unique status as a genuine long-term investor, not a trader. Argo's ability to pass this benefit on to shareholders distinguishes us from many other managed funds and LICs.

You can find more details on your dividend statement or refer to the 'Dividends' section of the Shareholder Centre on our website.

Investment performance

Over the 12 months to 30 September 2024, Argo's investment performance, as measured by the net tangible asset (NTA) return after all costs and adjusted for company tax we paid, was +18.9%. This compares to the Index which gained +21.8% over the same period. I would point out that the Index return does not take into account any costs. Furthermore, and as I have mentioned, the Index's constituent companies do not pay a consistent, fully franked dividend.

Share price relative to NTA

As many of you would be aware, Argo's share price has been trading at a discount relative to its NTA for several months. In our view, this is a cyclical trend, as reflected in the data over many decades.

We believe a key factor driving the current discount is the increased relative appeal of cash investments due to higher interest rates.

As Australia's official cash rate rises, stocks providing stable and consistent dividends become relatively less attractive. Conversely, as interest rates fall, investors who are seeking a consistent income favour so-called 'yield stocks'.

This dynamic was especially pronounced during the global COVID pandemic when the Reserve Bank of Australia (RBA) slashed interest rates, reaching a low of just 0.10% by October 2020. In that ultra-low interest rate environment, the returns on cash investments (such as term deposits) were negligible. This drove investors to investments offering reliable income, such as Argo. During this time, our shareholder numbers surged, and our share price traded at a consistent premium to NTA. The month-end share price premium reached a high of +10.9% in January 2022.

As we all know, from May 2022 the RBA began raising the cash rate aggressively to stave off inflation. With official interest rates now at 4.35%, returns on cash investments are more competitive compared with Argo's fully franked dividend yield. We believe this has put pressure on our share price, particularly as investors reallocate some of their investments to cash.

When Australia's rate-cutting cycle begins, resulting in lower returns from cash, Argo's ability to maintain and grow its fully franked dividend will become increasingly attractive to investors. We believe this is likely to support Argo's share price relative to NTA.

History shows us that over the long term our share price will, on average, trade close to its NTA. In fact, over the last 30 years, Argo's share price has traded at an average of just 0.3% below its NTA.

Chief Financial Officer

Earlier this year, we announced our long-serving Chief Financial Officer (CFO), Andrew Hill, would be retiring. At the end of August, we farewelled Andrew after more than 30 years at Argo. This is a remarkable accomplishment.

I would like to take this opportunity to thank him for his dedicated service to the Company. Andrew's diligence and expertise greatly benefited Argo and our shareholders through various market cycles, events, mergers and acquisitions. On behalf of Argo, I wish Andrew all the very best in his retirement.

Stephen Mortimer was subsequently appointed CFO, having been promoted from the position of Finance Officer. Stephen joined the Company in 2012 and worked closely with Andrew in the Adelaide office throughout that period. He is a Certified Practising Accountant and a Graduate of the Institute of Company Directors.

I am pleased to formally introduce Stephen to our shareholders today.

Outlook

Australia's economy continues to be shaped largely by macroeconomic influences, including persistent inflation. As I referenced earlier, the RBA has attempted to bring inflation down and back within its target range of 2-3% through rapid rises in interest rates. The RBA is now navigating the narrow path between keeping rates higher to tame inflation and being too aggressive and sending the Australian economy into recession.

Most developed economies are treading a similar path and many other central banks have started to lower interest rates already, including in the United States. However, inflation seems to be a little stubborn in Australia and the RBA is indicating that it is not likely to lower rates until 2025.

In the face of all this, the Australian economy remains resilient with low unemployment, continued public and private investment and exports supporting our national income, although there are risks to the outlook on a number of fronts.

Geopolitical tensions and conflicts present a higher risk to the world economy than at this time last year.

No matter who wins the United States Federal Election next month, I am concerned that the US will become more economically nationalistic, detracting from the benefits of globalisation for the world economy. China, Australia's largest trading partner, has a sluggish economy despite some recent stimulus by Chinese authorities.

And at home, many Australian consumers are under financial pressure from higher interest rates and the growing cost of everyday expenses and as a result consumer confidence and spending remains subdued.

Against today's dynamic financial, geopolitical and economic backdrop, I would like to remind our shareholders that since 1946 Argo has navigated through various market cycles, wars and global events including: the Cuban Missile Crisis, the oil price shocks of the 1970s, the '87 market crash, the dot-com boom and bust, the collapse of Lehman Brothers and the ensuing Global Financial Crisis, and the coronavirus pandemic.

Over the nearly eight decades since Argo was founded, the Company's overriding objective has been to deliver long-term shareholder returns by providing reliable, fully franked dividend income and capital growth. This remains our focus by continuing to apply a conservative, long-term investment approach within a low-cost business model.

Thank you

I would like to conclude by thanking our Managing Director, Jason Beddow, and the Argo team for their continued dedication and hard work.

I would also like to thank my fellow Board members for their ongoing and valuable contributions to the Company.

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