



2021 Annual General Meeting Chairman's Address

Delivered by Mr Russell Higgins AO at the 75th Annual General Meeting of Argo Investments Limited (Argo or Company) held online on Monday 25 October 2021 at 10.00am (Adelaide time).

Introduction

The past year has been a difficult one for many of our shareholders with COVID-19 related restrictions on travel, both international and interstate, lockdowns and various other restrictions creating a range of impacts, including on work, social, recreational and family activities. Let's hope that with the vaccination rollout progressing that next year is a better year for us all.

The pandemic has been difficult for many businesses as well, impacting those in the travel, hospitality, recreation and entertainment sectors particularly hard. However, many of the larger ASX-listed companies have been robust and adapted to the challenging conditions fairly well.

In Argo Investments' case, we have been able to carry on without our business model or investment philosophy being affected. Our staff are able to work remotely and can continue to meet with companies and analysts online. While COVID-19 certainly provides challenges for our investment team in assessing companies' prospects in the short-term, we remain focused on identifying long-term value, rather than being overly influenced by short-term or temporary factors.

Investment performance

Despite all the difficulties, the share market had a stellar year in 2020-21. The S&P ASX 200 Accumulation Index increased by 27.8% during the year. Pleasingly, Argo Investments' portfolio outperformed the Index, with our NTA increasing by 28.5%, and that's after paying all costs and tax. This performance is particularly commendable given that Argo paid more tax than normal due to the large capital gains realised during the year.

One of the benefits of a large, diversified portfolio is that different companies in the portfolio will be affected in different ways when events occur or conditions change. This diversification helps to manage risks and to balance out short-term impacts. We can be true to our long-term investment approach due to the strength and diversity of our portfolio. Sydney Airport provides a great example of the benefit of our investment philosophy, as we did not need to sell our holding when its earnings evaporated, in fact we invested more. Ultimately, this long-term value approach has been vindicated with Sydney Airport shares rising substantially after receiving several takeover bids recently.

Argo's share price also provided a strong return, rising 28.6% to end the financial year at \$8.93. Since then, markets continued to climb and Argo shares reached a new record high of \$9.85 in August, although both the broader market and Argo's share price have pulled back a little since then.

Financial results

Argo's profit for the 2021 financial year was \$174.0 million. This figure included a one-off, non-cash income item of \$19.1 million resulting from Woolworths Group's demerger of Endeavour Group during the year. Excluding that income, our profit result was 22.4% lower than the prior year.

Dividend income received from our portfolio was significantly impacted by the effects of the COVID-19 pandemic, although by the end of the financial year, dividends in most sectors were well on their way to recovery. The major banks which had cut or reduced dividends sharply at the end of the previous financial year, were able to start to increase payouts again as confidence in the economy grew and the need for bad debt provisioning subsided.

In response to the pandemic uncertainty, Argo froze salaries for all staff and directors and reduced its operational expenses by over 9% including by cutting incentive payments substantially and reducing travel and meeting costs.

Fully franked dividends

The Board declared a fully franked final dividend of 14 cents per share, the same amount as the interim dividend paid during the year. Annual fully franked dividends therefore totalled 28 cents per share, down 6.7% on the previous year. That reduction was much less than the 22.4% decline in profit, demonstrating Argo's ability to draw on reserves of retained profits and franking credits to provide a relatively reliable stream of dividend income to our shareholders. We did this last year too, when COVID-19 first struck the economy, and our loyal shareholders have appreciated Argo's resilience throughout the crisis.

Due to several portfolio sales during the year crystallising substantial capital gains, the final dividend also included an LIC capital gain component of 8 cents per share - our largest ever. When Argo makes a discounted capital gain by selling a stock in its long-term portfolio, we can pass this tax benefit through to our shareholders as though each shareholder owned and sold the stock themselves. Most individual and self-managed superannuation fund shareholders can claim a tax deduction in relation to these capital gains, in addition to the benefit of franking credits. Argo is one of only a handful of companies able to provide this benefit to shareholders due to our special tax status as a genuine long-term investor, not a trader.

75th Anniversary

This year we are proud to mark 75 years of investing on behalf of our shareholders. Over this time, Argo has navigated through various market cycles and weathered many disruptive events by consistently and carefully applying our conservative and long-term approach to investing.

To mark the anniversary, we have refreshed Argo's visual identity, including our logo. We have also launched a new website with a range of user-friendly features including a number of short videos. We have also produced a 75th Anniversary Booklet outlining Argo's history, including a timeline of events and milestones. The booklet is available on our website in the 'Our history' section under the 'About Us' tab.

Some notable milestones and achievements over Argo's 75 years include:

- The Company was founded in 1946 and has paid a dividend every year since;
- Argo was listed on the stock exchange in 1948;
- The Company has had only three Managing Directors, including the current MD Jason Beddow, in its 75-year history;
- In 1987, the Australian Imputation System was introduced, and Argo's dividend has been franked ever since then;
- 1996 saw our 50th Anniversary, by then Assets had reached \$744m and we had 25,000 shareholders;
- In 1999, the Dividend Reinvestment Plan was introduced;
- In 2015, Argo Global Listed Infrastructure (ASX code: ALI) was floated to provide an easy diversification into global infrastructure for Australian investors; and
- Today, Argo has assets of more than \$6.6 billion and over 95,000 shareholders.

Investing can be a daunting prospect for retail investors, especially during periods of volatility, and we are humbled to be considered a trusted investment by so many shareholders. This is a mantle we do not take for granted.

It is particularly pleasing that there are many families on our register who have passed down Argo shares from generation to generation over decades. Furthermore, over one in three shareholders continue to build up their holding in Argo Investments via the Dividend Reinvestment Plan.

Outlook

The Australian and World economies are performing better now than they were in 2020. We expect that corporate profits will continue to recover, notwithstanding market volatility generated by re-opening challenges, possible inflation, and later the unwinding of stimulus measures.

The extraordinary recovery of the stock market over the last 18 months reflects high levels of investor optimism buttressed by fiscal and monetary policy measures. Governments worldwide have deployed massive fiscal stimulus to ameliorate the economic impacts of the health pandemic. This has been accompanied by a sustained period of at or near zero interest rates and large quantitative easing or bond buying programs by Central Banks.

How these extraordinary fiscal and monetary stimulus measures are unwound over the coming period will be a challenging task for Governments and Central Banks. It will require a deft touch and good judgment. In my view, even without any missteps, the pathway out represents a risk in the outlook and could be the source of some volatility in the period ahead.

With a strong balance sheet, no debt and a diversified portfolio of quality companies, Argo remains resilient in this environment. The Company is well-positioned to capitalise on opportunities arising from short-term market volatility, applying our long-term and patient approach to investing our shareholders' capital.

Thank you

I would like to conclude by thanking our Managing Director, Jason Beddow, and his dedicated team for their continued hard work. I commend them for their resilience and flexibility during these difficult times.

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

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