



2021 Annual General Meeting Managing Director's Address

Delivered by Mr Jason Beddow 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).

Market trends and conditions

After rising for a record 11 consecutive months and reaching an all-time high, the S&P ASX 200 Index finally ended its upward trajectory in September, falling 2.7% for the month. The change in sentiment was driven by any number of concerns, including earnings growth peaking, central bank tapering of stimulus, rising bond yields, inflation fears, the US approaching its debt ceiling and the state of the Chinese economy, particularly its property sector.

The market's strong run has come despite Australia's two biggest economies, New South Wales and Victoria, being in lockdowns for many months which they are only just emerging from. While Australia may have initially lagged in its vaccination program, we can now boast one of the highest vaccination rates in the world and, with first dose numbers still rising, may well end up being the most vaccinated country in the world.

While companies across many sectors like healthcare, retail, travel and tourism are operating at only partial capacity, we believe that many of the businesses most impacted by COVID lockdowns largely remain outside of the listed environment in the small and mid-sized private space.

At this time of the year following the AGM we usually travel around the country, meeting with our shareholders. We enjoy this interaction and the opportunity to answer questions on many aspects of our portfolio and the market in general. Unfortunately, in the current environment this was not possible this year.

In lieu of this face-to-face interaction, we recently released a video which covered many of the questions we are currently being asked by shareholders, as well as some of our current thoughts on the market. The video provides a more succinct format, separate to the formalities of the AGM, to discuss these topics. For those shareholders who receive electronic communication, an email was sent with a link

to the video. It is also available on our website for anyone else who is interested.

One topic that is worth further mention is the most recent corporate reporting season which demonstrated strong earnings growth and a robust recovery for most industries. It also highlighted the benefits of strong fiscal stimulus, record low interest rates, a booming housing market and strong commodity prices.

The standout features of reporting season were strong balance sheets and record dividends. In aggregate, Australian companies delivered a record \$38 billion in dividends to shareholders during reporting season, led by iron ore miners, BHP, Rio Tinto and Fortescue Metals Group. These three companies alone paid \$17 billion in dividends.

The strength of company earnings and the excellent condition of balance sheets was further demonstrated by the increased number of special dividends and a record number of buybacks announced, totaling in excess of \$15 billion.

We received special dividends from Eagers Automotive, Milton Corporation, Rio Tinto, South32, Suncorp Group and Telstra Corporation.

Currently, there are more companies in our portfolio undertaking buybacks than ever before and there are many more across the market. Commonwealth Bank of Australia and Woolworths Group have just completed large off-market buybacks, while the other companies have elected for on-market buybacks. We expect the continued health of company balance sheets, coupled with the low cost of debt, should support more company buybacks over the next 12 months.

An extraordinary amount of capital has been allocated to equity markets globally, pushing valuations to record levels. Combined with optimism of vaccination success, huge amounts of cash looking for returns and increased levels of confidence, this has seen a sharp bounce back in merger and acquisition activity and initial public offerings – two tell-tale signs of a buoyant equity market.

Currently in our portfolio, we have ongoing takeover bids for Sydney Airport, Oil Search and Spark Infrastructure, with the takeover of Milton Corporation recently completed. It should be remembered that a significant number of takeover bids fail to proceed, with IRESS being one recent example.

The number of new IPOs has reached a feverish high. Many of these are relatively small companies or businesses in the resources sector, taking advantage of high commodity prices and the demand for newer commodities. However, there are many others we are assessing as potential new investments. Examples of some

recent or current IPOs taking place include Judo Bank, APM, EBR Systems, RAM Essential Services, SG Lottery and Clarity Pharmaceuticals. This is a busy time for me and the investment team as the process of analysing and assessing new opportunities requires numerous meetings and due diligence, not to mention the process involved to ensure we receive a meaningful allocation from the syndicate bankers.

Environmental, Social and Governance (ESG)

No presentation is currently complete without discussing environmental, social and governance (ESG) matters, particularly the increased focus on the environment and decarbonisation. We are finding that companies are currently spending considerable time engaging with shareholders and other stakeholders regarding their ESG credentials and future strategy.

Consideration of ESG factors has always formed an inherent part of our investment process, as they can have a significant impact on a company's long-term value and its returns to shareholders. The investment team spends considerable time researching and analysing these issues including attending ESG investor days, not to mention the numerous ESG-related AGM resolutions of the companies in our portfolio.

We believe it is our responsibility as a shareholder to engage with management of all companies in our investment portfolio regarding a range of ESG issues, not just environmental. Over the last financial year, we have held hundreds of meetings with company executives and over fifty meetings with company board members regarding these issues. Potential liabilities and future growth implications arising from ESG issues are factored into our company forecasts and valuations. Environmental factors we consider include carbon and greenhouse gas emissions and the use of renewable energy.

In the lead up to the UN Climate Conference in Glasgow, the decarbonisation thematic continues to gather pace and commitments to net zero emission targets increase. With China, the US and India responsible for over half of current global emissions, to achieve these targets the world will clearly need to be united.

With a clear government commitment, large corporates who are well funded, have strong business models and sound balance sheets, will also be a necessary part of the solution.

To find out more, see Argo's Environmental, Social and Governance (ESG) Investment Statement which is available on our website.

Outlook

Despite the ongoing COVID pandemic, the global economy appears strong with massive fiscal and monetary stimulus still in effect. Domestically, there is reason for optimism with high vaccination rates and significant financial assistance from both federal and state governments. As the economy reopens, we hope to return to a more normal lifestyle, as we are seeing overseas.

However, confidence may be tested as stimulus is withdrawn and economic settings respond to the possibility of extended inflation and a return to more normal interest rate settings.

There are still plenty of risks confronting the Australian and global economies. COVID-19 is still with us, market valuations are high, supply chain and logistics challenges are widespread and geopolitical risks seem to be increasing. China's economic health, as always, will have an impact on global growth and Australia's commodity demand.

With the market at these elevated levels, we expect some volatility. However, with a diversified portfolio, no debt and cash available, we believe Argo is well-positioned in the current environment.

Thank you

I would like to acknowledge the efforts of the whole team this year, who under extraordinary circumstances, in both our Adelaide and particularly our Sydney office, have done a great job to keep Argo fully operational.

I also acknowledge the contribution from the Chairman and Non-executive Directors and I look forward to hopefully seeing them face to face in December for the first time in over six months.

I wish all our shareholders well for the coming months. We thank you for your continued support and the trust that you have placed in us, and I hope we will be able meet with you in person sometime in 2022.