Shareholder letter

Results for year ended 30 June 2018

The Directors of Argo Investments Limited (Argo) are pleased to report increases in profit and dividends for the year ended 30 June 2018. The financial results are summarised in the table below.

The final dividend is 16 cents per share fully franked. This includes a 4 cents per share component relating to capital gains made on investments sold during the year. Most individual and self-managed super fund shareholders can claim a tax deduction relating to this component, in addition to the benefit of franking credits. This tax deduction is explained in more detail later in this letter.

Together with the 15.5 cents per share dividend paid in March 2018, full year dividends rose for the sixth year in a row to a record high of 31.5 cents per share, fully franked.

Summary of financial results	*2018*	*2017*	*change*
Profit	**$218.9 million**	$211.5 million	+3.5%
Earnings per share	**31.3 cents**	30.7 cents	+2.0%
Final dividend per share	**16.0 cents**	16.0 cents	steady
Full year dividends per share	**31.5 cents**	31.0 cents	+1.6%
Net tangible asset backing (NTA) per share	**$8.16**	$7.71	+5.8%
Number of shareholders	**84,120**	81,445	+2,675
Management Expense Ratio (MER)	**0.15%**	0.16%	

Argo's straightforward and resilient business model continues to produce strong profits, increasing fully franked dividends and solid long-term capital growth.

This year, the higher profit was driven by dividend increases from Macquarie Group, BHP Billiton and Rio Tinto. Interest income was slightly higher too, due to higher cash balances on hand, although income from trading and option writing declined. Our balance sheet strengthened again, with no debt and stronger equity markets boosting net assets to $5.8 billion. The Share Purchase Plan in March 2018 raised $84 million for further investments.

Low-cost business model

Costs, such as management fees, are crucial to investment performance as they reduce long-term returns. Argo is internally managed and keeps its operating costs low while managing the portfolio in a tax-aware manner to focus on maximising long-term returns to shareholders.

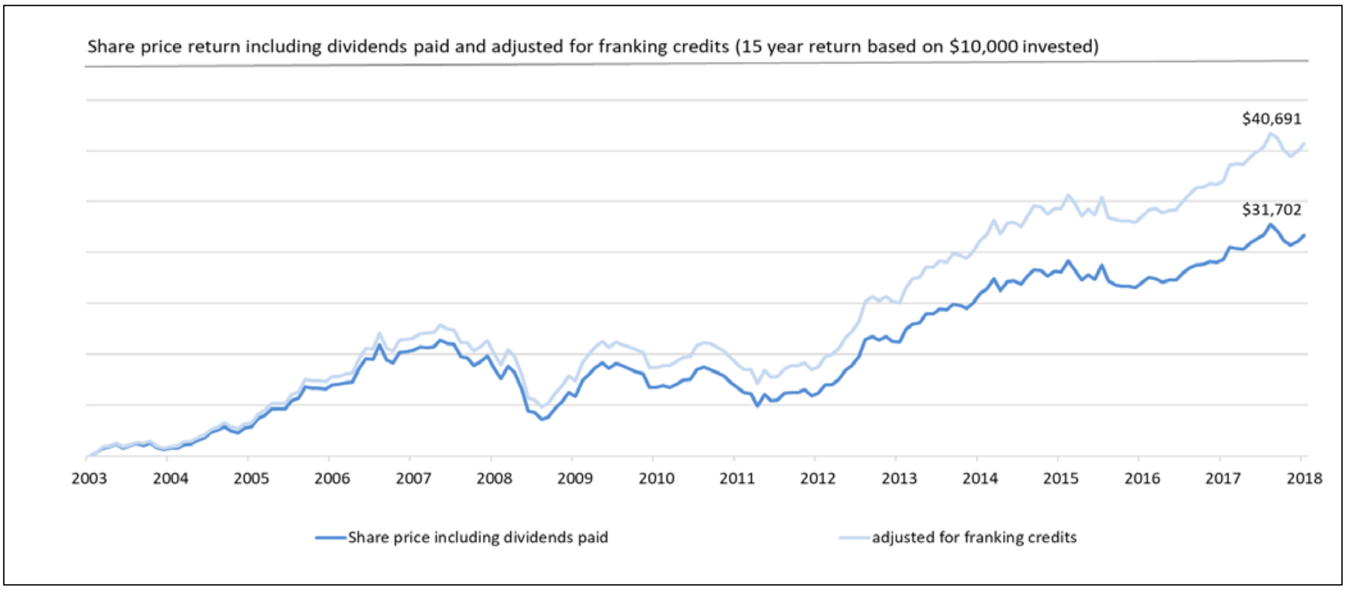
The Management Expense Ratio, which measures our costs relative to the assets we manage, declined to 0.15% this year, which is significantly lower than the cost of most other actively managed investment products.

Investment performance

Despite ongoing geopolitical uncertainty, synchronised economic growth in most regions of the world fuelled another very strong year for equity markets. The Australian market was no exception, although the underlying sector performance varied considerably, with the large banks and Telstra weaker, while Metals & Mining and Technology rose sharply. Argo holds an underweight position in Metals & Mining, and more particularly the smaller and mid-size resources companies, which contributed to underperforming the benchmark index this year. This positioning is not unusual for Argo due to our general preference for companies that can generate dividend income, and it does sometimes result in underperformance when particular sectors are in favour.

Argo's investment (NTA) performance returned +10.2% after all costs and tax over the year. The share price is trading at a slight discount to NTA and returned +8.1% for the year (+9.9% including franking credits).

Performance incl. dividends paid (per annum)	*1 year*	*3 years*	*5 years*	*10 years*	*15 years*
NTA return - after all costs and tax	+10.2%	+7.1%	+8.9%	+6.3%	+8.9%
Argo share price return	+8.1%	+4.1%	+8.4%	+5.5%	+8.0%
S&P/ASX 200 Accumulation Index	+13.0%	+9.0%	+10.0%	+6.4%	+9.6%



Investment portfolio

During the financial year, Argo purchased $259 million of long-term investments. Proceeds of $201 million were received from long-term investment sales. Some of the portfolio sales resulted in substantial capital gains being crystallised, which allowed Argo to include a 4 cents per share LIC capital gain component in its final dividend.

The larger movements in the portfolio during the year included:

Purchases	*Sales*
Boral	BHP Billiton
Event Hospitality & Entertainment	Milton Corporation
Nufarm	Rio Tinto
Oil Search	Wesfarmers
Ramsay Health Care	Westfield Corporation *
Suncorp Group	Woolworths
Tabcorp Holdings	WorleyParsons *
Westpac Banking Corporation	

* Sale of complete position. Westfield Corporation was sold on-market following a takeover offer.

Other holdings exited during the year were Fletcher Building, iSelect, Lex Property Fund (takeover), Motorcycle Holdings, Murray River Organics Group, oOh!media and Programmed Maintenance Services (takeover).

The new stocks introduced to the portfolio were Bega Cheese, Novonix, Nufarm, Oil Search and Paragon Care. We also added to 30 existing holdings. The total number of stocks held reduced by 5 to 93.

Tax deduction – LIC capital gain component of the dividend

Most investors are aware that if an individual makes a capital gain on an asset they have owned for more than a year, the profit is discounted by 50% in order to calculate the capital gains tax payable.

However, you may not be aware that Argo shareholders can receive a tax deduction when Argo makes a similar discounted capital gain in its portfolio. This is because the Australian Tax Office recognises Argo's special status as a genuine long-term investor (not a trader) which has been established by our track record of investing over many decades since 1946.

Argo is one of only a handful of companies in Australia (generally the older listed investment companies) which can pass through the capital gains tax discount to its shareholders, as though the shareholder held and sold the stock themselves.

The way we do this is to deem part of a dividend as the 'listed investment company (LIC) capital gain component'. This year, the final dividend of 16 cents per share included a LIC capital gain component of 4 cents per share. The whole 16 cents is still fully franked, but most individuals and self-managed super funds will also be able to claim a tax deduction relating to the 4 cents per share capital gain component.

Details of how to include the relevant amount in your tax return are shown on your dividend statement – don't miss out!

Annual General Meeting and shareholder information meetings

The schedule for the Annual General Meeting and shareholder information meetings will again be combined with that of Argo Global Listed Infrastructure Limited (AGLI). AGLI meetings will follow Argo on the same day, with refreshments served in between. Argo shareholders are also invited to attend the AGLI meetings. Details are as follows:

Annual General Meeting - Adelaide - *Adelaide Oval, War Memorial Drive, North Adelaide*	Monday 22 October 2018 at 10.00am (AGLI at 1.00pm)
Melbourne Information Meeting - *Grand Hyatt Hotel, 123 Collins Street*	Tuesday 23 October 2018 at 10.00am (AGLI at 12.00pm)
Sydney Information Meeting - *Amora Hotel, 11 Jamison Street*	Wednesday 24 October 2018 at 10.00am (AGLI at 12.00pm)
Brisbane Information Meeting - *Marriott Hotel, 515 Queen Street*	Thursday 25 October 2018 at 10.00am (AGLI at 12.00pm)
Canberra Information Meeting - *Park Hyatt, 120 Commonwealth Avenue, Yarralumla*	Friday 26 October 2018 at 10.00am (AGLI at 12.00pm)
Perth Information Meeting - *Duxton Hotel, 1 St Georges Terrace*	Thursday 8 November 2018 at 10.00am (AGLI at 12.00pm)

Directorate

On 30 June 2018, Mr. Ian Martin AM retired from the Board after 14 years of diligent service, including the last 6 years as Chairman. Mr. Martin is a highly respected figure in the financial services industry and Argo has been fortunate to benefit from his many years of strong leadership and his significant contribution to the growth and success of the Company.

Mr. Russell Higgins AO, who has been a Non-executive Director since 2011, succeeded Mr. Martin as Chairman of the Board. Ms. Elizabeth Lewin was appointed as a Non-executive Director with effect from 1 July 2018.

Outlook

Domestically, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has dominated headlines since the second round of public hearings commenced. The scope and fallout from the Royal Commission is much worse than we or the market may have been expecting, with major repercussions for executive management teams and Boards, reflected by the negative share price reactions in the financial services sector. The current timetable sees a final report of recommendations due in February, which is of particular importance to the Australian listed market due to the large proportion this sector represents.

Compounding the increased regulation and scrutiny for the banks, is the potential slowing of credit growth in the future, due to a combination of tighter lending standards, record household debt and softening house prices.

In Argo's portfolio we look for a balance between the companies with domestic earnings which produce the fully franked dividend streams which we can pass on to our shareholders, and the companies that invest and operate outside Australia which can give us greater diversification beyond the opportunities in the domestic economy. Those companies that succeed overseas can gain a growth pathway into markets which are many multiples of the size of Australia. However, the stronger growth profile in this part of the market has been the focus of many institutional investors, pushing share prices to levels above where we see value.

International economies continue to perform pretty well, with most economic indicators remaining positive, however we are cautious of any further escalation in tariffs or taxes on global trade which would negatively impact global growth.

The US Federal Reserve is likely to continue to lift interest rates throughout 2019 and some of this expectation is already being seen in bond markets, with the US 10-year treasury bond trading at a yield of around 3.0%, a level not seen since 2011. Any acceleration in the pace of interest rate rises in response to higher inflation could be dangerous for asset prices.

In this environment, with consumer debt high, wage growth low and markets trading at relatively high levels, there is not a lot of margin for error. With this in mind, our cash balances are currently higher than in recent years, reflecting our view that market valuations are relatively high. This will allow us to take advantage of any increase in volatility or uncertainty in markets.

Yours faithfully,

Jason Beddow
Managing Director