Shareholder Update

For the half-year ended 31 December 2018

Argo Investing in Australia

JASON BEDDOW
Managing Director
BEng, GdipAppFin(SecInst)

Dear valued shareholder,

On behalf of the Board, I am delighted that Argo Investments Limited (Argo) has reported a strong profit result and an increased dividend for the half-year to 31 December 2018. The result demonstrates our proven investment approach and Argo's straightforward, transparent and low-cost business model.

In this shareholder update, I provide details of Argo's latest financial result, movements in the investment portfolio and our current market outlook.

If you would like to receive financial results on the day they are announced, I encourage you to sign up to Argo's email distribution list via our website. See further details on page 3.

STRONG HALF-YEAR PROFIT

Argo's profit for the half-year was $157.2 million, an increase of +42.2%. This very strong result was significantly influenced by non-cash income of $36.1 million due to the demerger of Coles Group from Wesfarmers. Excluding this one-off income item, Argo's profit increased by +9.6% on the previous half-year result. A summary of the financial results, excluding the Coles demerger dividend, is provided in the table below.

Argo's revenue was boosted by higher dividends from BHP, Rio Tinto, CSL, Macquarie Group and Ramsay Healthcare. Profit from trading investments, which includes income from writing options, rose by $4.5 million to $6.8 million. Interest income on cash deposits was steady and administration expenses were slightly lower.

FINANCIAL RESULTS	Half-year to 31.12.18	Half-year to 31.12.17	*change*
Profit*	**$121.1 million**	$110.5 million	+9.6%
Earnings per share*	**17.0 cents**	15.9 cents	+6.9%
Management Expense Ratio	**0.15%**	0.15%	-

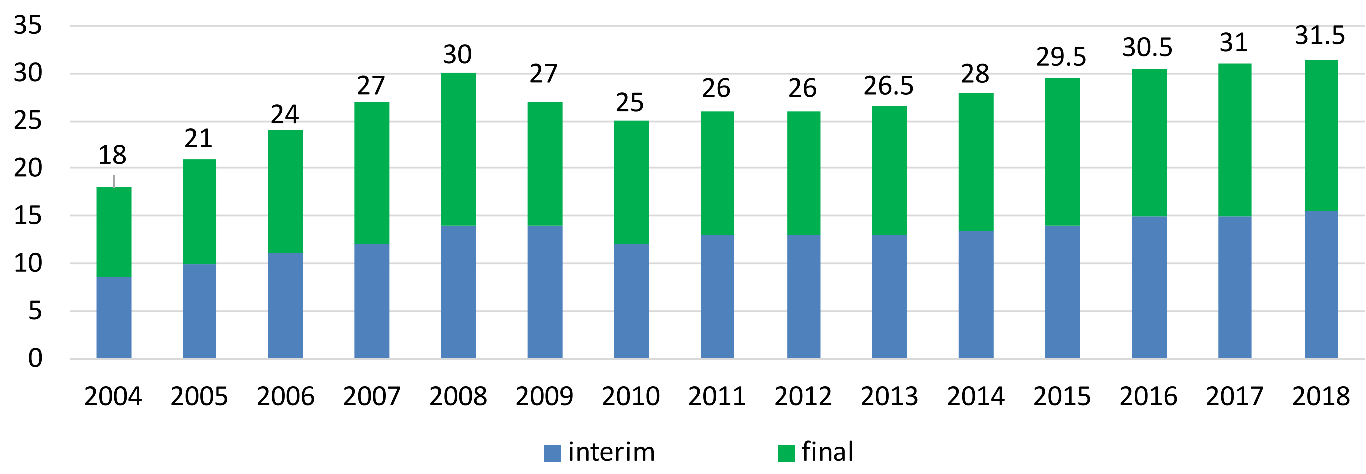
* *Excluding Coles demerger dividend*

INCREASED INTERIM DIVIDEND

Argo's Board was pleased to declare a fully franked interim dividend of 16 cents per share, an increase of +3.2% compared to the previous year's first half.

We appreciate that providing sustainable and growing tax-effective dividend income is very important to our shareholders and Argo is proud to have paid dividends every year since our inception in 1946. A significant advantage of our listed investment company (LIC) structure is the ability to smooth dividend payments to our shareholders over time. In recent years, this flexibility has helped us maintain steadily growing dividends and the following chart highlights this.

ANNUAL DIVIDENDS HISTORY cents per share



INVESTMENT PORTFOLIO

Sharp falls in the Australian equity market toward the end of 2018 created opportunities for buying at more attractive prices than had been the case for most of the calendar year.

Over the half-year, Argo purchased $265 million of long-term investments and received $132 million from long-term investment sales. The largest disposal from the portfolio was the remainder of our Twenty-First Century Fox holding which resulted in a $50 million capital gain.

The details of the larger movements in the portfolio are shown at right. After these transactions, the number of stocks held in the portfolio rose from 93 to 99 and the cash balance decreased slightly to $199 million, representing 3.8% of total assets as at 31 December 2018.

PURCHASES

- Bega Cheese
- Boral
- Coles Group (demerger from Wesfarmers)
- Corporate Travel Management
- Eclipx Group*
- James Hardie Industries*
- Oil Search
- QBE Insurance Group
- Rural Funds Group
- The Star Entertainment Group*
- Transurban Group
- Viva Energy*

* *New position*

SALES

- AMP
- Asaleo Care
- Coca-Cola Amatil**
- Twenty-First Century Fox**
- Wesfarmers (partly demerged into Coles)

** *Exited position*

INVESTMENT PERFORMANCE

Following substantial declines in equity markets toward the end of 2018, Argo's investment (NTA) performance returned -8.3% after all costs and tax for the half-year, underperforming the S&P/ASX 200 Accumulation Index which returned -6.8%, without any allowance for costs or tax. Argo's share price fared better, as it often does when markets fall quickly, returning -3.0% to outperform the market by +3.8%.

Technology One, Ramsay Healthcare and Washington H. Soul Pattinson were positive contributors to portfolio performance, but were outweighed by our holdings in Origin Energy, Adelaide Brighton and Lendlease, which all performed poorly. Argo's underweight position in property trusts also negatively impacted relative performance.

MARKET OUTLOOK

The 2018 calendar year began positively with accelerating earnings for US corporations, helped by tax cuts and a strong synchronised global growth outlook. However, an increasing focus on geopolitical tensions, deteriorating economic data and economic and trade-related issues started to have a material impact on company earnings in the last quarter of the year. Mounting concerns of a global growth slowdown, fears of higher US interest rates, failing Brexit negotiations and soft data out of China also added to uncertainty.

With these factors weighing on sentiment, global equity markets recorded their largest monthly falls for the year in December, and their largest quarterly declines since September 2011 in the December quarter. The S&P/ASX 200 Accumulation Index finished the calendar year with a 12-month return of -6.8%, or -2.8% including dividends.

Although markets have experienced a positive start to 2019, rebounding over 12% in two months since the December lows, we remain cautious. In addition to global macroeconomic issues, a number of local uncertainties need to be resolved during the next few months including the duration and severity of the housing downturn and its associated consumer impact, and the result of the upcoming federal election.

In our view, investors can expect volatility to continue throughout 2019 as the primary trends driving instability last year are likely to persist. In recent months, market expectations for company earnings growth in Australia were tempered by a consistent stream of downgrades to earnings forecasts for the 2019 financial year and so far in the corporate results reporting season, many companies have made somewhat subdued outlook comments. Despite this, corporate balance sheets are generally sound and we expect dividend levels from our investee companies to be maintained this year.

REFUNDABLE FRANKING CREDITS

We are concerned that many of our retired and self-managed superannuation fund shareholders may experience significant reductions in income if they are prevented from receiving refunds of excess franking credits under the Federal Opposition's stated policy. We believe this would be inequitable. See our website for more about Argo's position on this issue and the steps we have taken to advocate for our shareholders who may be affected.

Argo maintains a prudent franking account balance to protect franking on its next dividend and at this time we do not have excess franking credits to distribute ahead of a possible change of government.

SHARE PURCHASE PLAN

Argo is not intending to offer a Share Purchase Plan (SPP) to its shareholders in the near future. If this position changes, we will make an announcement to the ASX and you will be notified immediately.

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

> " 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. "

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