26 October 2020

The Manager
Company Announcements
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

2020 Annual General Meeting
Managing Director's Address

Please find attached the Managing Director's Address given by Mr. Jason Beddow at today's Annual General Meeting of Argo Investments Limited.

Yours faithfully,

T.C.A. Binks
Chief Operating Officer & Company Secretary

Argo Investments Limited
ACN: 007 519 520
W argoinvestments.com.au
E invest@argoinvestments.com.au

Head Office
T 08 8210 9500
A Level 25, 91 King William Street
Adelaide SA 5000

Sydney Office
T 02 8274 4700
A Level 37, 259 George Street
Sydney NSW 2000

2020 Annual General Meeting
MANAGING DIRECTOR'S ADDRESS

Delivered by Mr Jason Beddow at the 74th Annual General Meeting of Argo Investments Limited (Argo or Company) held online on Monday 26 October 2020 at 10.00am (Adelaide time).

MARKET REVIEW

The 2020 calendar year has been a year like no other. The global COVID-19 pandemic has resulted in some of the most extraordinary and unprecedented events experienced in modern history.

Over the course of this health crisis, central banks and governments worldwide have provided vast financial support. At the same time, almost war-like restrictions have been imposed on individuals and businesses. Over the past nine months, our lives have been impacted by these and other drastic measures, not to mention the enormous economic impact and employment uncertainty many individuals have had to endure, on top of the health tragedy itself.

The accompanying market volatility has been equally unprecedented. The fastest 40% market fall on record during March this year was followed by one of the quickest recoveries.

As the spread of the coronavirus accelerated in early 2020, Argo focused on protecting its shareholders' capital and, importantly, assessing the short-term dividend effects on our investee companies. Many companies in the portfolio cut, deferred or stopped paying dividends altogether. With interest rates at almost zero, we appreciate the importance of income to our shareholders and we remain focused on our primary objective of providing sustainable fully franked dividends.

In hindsight, we may have been overly conservative given the enormous support provided by governments and central banks around the world, which has fuelled a strong stock market rally. While we have participated in most of the rally, we have been left behind a little, with minimal holdings in the Australian technology sector – the best performing sector since the market bottomed.

Government measures have been meaningful, and the recent Federal Budget further extended the extraordinary levels of fiscal support to the economy. The financial year 2021 deficit of $213 billion is equal to the largest level of debt to GDP since World War II. Over the next four years, the cumulative deficit is forecast to reach almost $500 billion.

The amazingly strong retail sales figures and significant increase in household savings provide tangible evidence of the massive boost to household finances over the past six months, due to substantial government incentives. As these crisis measures are tapered over the next year, it is hoped that the initiatives announced in the Budget (including bringing forward tax cuts) and an improving economy will support household income and the outlook for discretionary spending.

Reducing unemployment is clearly a priority for the Federal Government with the explicit commitment to provide further extraordinary fiscal support until Australia's unemployment rate is below 6.0%. It seems the Federal Government will remain a backstop to the economy for a number of years. This should be relatively supportive for equity markets. However, it remains too early to tell if the COVID-19 impacts on various businesses and industries, both positive and negative, will have permanent consequences for many company valuations.

INVESTMENT PORTFOLIO

During the financial year, Argo purchased $243 million of long-term investments and received $127 million from the sales and takeovers of investments in the portfolio.

The major purchases in the portfolio were: AP Eagers (through the Automotive Holdings takeover), Downer EDI, Freedom Foods Group, Oil Search, Ramsay Health Care, Suncorp Group and Treasury Wines.

Major sales were: AMP, Ansell, Automotive Holdings Group (by takeover), Corporate Travel Management, Dulux Group (also by takeover), Milton Corporation and Nufarm. A number of these companies were fully sold from the portfolio.

Together with other stocks exited, the total number of stocks in Argo's investment portfolio decreased from 95 to 89.

CAPITAL RAISINGS

As during the Global Financial Crisis (GFC) and other major market dislocations, market liquidity dried up very quickly during the COVID-19 crisis. When equity markets were in free-fall, the outlook became extremely uncertain, credit markets froze and many companies found themselves without revenue or cashflow almost overnight.

In this environment, we anticipated that many companies might need to raise cash through equity issues and we retained a modest cash holding to potentially deploy into these opportunities.

However, drawing on the lessons from the GFC, central banks worldwide moved rapidly and on an unprecedented scale to support markets. The speed of this assistance, and the subsequent market recovery, limited the number of companies needing to raise capital.

In total, there has been over $32 billion of equity raisings in Australia since the pandemic began. Ironically, the capital raised has been almost matched by the negative value of company impairments and provisions.

From March to 30 June, Argo participated in nine capital raisings, deploying $46 million. These investments have increased in value by approximately 50% and all but two companies are well ahead of their raising prices.

While the pace of new raisings has slowed into the new financial year, we have invested $24.5 million in five further raisings, with Sydney Airport being the largest.

MARKET CONDITIONS

Reporting season in August highlighted the extreme divergence in earnings between industries and companies due to the impact of COVID-19 on the economy. However, there were generally very few major negative share price reactions as investors looked through the immediate numbers to an expected recovery in future earnings.

The key factors supporting current equity markets, namely abundant liquidity, low interest rates, and a better than expected economic recovery, albeit Government supported, largely remain in place.

While markets have rallied strongly, it has not been an evenly distributed recovery. In the past year, global markets have shifted significantly towards technology stocks. This is best represented by the performance of US FANG and NASDAQ indices, as well as the S&P/ASX All Technology Index in Australia. Investors' attraction to this growth is evident, but we question whether the shift in corporate profits to this sector justifies the rapid multiple expansion the technology sector has seen.

In addition, the major US technology companies are highly profitable and often dominate global markets and this differentiates them from most of their Australian peers. We do consider a number of the Australian technology companies to be very good quality, well-managed businesses with strong growth outlooks, however we struggle to justify the valuations placed on some of them.

At the other end of the spectrum, financials, led by the major banks, experienced their largest downgrades for a decade as weak volumes and pricing pressures saw revenues soften. Profits were further impacted by cost increases, continued remediation payments to customers and provisions for bad debts. In our view, the profitability of the banks remains uncertain and is largely dependent on the housing market and business resilience over the next 12 months.

OUTLOOK

In comparison to most other countries, Australia has fared relatively well during the pandemic. That said, we expect the long-term impacts will be significant and any lasting economic recovery will be very dependent on the trajectory of the global coronavirus pandemic.

Considerable uncertainty remains. As well as questions over the pace of recovery, investors must also contend with heightened tensions with China, whether or not a vaccine will be approved (and then successfully distributed) and the tumultuous US Presidential campaign. A clear outcome in the US election is likely to be positive for markets as it will remove significant uncertainty.

In our view, there is ongoing potential for unexpected changes to trading conditions which could impact the profitability of Australian companies. Against this uncertain backdrop, we anticipate company boards will continue to take a cautious approach to capital management, resulting in downward pressure on dividends for the foreseeable future.

We continue to take a consistent and conservative approach to managing Argo’s portfolio, remaining faithful to what has proven resilient through difficult economic cycles and disruptive events over many decades.

However, we are cognisant of the increasing impact of technology, the role it plays in our daily lives and the shift to profitability of some of these providers. If nothing else, the coronavirus pandemic has led us to question and challenge many of our biases and previous assumptions.

With a diversified portfolio, no debt and cash available to invest, we believe Argo is relatively well-positioned in the current environment.

CLOSING REMARKS

In recent times, we have endured significant personal restrictions and sacrifices, some more than others. Although this time has been different for each of us, the common experience seems to be that family, friends and trust have never been more important. The entire team at Argo is doing our utmost to respect the trust that you, our shareholders, have placed in us to act as custodians of the Company.

I would like to acknowledge the efforts of the whole team this year, who under extraordinary circumstances, in both our Adelaide and Sydney offices, have worked hard to keep Argo fully operational. In particular, I would like to thank the administration team, who are managing our reporting, statutory responsibilities, and engaging and responding to queries from many of our 93,000 shareholders. I also acknowledge the contribution from the Chairman and Non-executive Directors who have also had to respond quickly to these changes.

To you, our shareholders, I thank you for your continued support. I wish you well for the coming months and I hope we will be able meet with you in person sometime in 2021.