ARGO INVESTMENTS LIMITED
ABN 35 007 519 520

2016 Annual General Meeting
CHAIRMAN'S ADDRESS

Delivered by Mr. Ian Martin AM at the 70th Annual General Meeting of Argo Investments Limited (Argo or Company) held at the Adelaide Oval on Wednesday 26 October 2016 at 10.00am.

Introduction

On behalf of the Board, I welcome you to the 70th Annual General Meeting of Argo Investments Limited.

I am pleased to report that this year's profit of $216 million allowed us to increase full year dividends to a record of 30.5 cents per share fully franked. This was the fourth successive increase in annual dividends.

We know that delivering and growing a tax-effective dividend income stream is very important to shareholders, particularly in times when interest rates are so low.

Over the last five years, while the Reserve Bank has cut interest rates from 4.75% to 1.50%, a significant reduction for those relying on interest income, Argo has managed to sustainably increase its annual dividends by 20%, or 5.0 cents per share, during the same period.

However, we do feel that extending this run of growth will be more challenging this year. Global economic recovery is still struggling to gain traction despite interest rates remaining at unprecedented lows, and in Australia we have recently seen dividend cuts from a number of companies.

Result for the year ended 30 June 2016

I will comment further on the outlook later in this speech, but now wish to briefly review our financial results and comment on some of the highlights of the year.

Although the headline profit for the year ended 30 June 2016 was 5.2% lower than last year, the previous year's profit included a one-off, non-cash income item of $18.6 million resulting from the demerger of South32 from BHP Billiton. If this somewhat unusual corporate action is excluded, Argo's profit increased by 3.2% and earnings per share increased by 1.6%.

Argo's diversified portfolio once again generated strong levels of dividend income. In addition, trading profit and income from option writing both rose again this year, but interest received on cash deposits was lower, continuing the trend of the last few years as interest rates have declined to historic lows.

The Management Expense Ratio rose slightly to 0.17%, reflecting a decrease in the value of assets held through the year due to periods of equity market weakness. Expenses increased by only 1.6% on last year, including the costs of managing the external listed investment company, Argo Global Listed Infrastructure Limited, from which Argo received its first management fee income this year.

Argo continues to attract new investors. We now have over 80,000 shareholders, almost one third of whom consistently participate in the Company's Dividend Reinvestment Plan, which helps shareholders to build up their holdings over time. In addition, just over 8,000 of our shareholders participated in the recent Share Purchase Plan which raised $60.4 million for further portfolio investments.

I am also pleased to report that Argo recently received another two industry awards, being the Core Data Self-Managed Super Fund (SMSF) Service Provider awards for listed investment companies, in both the member and adviser categories.

As I noted at last year's AGM, Argo has enjoyed a strong period of financial results over recent years. Profits, dividends per share and NTA per share have all continued to be in good health, particularly in light of the more difficult and uncertain environment of the last couple of years.

Argo's portfolio is relatively large, focussed on quality, diversification, and importantly companies with sound long term growth prospects and the ability to help us achieve our objectives of delivering both capital growth and a consistent and growing dividend stream. We also aim to keep our administrative expenses as low as possible, and our internalised management structure and scale, as well as our ability to take a long term view, are important competitive advantages.

Of course, inevitably market conditions arise from time to time where that approach tends to lead to short term underperformance relative to the market index. We have recently experienced one of those periods.

Investment performance

Overall, Argo's portfolio returned +10.7% for the 12 months to 30 September 2016, underperforming the benchmark S&P/ASX 200 Accumulation Index return of +13.2%, although bear in mind that Argo is internally managed, so our performance figures are calculated after deducting all administration expenses and tax, whereas the share market index does not take account of any costs.

Although the 3 year return is also slightly behind the index, the longer term periods of 5, 10 and 15 years are all ahead or in line with the benchmark. As noted in previous years, the share price performance is more volatile, especially in shorter periods due to the reliance on the last trade of the month to establish the two data points to calculate performance. Also, over the year Argo's share price moved from a 10.2% premium to NTA on 30 September last year, to a slight discount on 30 September this year, resulting in a 12 month share price return which is much lower that the NTA return for the same period. As I have highlighted previously, fluctuations in the premium or discount to NTA often tend to be cyclical in nature, but whenever a discount opens up we monitor it closely and certainly factor it into our capital management decisions.

Moreover, while Argo is a long-term investor, rest assured that when short-term underperformance arises, we carefully analyse its causes and if necessary take action to ensure that it does not continue and become a long-term issue.

What that analysis shows is that the main factor at work has been the relative outperformance of small companies relative to large capitalisation stocks. Argo's portfolio holdings are skewed toward the large end, including many of the 'blue chip' companies which have provided much of our dividend income over the years.

Although many of Argo's recent portfolio purchases have been small or mid-sized companies, their impact on overall performance is dwarfed by the size of the core portfolio holdings which have been built up over decades and which are required to provide a tax-effective and growing dividend stream to shareholders.

In addition, our recent performance has been hindered by being underweight compared to the broader market index in two industry sectors which have performed strongly for quite different reasons:

- Property Trusts have benefited from the ongoing search for yield in a low interest rate environment. With the benefit of 20/20 hindsight, we wish we had owned more in the last couple of years, although our underweight position served us well during the GFC. We now see them as relatively expensive and exposed to any rise in interest rates; and
- The Metals & Mining sector has rebounded strongly this calendar year after several years of decline, in response to additional economic stimulus in China. However, we are generally content to be underweight in this sector due to the share price volatility and low dividend payout policies of many of these companies.

The Managing Director will expand on these factors, but the Board understands the issues and is satisfied that Argo's business model and its long-term investment philosophy remain valid and effective.

Directorate

Today Rob Patterson retires from Argo's Board of Directors, which is a significant event in the history of the Company. I will ask Rob to briefly address shareholders at the end of this meeting, but first I would like to record my appreciation and thanks as a shareholder, colleague and friend.

Rob joined Argo as Company Secretary in 1969 – the year that man first walked on the moon! He was appointed Chief Executive Officer in 1982 and Managing Director in 1992. In all, he served Argo as an executive for 41 years and as a Non-executive Director for 5 years.

The Board wishes to acknowledge the extraordinary contribution that Rob has made to the Company's growth and development since 1969. He devoted most of his working life to Argo, and over that period it has grown from $13 million in funds under management to over $5 billion.

The strong reputation that Argo enjoys today is in no small measure due to Rob Patterson's loyalty, diligence, passion, business acumen, and of course his skill as a fund manager, over the 46 years he dedicated to Argo.

Although Rob leaves us today, we are very fortunate that as one member of the Australian Fund Manager's Hall of Fame retires, another one joins us. Chris Cuffe will be known to many of you and we are very pleased to introduce him to shareholders today.

Chris Cuffe was appointed to the Board on 25 August 2016, after a formal search. The Board unanimously believes that Chris' experience and track record in the investment management industry make him ideally suited to Argo's Board. He is a well-known and highly respected figure in the financial services sector and he will provide more detail about his background when his election by shareholders is considered later in the meeting.

Outlook

Now a few comments on the outlook.

A common theme of this section of my address over the last few years has been that the world economy is in many respects in unchartered waters. Since the Global Financial Crisis, highly unconventional monetary policy, particularly in the US, Europe and more recently Japan, has driven interest rates to near zero and in some cases negative levels, as absurd as the concept of a lender actually paying a borrower may seem. Despite this, economic growth rates have remained anaemic and, whereas in the past we would have all assumed this was a recipe for runaway inflation, instead the worry is still deflation.

In Australia, we are clearly being buffeted by the end of the resources boom and the necessary structural adjustment that entails, as well as these other broader global pressures. While it might not feel like it, in a relative sense the macroeconomic indicators show that the Australian economy has actually been performing relatively well.

I also proffered the view in my recent addresses that in these circumstances the most likely scenario is that things will muddle through. So far, that has turned out to be right, and I still think that is the most likely prognosis for the year ahead.

One encouraging sign is that the US economy does now seem to be gathering genuine momentum and it is now looking more like a normal cyclical recovery. But normalizing monetary policy will be a real challenge and will no doubt contribute to continued heightened market volatility as investors fret about the consequences.

Another concern is that in some cases, asset valuations now look stretched and vulnerable, and clearly some of the recent political trends we have been seeing virtually all around the world are concerning.

Jason will talk more specifically about what we are doing in the Argo portfolio against this backdrop shortly, but suffice for me to say that Argo's ability to take a long term view because of our structure and investment process, does help us to look beyond the short-term market noise and concentrate on key portfolio thematics, quality and underlying valuation.

Finally, I would like to conclude by thanking Jason and the entire Argo team for their efforts and would also like to thank my fellow Board members.