Argo Investing in Australia

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9 September 2016

Dear Shareholder,

Result for the year ended 30 June 2016
Argo Investments Limited (Argo or the Company)

The Directors are pleased to announce a full year profit of $216.3 million and a steady final dividend of 15.5 cents per share fully franked, bringing the full year dividends to a record high of 30.5 cents per share fully franked. This is the fourth successive increase in annual dividends.

Summary	***2016***	*2015*	*change*
Profit	**$216.3 million**	$228.1 million*	-5.2%*
Earnings per share	**32.0 cents**	34.3 cents*	-6.7%*
Final dividend per share	**15.5 cents**	15.5 cents	-
Total dividends per share for the full year	**30.5 cents**	29.5 cents	+3.4%
Net tangible asset backing (NTA) per share	**$7.11**	$7.52	-5.5%
Management expense ratio (MER)	**0.17%**	0.15%	+0.02%
Number of shareholders	**80,477**	78,008	+2,469

* The 2014-15 (prior year) result was boosted by an $18.6 million item of non-cash, one-off income, being the demerger dividend resulting from BHP Billiton's demerger of South32. There were no demerger dividends in this year's result.

Overview

The headline profit for the year ended 30 June 2016 was 5.2% lower than last year. However, as noted above, the previous year's profit of $228.1 million included a one-off, non-cash income item of $18.6 million resulting from the demerger of South32 from BHP Billiton. If this corporate action is excluded, Argo's profit increased by 3.2% and earnings per share increased by 1.6%.

Argo is a long-term investor and its diversified portfolio again generated strong levels of dividend income. In addition, trading profit and income from option writing both rose again this year. However, interest received on cash deposits was lower, continuing the trend of the last few years as interest rates decline to historic lows. Another revenue source was added to Argo's business model this year, with the Company receiving its first fee income from managing an external client, Argo Global Listed Infrastructure Limited (AGLI), which listed on the ASX in July 2015.

The MER 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, AGLI, for which the Company received management fee income.

In a year characterised by macroeconomic and political uncertainty, Argo's investment portfolio returned -1.2% in total after deducting costs and tax, compared with the broader S&P/ASX 200 Accumulation Index which eked out a return of +0.6% overall.

Investment Portfolio

Overall during the past year, Argo outlaid $218 million on long-term investment purchases, partly funded by $115 million in disposals and takeover proceeds. The larger movements in the portfolio during the year included:

Purchases (above $10m)	*Sales (above $5m)*
Estia Health	Medibank Private *
Westpac Banking Corporation	Milton Corporation
Commonwealth Bank of Australia	Affinity Education (takeover) *
DUET Group	CIMIC Group *
Santos	Broadspectrum (takeover) *
Origin Energy	UGL *
McGrath	CYBG plc *

* Sale of complete position and removal from the portfolio. Other stocks exited during the year were Whitehaven Coal, OZ Minerals, Colorpak (takeover), Newcrest Mining and Amaysim.

A number of new investments were added to the portfolio during the year, primarily in industries that were not previously represented but where it is anticipated that growth opportunities may be superior to those in many of the larger companies in the broader index. The new stocks included CBL Corporation, Estia Health, Genworth Mortgage Insurance, McGrath, M2 Group (later taken over by Vocus Communications), Reliance Worldwide and Rural Funds Group.

Overall, the number of stocks held in the portfolio decreased slightly to 99. The cash balance at year end was $93 million, representing 1.9% of the Company's total assets of $4.9 billion.

Market divergence and investment performance

Although the Australian equity market ended the year pretty much where it started, the index was volatile throughout the year and there were significant variations in the performance of individual sectors.

The best performing industry groups for the year were Pharmaceuticals (+30%), Food & Beverage (+27%), Transport (+25%), Utilities (+25%), Consumer Services (+23%) and Real Estate (+22%), while the dominant large capitalisation sectors, such as Energy (-22%), Banks (-10%) and Materials (-4%), all dragged the overall market down.

Another interesting feature of the local market in 2015-16 was the outperformance of smaller company stocks over their larger counterparts, with the Small Ordinaries Index finishing the financial year up +10.4%, compared to the top 20 stocks by market capitalisation, represented by the S&P/ASX 20 Index, which dropped by -11.9%.

Argo's long-term portfolio is skewed toward some of the larger sectors, and while this may have negatively impacted our relative performance this year, these broad portfolio settings are expected to continue to deliver solid growth and dividend income for the Company and its shareholders in the longer term.

The best performing stocks in Argo's portfolio for the year were Managed Accounts Holdings, Colorpak (exited by takeover), CIMIC Group (now exited), Medibank Private (now exited), CBL Corporation, Vocus Communications and Monash IVF Group, all up over 50%.

The following table provides annual return statistics for Argo's portfolio, share price and the relevant share market index for various periods ended 30 June 2016. It should be noted that Argo's portfolio performance (measured by the movement in NTA per share assuming dividends paid are reinvested) is calculated after deducting all administration expenses and tax, whereas share market indices do not take account of these costs.

Performance statistics (per annum)	*1 year*	*3 years*	*5 years*	*10 years*	*15 years*
Argo portfolio return	-1.2%	+7.1%	+7.4%	+4.9%	+7.9%
Argo share price return	-3.8%	+8.5%	+10.1%	+4.7%	+9.1%
S&P/ASX 200 Accumulation Index	+0.6%	+7.7%	+7.4%	+4.9%	+7.3%

Dividend income

Over the past year, a number of bellwether stocks have reduced their dividends, particularly those companies directly exposed to falling commodity and oil prices in the Mining and Energy sectors, and companies indirectly exposed as providers of services to these industries, such as WorleyParsons. This trend has become more widespread, with meaningful cuts to dividends from ANZ Banking Group and Woolworths also having a negative impact on our investment revenue.

We expect further challenges to dividends from a number of companies and we are particularly cautious about those that may have unsustainable dividend payout ratios or policies.

Net tangible asset backing

As a long-term investor, Argo does not intend to dispose of its long-term investment portfolio. Therefore, when calculating net tangible asset backing (NTA), Argo values its portfolio using the market price of each listed holding, without providing for estimated tax on gains that would be realised if the portfolio were to be sold. At 30 June 2016, this valuation resulted in a NTA per share of $7.11. However, if estimated tax on unrealised gains in the portfolio was to be deducted, the NTA per share would have been $6.34. Both NTA figures are updated monthly and announced to the ASX.

On 30 June 2016, Argo's share price closed at $7.37, ending the financial year at a 3.7% premium to NTA.

Share Purchase Plan

The 2016 Share Purchase Plan offer opened on 9 September 2016 and closes on 28 September 2016. Eligible shareholders received the Terms and Conditions of the offer and a tailored application form to apply for up to $15,000 worth of shares directly from the Company, together with this letter.

Last year's Share Purchase Plan raised just over $60 million for further portfolio investments.

Directorate

Rob Patterson has announced that he will retire from the Board when his current term expires at the Annual General Meeting on 26 October 2016.

Rob joined Argo in 1969 as Company Secretary. He was appointed Chief Executive Officer in 1983 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. His career achievements were recognised by his peers in 2009 when he was elected to the Australian Fund Manager's Hall of Fame.

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. His diligent service will be further acknowledged with shareholders at the Annual General Meeting.

Chris Cuffe was appointed to the Board on 25 August 2016, after an external selection process which identified that his experience and track record in the investment management industry was ideally suited to Argo's Board. He is a well-known and highly respected figure in the financial services sector and is a former Chief Executive Officer of both Colonial First State and Challenger Financial Services Group Ltd. He is currently Chairman of UniSuper, and a Non-executive Director of Global Value Fund and Antipodes Global Investment Company Limited.

Further details of Mr. Cuffe's qualifications and career achievements will be detailed in the Notice of Meeting for the 2016 Annual General Meeting, at which time he will seek election by shareholders.

Annual General Meeting and shareholder information meetings

This year the schedule for the Annual General Meeting and shareholder information meetings will 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 of the meetings are as follows:

Annual General Meeting - Adelaide - *Adelaide Oval, War Memorial Drive*	Wednesday 26 October 2016 at 10.00am (AGLI at 12.30pm)
Melbourne Information Meeting - *Grand Hyatt Hotel, 123 Collins Street*	Thursday 27 October 2016 at 10.00am (AGLI at 11.30am)
Sydney Information Meeting - *Hilton Hotel, 488 George Street*	Friday 28 October 2016 at 10.00am (AGLI at 11.30am)
Brisbane Information Meeting - *Marriott Hotel, 515 Queen Street*	Monday 31 October 2016 at 10.00am (AGLI at 11.30am)
Perth Information Meeting - *Duxton Hotel, 1 St Georges Terrace*	Tuesday 1 November 2016 at 9.30am (AGLI at 11.00am)

Outlook

2016 has certainly been an interesting year for global economies, politics and investment markets. This has led to increased volatility in equity markets, somewhat buffered by ever increasing support and liquidity from central banks globally.

Yields globally continue to fall to historic lows, pushing investors out of cash and into more risky, higher yielding asset classes, including equities, thereby inflating their valuations. Premiums are being placed on stocks that are delivering earnings and dividend growth, but we feel this is becoming excessive in some areas.

However, with abundant and increasing global liquidity, we believe that despite the potential for rate increases in the US, the yield thematic will continue to be a dominant consideration for the remainder of the year, with companies that have above-market dividend growth likely to continue to be well supported.

At the time of writing, the Australian corporate results reporting season was quite well advanced, with a couple of observations worth highlighting:

- The delivery of corporate earnings was fairly good versus expectations, although with the market already trading at elevated levels after a strong July, this wasn't enough to drive markets higher.
- Dividends declared have generally been in line with expectations, with some growth from a number of small to medium sized companies being offset by largely flat dividends from the larger capitalised companies and notable dividend cuts from IAG, Wesfarmers and Woolworths.

While there are likely to be some challenging times ahead, with international politics a key concern, we see pockets of value in the Australian market and will continue to invest in companies in industries providing longer term growth opportunities.

Yours faithfully,

Jason Beddow
Managing Director