Australian Shareholders' Association

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Underperformance continues

Company/ASX Code	Argo Investments/ARG
AGM date	Monday 21 October 2019
Time and location	10am Adelaide Oval War Memorial Drive Adelaide
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll
Monitor	James Hahn assisted by Bob Ritche
Pre - AGM Meeting?	Yes, with Chair Russell Higgins

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

Being a listed investment company (LIC), Argo does not have a large social or environmental presence. However, it is the custodian of more than $6 billion of Australian shares and therefore has an obligation to engage in best practice corporate governance so as to set an example. It is with this theme in mind we would like to draw attention to a practice that we believe could be improved. It would be to put the MD's performance rights to a vote at each AGM.

Financial performance

Argo announced a 2019 profit of $292.7m compared with $218.9m last year. This equates to earnings of 41.1 cps compared to 31.3 cps last year. Dividends of 33 cps (4.0 cents LIC capital gain) compared to 31.5 cps (4.0 cents LIC capital gain) last year.

Argo's investment portfolio returned 7.3% in total, after deducting expenses and tax, compared to the S&P/ASX200 Accumulation Index which returned 11.6 % for the year. In absolute terms this is a 4.3% underperformance against this benchmark, however it should be noted that this is an after-tax figure for Argo. Management Expense Ratio was steady at 0.15%.

In the last four years, the company has underperformed this benchmark by a cumulative 10.2%, with every year being negative. The last five-year average is negative 2.45%. This compares badly with the previous 15-year period of annualised outperformance of 0.8%.

In a meeting with the chair, this issue was raised. He confirmed that independent directors are aware of and comfortable with the recent underperformance. The reasons given are that Argo is primarily an LIC that focuses on harvesting and paying fully franked dividends with a secondary focus on comparative index performance. Therefore, being a long-term value-based investor, it is an expectation that the company will periodically underperform the index, particularly when a major correction has not occurred. The comparative method also disadvantages the company by approximately 0.8%.

ASA remains watchful on the future performance of the company to determine, over time, if its performance against benchmark is structural or cyclic in nature.

Key events

Additional capital was raised from the Dividend Reinvestment Plan ($43.3m).

ASA focus issue

Board composition/director skills:

- Partially compliant – Skills and experience are included in the re-election resolution; directors do address the AGM meeting but the wording of directors' relevancy to the company could be better.
- Compliant – The company has an independent chairman, a majority of independent directors and only one executive director.
- Compliant – The board is comprised of at least 30% female directors and at least 30% male directors.

Remuneration disclosure:

Compliant – Argo has 4year long-term hurdles, uses market value to calculate long-term incentive (LTI) grants and has a table of actual CEO and key management personnel (KMP) remuneration.

Skin in the game:

Compliant – All directors have at least one year's fees invested in the company.

Shareholder participation:

Compliant – The company uses proxy voting and shareholders are invited to participate in a dividend reinvestment plan.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	292.7	218.9	211.5	216.3	228.1
UPAT ($m)	256.6	218.9	211.5	216.3	209.5
Share price ($)	8.12	7.97	7.67	7.37	7.97
Dividend (cents)	33	31.5	31.0	30.5	29.5
TSR (%)	5.9	8.1	8.3	(3.7)	8.3
EPS (cents)	41.1/36*	31.3	30.7	32	34.3
CEO total remuneration, actual ($m)	1.23	1.25	1.29	0.96	0.79

*Excluding Coles demerger dividend.

For 2019, the CEO's total actual remuneration was **14 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

Two facts guiding our analysis of the remuneration report are (1) Argo has a low-cost model of doing business (management expense ratio (MER) = one-sixth of one percent), and (2) the quantum of executive remuneration is not quantitively excessive by market standards.

The Managing Director and executives are offered an annual short-term incentive (STI) reported as being up to 75% of their gross fixed remuneration. 47% of this is paid in cash and 53% deferred. The deferred STI is issued as performance rights which vest two years after grant.

The financial performance indicators to be tested are superior earnings per share (EPS) performance relative to its approved LIC peer group and a superior one-year total portfolio return (TPR). Annual personal performance indicators are also set for each executive.

The LTI uses the same two benchmark performance indicators as the STI but measures them over a four-year period. If the company exceeds the performance of the average peer groups 25% of the tranche will vest. If the company exceeds the performance criteria by 30% then the remaining 75% will vest. A pro-rata straight line apportionment is applied for out-performance between these points. The company has clawback provisions.

The Managing Director is entitled to a reported 90% of his gross fixed remuneration and other executives 40% of their gross fixed remuneration. It is positive that there are at least partial gates for negative performance.

STI outcomes for 2017 were 65.7% achieved and LTI outcomes were 39.4% achieved. The CEO actual remuneration decreased 1.3% to $1,234,231 from $1,250,372. He also has 286,346 shares in Argo Ltd. NED remuneration increased by 2% from the previous year.

It is pleasing to note that the remuneration report includes actual remuneration and disclosure on metrics and outcomes. The inclusion of STI individual objectives is not included. However, the report is clear and easy to understand.

Item 3	**Re-election of Ms Anne Brennan as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Brennan has been an independent director, Non-executive Director of Argo since 2011. She is Chair of the Audit & Risk Committee and a Director of Argo Service Company Pty Ltd. She has a chartered accounting and corporate background and therefore her skills are relevant to the company. This is her last election nomination as an independent director as ASA deems a director serving 12 or more years as non-independent.

Item 4	Re-election of Mr Chris Cuffe AO as a Director
ASA Vote	**For**

Summary of ASA Position

Mr Cuffe joined the board as an independent, Non-executive Director in 2016. He is a member of the Audit & Risk Committee. He is a chartered accountant with a long history the Australian Fund Management industry and brings valuable skills to the company.

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.