Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Argo steadies the ship

Company/ASX Code	Argo Investments/ARG
AGM date	Monday 25 October 2021
Time and location	10am Central Time -Virtual
Registry	Computershare
Webcast	Yes – virtual meeting
Poll or show of hands	Poll on all items
Monitor	James Hahn assisted by Greg O'Connell
Pre AGM-Meeting?	Yes, by video with MD Jason Beddow, Chair Russell Higgins and Chief Operating Officer Timothy Binks.

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Summary of issues for meeting

The main issues ASA have with Argo's operation are the company's decisions, last year, to significantly lower hurdles for performance-based remuneration (REM) and for ongoing negative relative performance against the S&P ASX 200 Accumulation Index over the five-to-ten-year period.

In recent discussion with the MD Jason Beddow and Chairman Russell Higgins it was asked if the lowering of REM hurdles has had any influence on present investment decisions. The Chairman informed us that lowering maximum performance hurdles from 3% to 1% was intended to correct a situation where the targets were deemed unattainable and therefore provided no incentive to staff. This lowering of hurdles is, in effect, a pay rise. We would consider the merits of a pay rise if there was reasonable justification, such as a change in strategy, staff retention for outstanding performance, a merger or attracting highly qualified new staff. We do not observe any of these factors present currently.

Mr Beddow, who did most speaking on behalf of the company, was adamant that Argo has a 75 history of a style of investing that is still in force today. When questioned on recent medium-term underperformance against relevant benchmarks he pointed out that 'everyone wants everything, including dividends, low fees and capital gains and this was sometimes unattainable'.

This brings us to highlight some differences of priorities between the management of Argo and the ASA monitors on behalf of our ASA members who are Argo investors. Firstly, the time-periods chosen by Argo, at present, are 20 years performance, with a 75-year history. For ASA, we believe an appropriate time for our median investor would be between five to ten years; possibly fifteen. We arrive at that conclusion for a number of reasons; the first being that this is what most 'long-term' investors would consider an appropriate investment horizon. This is confirmed by the average investment period by shareholders in Argo being approximately 11 years. Another reason is that, although Argo has a 75-year history, the present management has a more realistic collective, individual tenure of less than 20 years. It is the present management style we are questioning, not the style of previous generations.

The second point of difference is priorities of returns. As vigorously articulated by Mr Beddow, Argo has polled their shareholders and are responsive to their wishes. Regular payments of dividends are a high priority for the responding shareholders and Argo reacts to this with regular dividend payments, sometimes from reserves. Over the last 10 plus years, these regular dividend payments have come at the cost of overall comparative performance against the target index.

ASA, on the other hand, although fully aware of shareholder desire for dividends, believe that total return, expressed as NTA plus dividends, is the more relevant and preferred performance target for the company executives to be measured against and that dividends should be generated and paid on top of positive long-term performance against the index. We also acknowledge that Argo NTA is expressed after tax and fees and take that into account.

We believe it is these differences of perspectives that result in an apparent disconnect between the two parties. We await future developments.

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

Summary of ASA Position

<u>Governance and culture</u>

As we said last year, Argo does not have a large social or environmental presence. However, it is the custodian of $6.6 billion of Australian shares and therefore has an obligation to engage in best practice corporate governance 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: to put the MD's performance rights to a vote at the AGM.

<u>Financial performance</u>

Argo's profit for the year ended 30 June 2021, at $174 million, was 12.8% lower than the previous year due to a COVID related decline in dividends. However, the company only reduced the dividend to shareholders by 6.7% by drawing on reserves. The company has a market capitalisation of $6.6 billion and 94,000 shareholders.

This year Argo, having a total one-year portfolio return of 28.5% outperformed the S&P ASX 200 Accumulated Index (27.8%) by 0.7% after deducting all costs and tax. Operating costs remain low at 0.14%.

Argo's 20-year portfolio return of 8.2% (after payment of all costs and tax) matched the S&P ASX 200 Accumulation Index (8.2%) noting the index does not take into account any costs or tax.

<u>Key events</u>

A Dividend Reinvestment Plan raised $38 million of new capital during the year at a 2% discount from market as defined by the DRP.

Key Board or senior management changes

There have been no changes to management or the board.

ASA focus issue

Directors and Board: Compliant – The directors have compatible skills for their positions and adequate time to discharge their duties. There are at least 30% male/female members.

Risk Management: Compliant – There are no obvious failings in the investment strategy or diversification. Also, ESG is not an issue.

Shareholder communication and fairness in capital raisings: Compliant – Capital raisings are fair and equitable, the company met with ASA four weeks prior to the AGM and all relevant documents were released in a timely manner.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT ($m)	174	199.5	292.7	218.9	211.5
UPAT ($m)	174	199.5	256.6	218.9	211.5
Share price ($)	8.93	7.19	8.12	7.98	7.67
Dividend (cents)	28	30	33	31.5	31.0
Simple TSR (%)	28.5	-7.76	5.9	8.1	8.3
EPS (cents)	24.1	27.8	41.1/36*	31.3	30.7
CEO total remuneration, actual ($m)	1.03	1.23	1.23	1.25	1.29

*Excluding Coles demerger dividend.

For 2021, the CEO's total actual remuneration was **11.2 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics). Simple total shareholder return (TSR) takes into account the changes to share price and the dividends paid during the year.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

We do not support the current 'at risk' remuneration hurdles. Although Argo outperformed the S&P ASX 200 Accumulation Index by 0.7% in the year ending 2021, the five-to-fifteen-year period is one of underperformance against the index. We continue our stance that the lowering of incentive hurdles from 3% to 1% last year is still not supported with any justification.

The good points are that the report is easy to read, has the actual remuneration table and is basically rational.

The bad points are that the peer group for STI is not disclosed, and the hurdles are too low. As we have previously stated, at this time, we do not believe higher remuneration is appropriate for present performance.

Detailed description of the Remuneration Framework, along with commentary on its contents, is included at Appendix 1.

Item 2	**Re-election of Ms. Joycelyn Morton as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Morton joined the board as an independent NED in 2012. She is a member of the Board's Audit and Risk committee. She is a highly qualified accountant and holds a Bachelor of Economics degree. Ms Morton currently is on the boards' of AGLI, Beach Petroleum Ltd, Felix Holdings Group and ASC Pty Ltd. She has 16,888 Argo shares.

Item 2	**Re-election of Ms. Elizabeth Lewin as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Lewin was appointed to the board on 1 July 2018 as an independent NED. She is a member of the Remuneration Committee. After a 25-year career in the financial services sector she retired her executive position to pursue a Board career. Ms. Lewin is also on the Boards of the Australian Chamber Orchestra and Kaldor Public Arts Project and is a Trustee of the St. Vincent's Clinic Foundation. She has 13,741 Argo shares.

Item 7	**Adoption of amended constitution**
ASA Vote	**Against**

Summary of ASA Position

Elements of this resolution are not controversial such as allowing the company to operate under new CHESS regulations. At this time, the proposal to enable the holding of virtual meetings outside times where physical meetings are precluded cannot be supported. The technology and practise are not yet sufficiently developed to ensure a company meeting that replicates the exchange between shareholders and the board in a physical meeting.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FYXX	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.7	48.6%	0.7	37.6%
STI - Cash	0.25	17.4%	0.25	13.4%
STI - Equity	0.28	19.4%	0.28	15.0%
LTI	0.21	14.6%	0.63	34%
Total	1.44	100.0%	1.86	100.0%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Argo has a combination of fixed short-term and long-term incentives for its senior staff.

The STI consists of a combination of personal and company objectives over a one-year period. The individual objectives are applied to each executive and determined by the board. The financial objectives are the same as the LTI components. The STI ranges from 0-75% for the MD. It comprises up to 35% FAR cash and 40% FAR performance rights. The hurdles are not disclosed by the board.

The LTI consists of the following indicators and a four-year period is required. The company financial indicators are a comparison performance against the S&P ASX 200 Accumulated Index and a comparison of earnings per share performance relatives to an undisclosed group of piers. The ASX 200 tranche vests at 40% to 100% at 1% outperformance. The EPS tranche is 25% - 100% at 30% outperformance. The maximum achievable for the MD is 90% FAR.

The maximum out-performance hurdles were reduced from 3% to 1% last year and the base rate increased from 25% to 40%. The company uses the face value for share calculation. The CEO has 352,000 shares plus performance rights yet to vest.

We believe that market cap. Is not the correct comparison for quantum because Argo is a LIC and ‘holds’ the assets of listed companies and cash. It is not listed on the S&P ASX 100 even though it has an eligible market cap.

Several points should be taken into consideration. Firstly, Argo manages approx. $7 billion compared to $3,000 billion + superannuation industry funds. This equates to 0.2 % of total funds. Many fund managers oversee $7 billion for much less pay.

The CEO of AFIC was remunerated a similar amount last year, manages $10 billion and significantly outperformed the market, and more so Argo, over our time periods.

Another comparison is the CEO of PPT, who was paid $2.3 million last financial year for a good performance from a $95 billion global funds base.

So compared to piers in similar situations the management of Argo are well remunerated even before the effects of the easier hurdles are realised and on the back of sub-market performance.

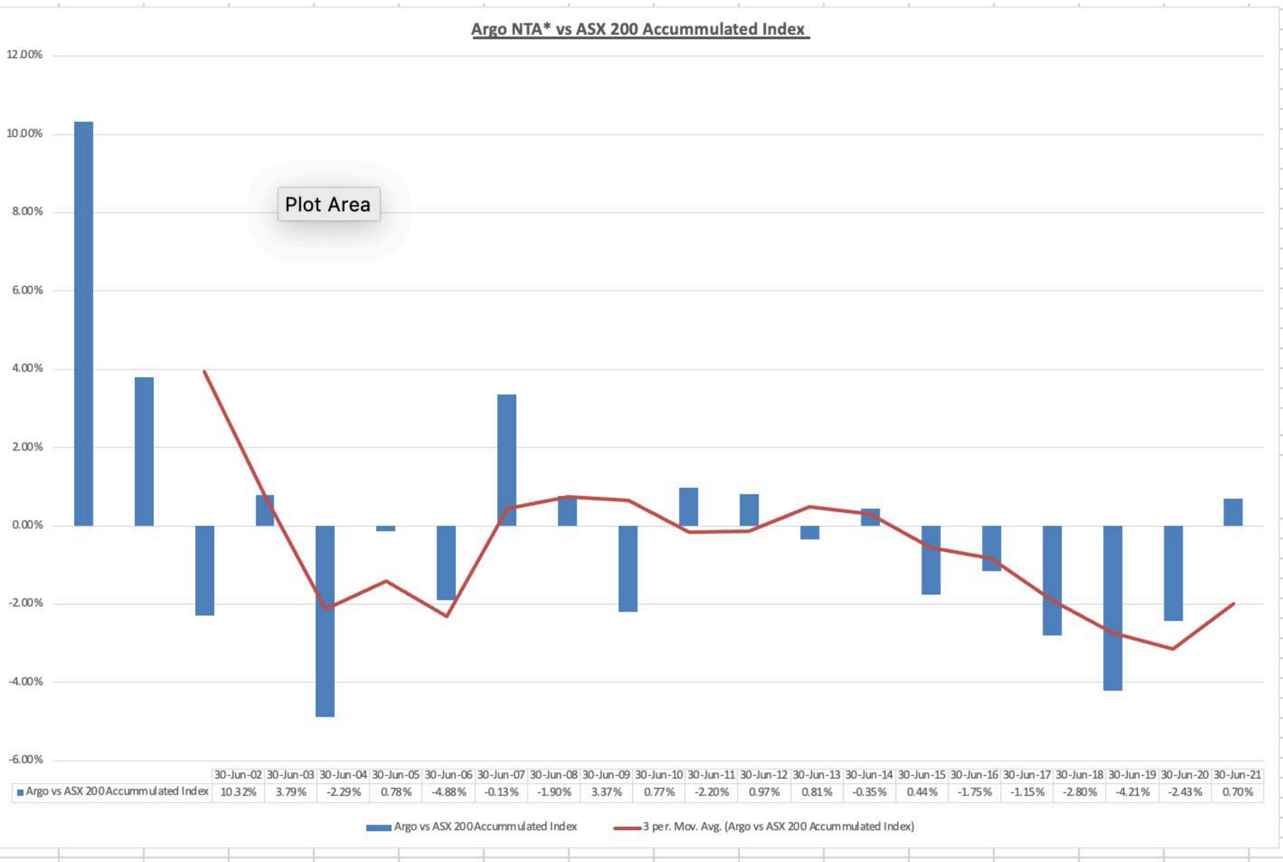

Figure 1 - Argo 20-year annual comparative performance against S&P/ASX 200 Accumulation Index.

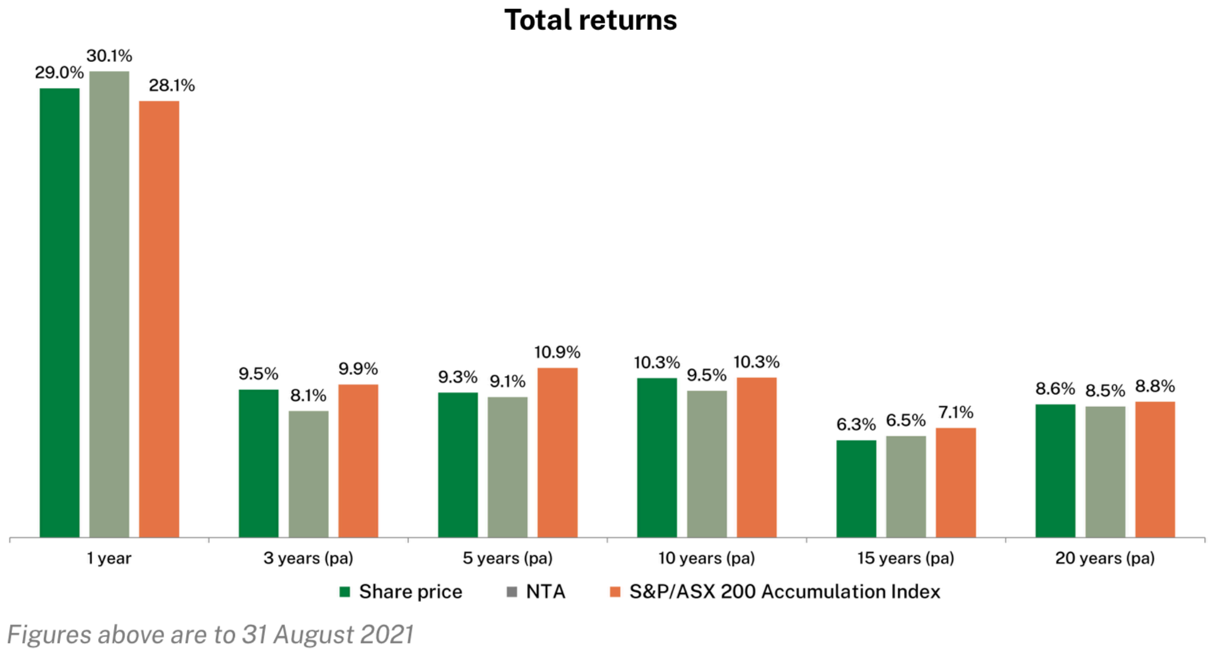

Figure 2 - Argo comparative performance against S&P/ASX 200 Accumulation Index.

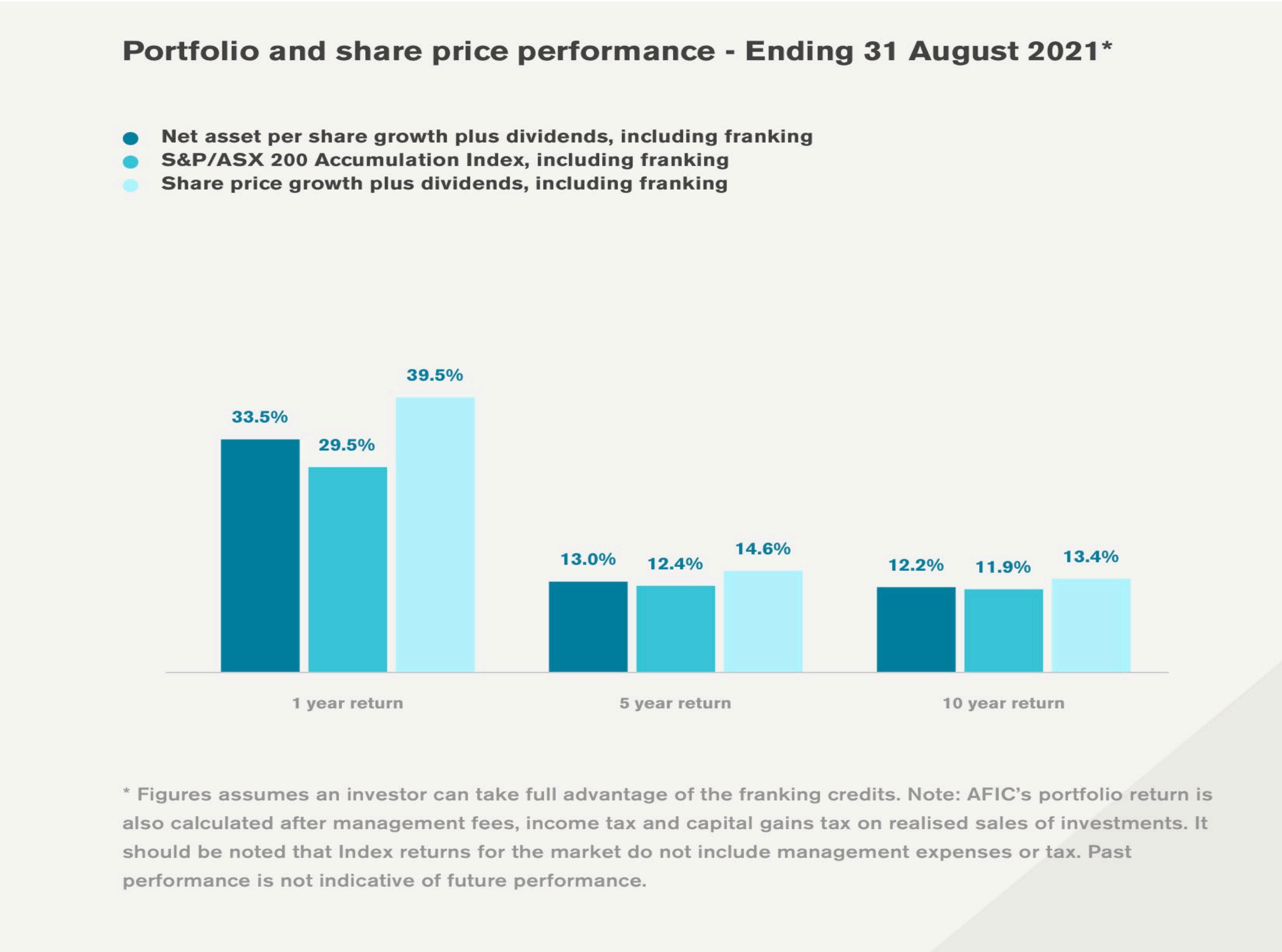

Figure 3 - AFIC comparative performance comparative performance against S&P/ASX 200 Accumulation Index.

The report includes an actual remuneration table. The executives took home less this year compared to last year due to continued long-term underperformance. However, the short-term out-performance was significantly above average.