



**1 year market outperformance - more please.**

<b>Company/ASX Code</b>	Argo Investments/ARG
<b>AGM date</b>	Monday 24 October 2022
<b>Time and location</b>	10am, Central Time, at Adelaide Convention Centre, North Terrace, Adl
<b>Registry</b>	BoardRoom Pty Limited, Sydney
<b>Type of meeting</b>	Physical with live webcast (view only)
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Greg OConnell assisted by James Hahn
<b>Pre AGM Meeting?</b>	Yes, in Argo offices with Chief Operating Officer Timothy Binks and, by video, with Chair Russell Higgins and MD Jason Beddow. ASA represented by Greg OConnell, James Hahn and Bob Ritchie.

Monitor Shareholding: No individual (or their associates) involved in the preparation of this voting intention has any shareholding in this company.

**Summary of issues for meeting**

**Remuneration Incentives**

Argo’s remuneration arrangements are unchanged from 30 June 2020 when Argo significantly lowered hurdles for performance-based long term incentive remuneration. ASA did not support this change.

Argo’s most recent 1-year NTA performance against the S&P/ASX 200 Accumulation Index benchmark is positive. Argo’s long term (5, 10, 15, 20 years) performance against the S&P/ASX 200 Accumulation Index benchmark continues to be negative.

With increased remuneration for lesser performance continuing, ASA will vote against the Remuneration Report (as we did in 2020 and 2021).

At Annual Report 2022, pp 33-34 Argo advises changes to the Remuneration policy for FY2023 making some increases to maximum STI and LTI awards; and (more encouragingly) introducing an additional 10 year performance condition and remuneration tranche. We are hopeful this long term performance hurdle will increase alignment between Argo and ASA member long term interests. ASA will assess these changes when details are made – forecast to be in FY2023.

## Board skills and renewal, Directors and Chair

Half a year ago, the Argo Board had 4 directors exceeding the Argo's own 9 year tenure limit for directors – suggesting need for a broad Board renewal.

At the date of this AGM, the Argo Board will have two Directors, including the Chair, exceeding the Argo 9 year tenure limit. In addition, one Director is standing for re-election and one new director is standing for election.

With this level of change, the Argo Skills Matrix (15 August 2022) comprising two lists of aggregate Director skills does not help determine what skills are being lost/gained as Directors depart/join.

ASA's voting for Directors will be challenged by lack of matching of skills to particular Directors.

The workload of Director Mr Chris Cuffe, standing for re-election, is high, a concern for his current position and if new responsibilities are considered; although the chairman advised that Mr Cuff's board responsibilities are in total less than a simple count of ten indicates.

## Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	Against
3	Re-Election of Mr. Chris Cuffe AO as a Director	Undecided
4	Election of Ms Lianne Buck as a Director	Undecided

## Summary of ASA Position

### Consideration of accounts and reports - No vote required

#### Governance and culture

Argo does not have a large social or environmental presence. On its website at <https://www.argoinvestments.com.au/files/ESG-Investment-Statement.pdf> it does provide an Environmental, Social and Governance Investment Statement (not dated) explaining how ESG issues are considered an inherent part of the investment process and influencing voting decisions for companies in the Argo portfolio. On Argo's website at <https://www.argoinvestments.com.au/esg-proxy-voting-statistics/>, a summary of Argo's proxy voting record is provided for the period FY2014 to FY2022 showing 2 "abstain" votes made in FY2022.

#### Financial performance

For the year ended 30 June 2022, Argo's profit, at \$312.9 million was 79.9% higher than the previous year driven by record dividend income, one-off non-cash income from the merger of BHP's oil and gas assets with Woodside Energy and Tabcorp's demerger of The Lottery Corporation. The full year fully franked dividend was increased from 28 cents to 33 cents with a 15 cent LIC capital gain included in the final payment. The Management Expense ratio was held at 0.14%

For the year ended 30 June 2022, Argo's one year investment performance, measured by NTA return after management costs and compared against the S&P/ASX200 Accumulation Index was **-3.1%**, with the S&P/ASX 200 Accumulation Index changing by **-6.5%**, resulting in Argo's Relative NTA performance being **positive 3.4%**.

## Key events

The Dividend reinvestment Plan (DRP) operating during the year raised \$42million of new capital.

A Share Purchase Plan (first in 4 years) was completed March 2022 raising \$192million with 14,500 of 96,000 shareholders participating.

A Dividend Reinvestment Plan is announced for the Final Dividend Payable 16 September 2022.

## Key Board or senior management changes

- Argo announced the retirement of Non-executive Director Ms. Joycelyn Morton on 30 June 2022 and the appointment of Ms. Lianne Buck with effect from 1 July 2022.
- Argo announced the retirement of Non-executive Director Ms. Anne Brennan effective close of the 2022 AGM.

## ASA focus issues (not discussed under remuneration report or re-election of directors)

**Directors and Board:** Compliant - Issues of tenure, Board skills and Director workload are separately discussed.

**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 three weeks prior to the AGM and all relevant documents were released in a timely manner.

## Financial Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	313	174	199.5	292.7	218.9
UPAT (\$m)	313	174	199.5	256.6	218.9
Share price (\$)	8.80	8.93	7.19	8.12	7.98
Dividend (cents)	33	28	30	33	31.5
Simple TSR (%)	2.24	28.5	-7.76	5.9	8.1
EPS (cents)	42.7	24.1	27.8	41.1/36*	31.3
CEO total remuneration, actual (\$m)	1.35	1.03	1.23	1.23	1.25

For 2022, the CEO's total actual remuneration was **14.7 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2022 data from the Australian Bureau of Statistics).

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking by the share price at the start of the year).

## **Election or re-election of directors**

Observations

- The Argo Board has a majority of independent directors with 6/7 considered independent. The Managing Director, Jason Beddow is the only Executive Director on the Board.
- Going into the AGM, the Board has at least 30% female and at least 30% male directors, meeting ASA guidelines. Exiting the AGM, recognising the Retirement of Non-executive Director Ms. Joycelyn Morton, the Board will have one less female Director and continue to have at least 30% female and at least 30% male directors, meeting ASA guidelines.
- Directors and other KMP have investments of at least one year's worth of base cash fees in Argo shares, within 3 to 5 years.
- Argo Board Director tenure is summarised at Appendix 2.
- It is Argo guidance that Directors are limited to 9 years of service.
- The Chair, Russell Higgins joined the Board 1 September 2011 and will be in the early stages of his 12<sup>th</sup> year of service with the Board by the time of the 2022 AGM. It is ASA view for the Chair to be an independent director and that directors will no longer be considered independent after 12 years of Board service.
- Non-executive Director Ms. Joycelyn Morton retired on 30 June 2022 after 10 years of service.
- Ms Lianne Buck was appointed to the Board as a Non-executive Director on 1 July 2022 and is up for re-election.
- Non-executive Director Ms. Anne Brennan joined the Board 1 September 2011, will be in the early stages of her 12<sup>th</sup> year of service with the Board by the time of the 2022 AGM and will retire effective close of the 2022 AGM.

#### Areas for Attention

- Argo has a history of long serving Directors however:
  - Director Roger Davis exceeds the Argo tenure guidance limit of 9 years for a Directorship.
  - The Chair Russell Higgins will be in the early stages of his 12<sup>th</sup> year of service with the Board by the time of the 2022 AGM, exceeding Argo's 9 year tenure guidance limit.
- Chair Russell Higgins is in his 12<sup>th</sup> year of service, ASA guidelines will determine he is no longer classed as independent at the 12 year mark.
- Non-executive Director Christopher Cuffe has a director workload of 10 roles/units in addition to the position on the Argo Board (noting two of his roles are Chairman roles assessed as double workload roles). While the ASA calculation is "formula based", this total workload well exceeds the ASA reasonable workload threshold of 5.
- ASA has a view of Best Practice for a Director to have one year of Board experience before filling the position of Chair.
- Argo information to shareholders will need to address these matters to support voting in regards to Argo Board renewal, Director re-election, new Director election and any Chair succession.

Re-Election of Director – Mr Chris Cuffe AO

Christopher Edgar Cuffe joined the Board of Argo Investments Limited as an independent, Non-executive Director in 2016.

His current ASX-listed Board roles are Chairman of Hearts and Minds Investments Ltd (since 2018) and a Non-executive Director of Global Value Fund Ltd (since 2014). He is also a Non-executive Director of unlisted companies Australian Philanthropic Services Ltd (Chairman), Realside Financial Group, Third Link Investment Managers Pty Ltd and Ventra Capital, and serves on the Investment Committees of the Paul Ramsay Foundation and UniSuper. He was previously Chairman of UniSuper Ltd and a Non-executive Director of ASX-listed companies Class Ltd and Antipodes Global Investment Company Ltd. Chairman Russell Higgins advised that the responsibility workload of Chris Cuffe's other board roles are individually generally less than for ASX listed companies. Chairman Higgins also spoke well of Mr Cuffe's contributions to the Argo board.

He has 15,000 Argo shares, 0 added during the year.

The Argo Board Skills Matrix in the Argo Corporate Governance Statement (15 August 2022) does not make it clear what unique and critical skills Mr Cuffe brings to the Board.

The workload of Mr Cuffe is a concern.

#### Election of Director - Ms Lianne Buck

Ms Buck is the most recent appointment to the Board, having been appointed in June 2022 as an independent Non-executive Director. Ms Buck has over 20 years in Australian and global investment markets, starting her career in Canada and working in various roles for Macquarie Group, Westpac Banking Corporation, Hastings Funds Management and NSW Treasury Corporation. She is an experienced company director and her workload fits within ASA guidelines with her positions as a Non-executive Director of AusNet Services and ISPT Pty Ltd.

She has Nil Argo shares.

The Argo Board Skills Matrix in the Argo Corporate Governance Statement (15 August 2022) does not make it clear what unique and critical skills Ms Buck brings to the Board.

#### **Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

Effective 30 June 2020, Argo significantly lowered hurdles for performance-based long term incentive remuneration. Discussion with Chairman Russell Higgins in 2021 revealed these lowered hurdles addressed a concern that incentive targets were deemed unattainable and therefore did not act as an incentive to staff. Conversation this year added retention to the incentive payment goals, seeking long term tenure.

These lowered hurdles continue to be utilised in the current period.

Argo's most recent 1-year NTA performance against the S&P/ASX 200 Accumulation Index benchmark is positive however Argo's long term (5, 10, 15, 20 years) performance continues to be negative against the Argo nominated benchmark (the S&P/ASX 200 Accumulation Index)

ASA voted against the Remuneration report utilising these lowered hurdles in 2020 and in 2021.

Looking to the future, we are hopeful the changes to Remuneration policy outlined for FY2023 affecting maximum awards and outlining a rolling 10 year performance condition will result in

stronger alignment of Argo performance incentives with ASA member investment timeframes of around 11 years. We await the detail promised for next year (FY2023).

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## Appendix 1 Remuneration framework detail

### Remuneration Quanta

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 Board does not disclose these hurdles.

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 Accumulation Index and a comparison of earnings per share performance relatives to a group of peers selected by the Board selected. The Board does not disclose this peer group.

The ASX 200 tranche vests at 40% (break even) to 100% at 1% outperformance. The EPS tranche is 25% - 100% at 30% outperformance. The maximum achievable for the MD is 90% FAR.

Effective 30-June-2020, the Board implemented a variation to these awards whereby the base rate award increased from 25% to 40% (increased award for meeting hurdle) and the maximum out-performance hurdles were reduced from 3% to 1% (lowered hurdle for receiving maximum award). The company uses the face value for share calculation. At end FY2022, the CEO has 380,287 shares plus unvested performance rights.

We believe that Argo market cap. is not the correct quantum for marketplace comparisons as Argo is a LIC and 'holds' the assets of listed companies and cash. For this reason, it is not listed on the S&P ASX 100 even though it has an otherwise eligible market cap.

Some points of comparison include:

- Argo manages approx. \$6 billion of assets compared to \$3,000 billion+ managed by industry superannuation industry. This equates to 0.2 % of total funds. Many fund managers oversee \$6 billion for much less pay.
- In FY2022, the CEO of AFIC(AFI) was remunerated \$1.47 million (10% more than the Argo CEO) for managing the combined group of AFI, Mirrabooka, Amcil and Djerriwarrh LICs ( \$9.8 billion in aggregate compared to the \$6.2 billion in Argo). He was remunerated \$794K for managing the individual AFIC LIC, comprising \$8.2 billion of funds and significantly outperforming the ASX200 Benchmark over long time periods.
- Another comparison is the CEO of PPT, who was paid \$2.25 million in FY2022 from a \$90 billion global funds under management.

Compared to peers in similar situations the management of Argo are well remunerated in our opinion even before the effects of the easier hurdles are realised and on the back of sub-market performance.

## Remuneration hurdle timeframes

The current Argo Remuneration hurdles extend to 4 years while ASA members have holding timeframes in the order of 11 years (for investments such as Argo).

At Argo Annual Report 2022, pages 33-34 Argo forecasts changes to Remuneration policy for FY2023 increasing maximum STI and LTI awards; and introducing an additional 10 year performance condition and remuneration tranche.

We are hopeful the 10 year investment performance condition will help align Remuneration incentives more closely with ASA member interests and their average holding timeframes of around 11 years. We await further information promised for next year.

## Argo Performance communication

Argo chooses the S&P/ASX200 Accumulation Index as its benchmark Index for performance.

The Argo website, on a monthly basis, summarises performance as follows:

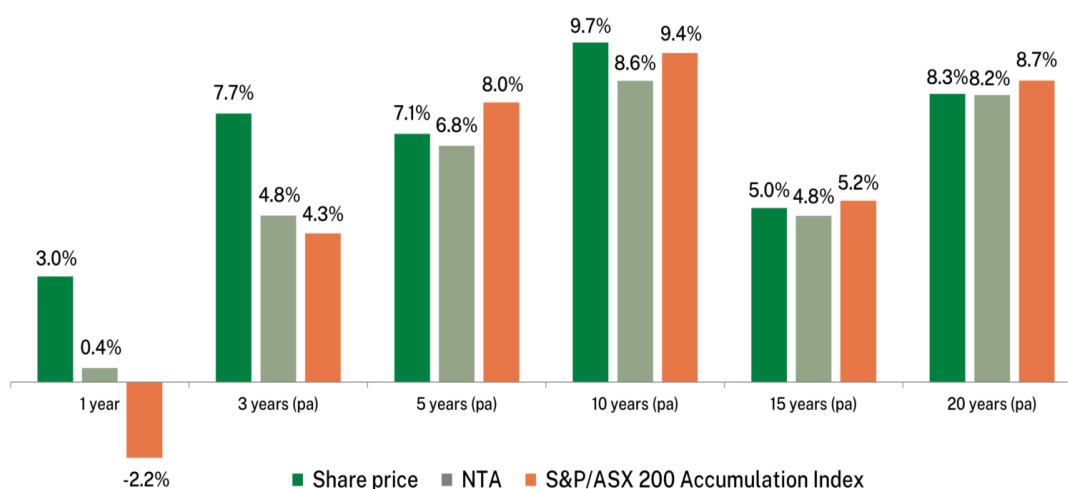
## NTA performance

The performance of Argo's investment portfolio can be measured by changes in the value of net tangible assets (NTA) per share, assuming dividends are reinvested. Argo announces an end of month NTA to the ASX. Latest NTA figures and our monthly investment update are published on our homepage.

The chart below shows the compound annual growth rate of Argo's share price, NTA and the S&P/ASX 200 Accumulation Index over various periods. The NTA performance figures are after deducting all administration expenses and tax. However, the S&P/ASX 200 Accumulation Index does not allow for these costs.

## Total returns

Figures below are to 31 July 2022.



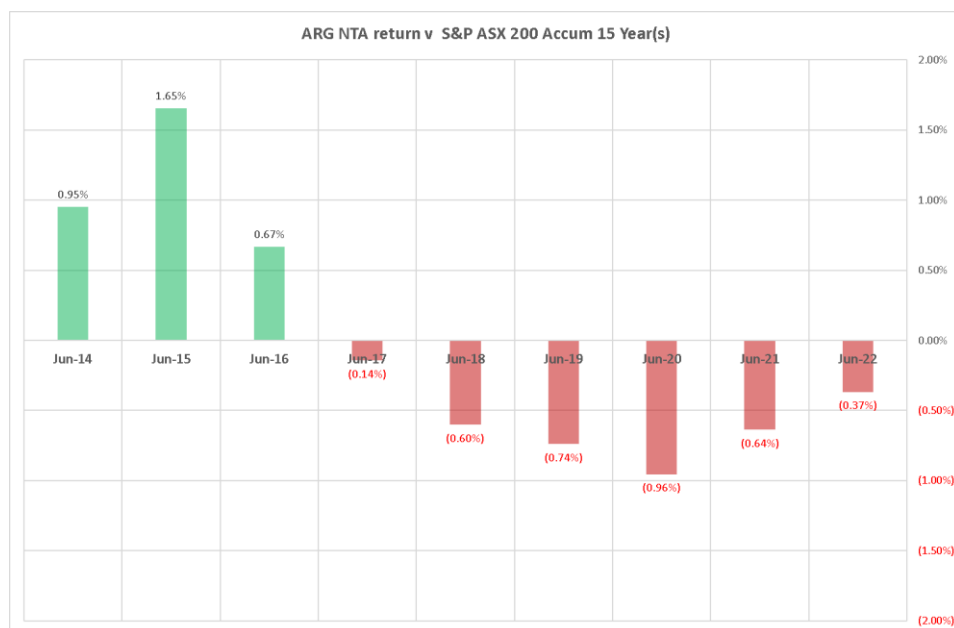
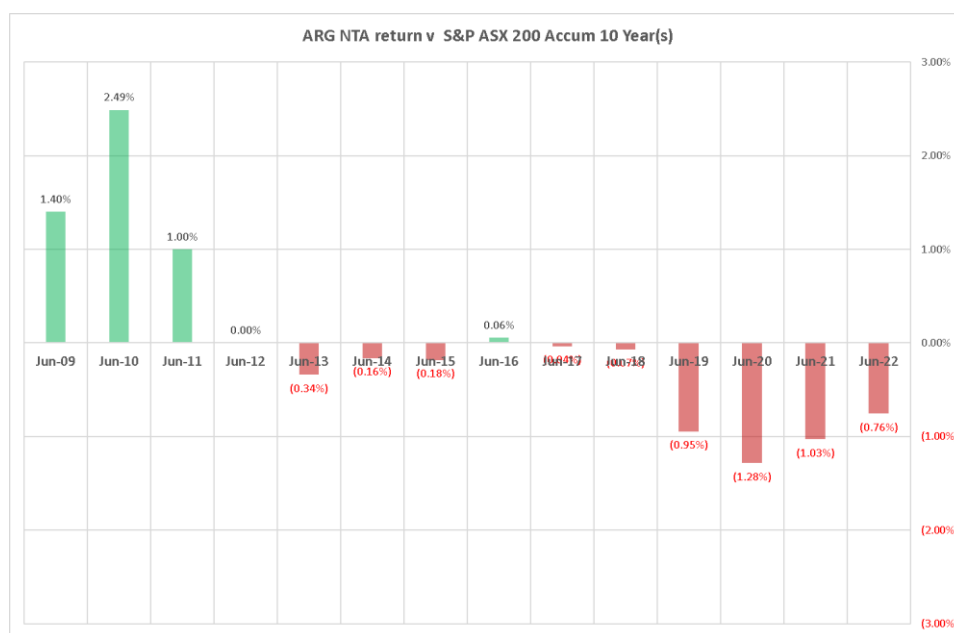


## Long Term Relative Performance

For a long term shareholder the change in Argo’s underlying Net Tangible Assets (NTA) versus the Benchmark are quite relevant and provide an indication of “Investment performance”.

Argo has indicated an intention to introduce a 10 Year performance incentive into the Argo Remuneration Framework in FY2023. ASA member surveys in 2018 indicated a member holding time of around 11 years for investments.

The Relative Performance of Argo NTA compared to it’s Benchmark, the ASX200 Accumulation Index over 10 and 15 year timeframes is summarised below.



## Appendix 2

### Board Member tenure

The Argo Board Charter (June 2022 approved-2) limits maximum tenure in office to 9 years.

ASA policy is for a director with more than 12 years of service to be assessed as not independent.

ASA policy is for a Chair to have 1 year of experience as Director before taking on the role of Chair.

Appointment and tenure of Directors follows, effective at the forecast date of the 2022 AGM.

Board Member	Appointed	Years served at	Years to reach	Other
		24-Oct-22	9	Comments
Russell Higgins	01-Sep-11	11.2	Past limit	
Anne Brennan	01-Sep-11	11.2	Past limit	<b>Retires close AGM 24Oct2022</b>
Roger Davis	01-Jun-12	10.4	Past limit	
Chris Cuffe	25-Aug-16	6.2	2.8	Reelection AGM 24Oct2022
Elizabeth Lewin	01-Jul-18	4.3	4.7	
Joycelyn Morton	01-Mar-12	10.7	Past limit	<b>Retired 30June2022</b>
Lianne Buck	01-Jul-22	0.3	8.7	Appointed 30June2022, Election AGM 24Oct2022
Jason Beddow	03-Feb-14	8.7		Managing Director

During FY2022, the Argo Board had 4 directors serving past the Argo imposed limit of 9 years.

By close of AGM 24Oct2022, with the retirement of 2 directors and appointment of one new director, this reduces to 2 directors (including the Chair) serving past the Argo imposed limit of 9 years.