



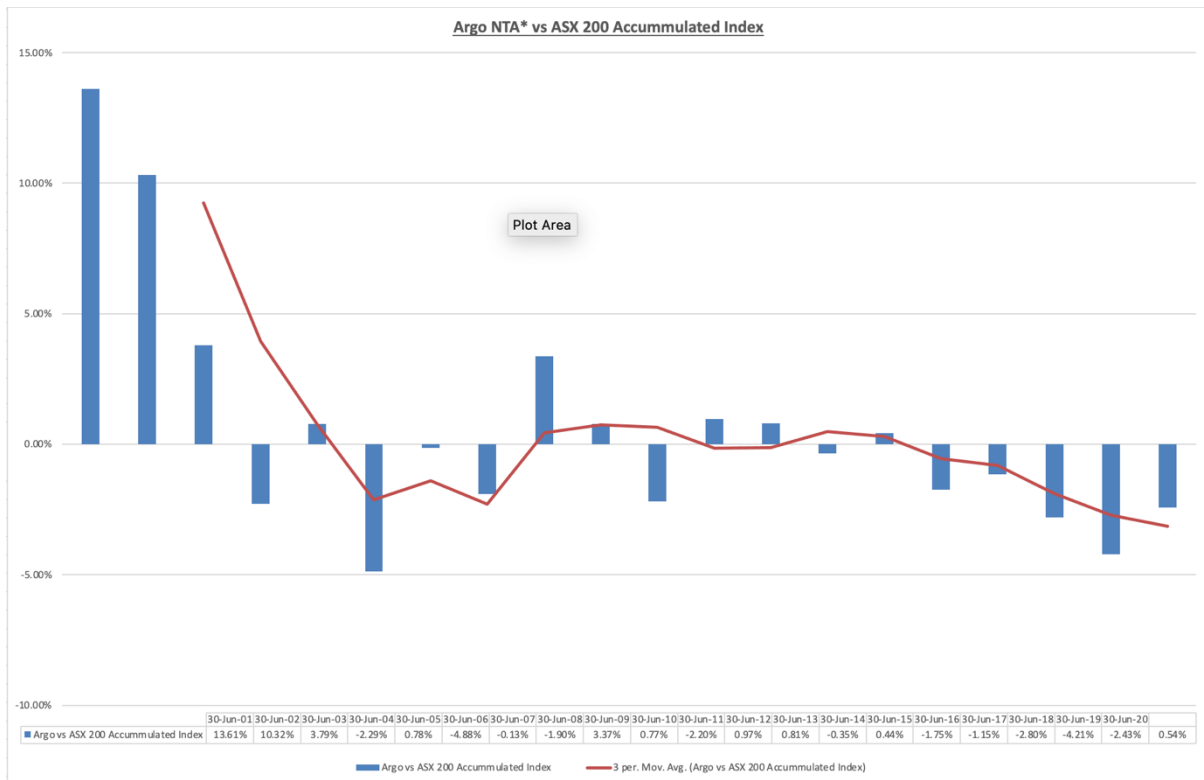
Company	Argo Investments Limited
Code	ARG
Meeting	AGM
Date	26 October 2020
Venue	Online
Monitor	James Hahn

Number attendees at meeting	207
Number of holdings represented by ASA	386
Value of proxies	\$40m
Number of shares represented by ASA	5m (equivalent to 2 nd largest holder in Top 20 list)
Market capitalisation	\$5.2bn
Were proxies voted?	Yes, on a poll
Pre AGM Meeting?	Yes, with Chairman Russell Higgins by phone

Long-term review for long-term investor

In 2017 and each year since, we have discussed with the chair of Argo the question of whether continuing underperformance against Argo's traditional benchmark, the accumulation index, is cyclic or systemic. As Argo gives priority to receipt of franked dividends in the balance of dividends and growth of NTA (its net tangible assets: the value of its share portfolio at market prices), one would expect dividend-paying stocks to outperform growth stocks under some economic and market conditions and underperform in others. Such variation is cyclic. Underperformance or over-performance beyond the length of economic cycles would be considered systemic; suggesting a problem with underlying investment strategy.

At the 2019 AGM the chairman addressed this question which had been raised by ASA that year and the previous two. This year, changes in reporting of Argo's performance and in the LTI tranche called Total Portfolio Return (TPR) gave added impetus to the passage of time for our interest in long-term evaluation of Argo's performance. In our voting intentions we presented this graph.



Argo now has underperformed its traditional benchmark in six of the last seven years; the last five, continuously.

Under the constraints and features of a virtual AGM, all comments and questions we submitted in the week prior to the meeting were read at the AGM; in full. The first agenda item following the introductory speeches by chairman and managing director were ASA's comments and questions pertaining to performance and reports; a statement and two questions, totalling 220 words. Unfortunately, in the style we must adjust to for a virtual meeting, our two questions were read out consecutively; not separately as would be if we were at the microphone, conventionally.

The chair, understandably debated some of our comment and answered our question, 'Has the board given consideration to whether its investment strategy needs to change; not just reviewing why underperformance has occurred in some month or a whole year, but whether underperformance every year in the last five years requires a change of investment strategy?' He said this was a matter often considered at board meetings.

As often happens when questions are presented two at a time, there was no specific response to our second question, 'Given the different reporting periods appearing in annual reports, what length of investment cycle is adopted by the board in considering the company's investment performance?' As we did not rehearse our comments and questions with the moderator whom would be reading them into the meeting, we will learn from this.

More than usual number of questions followed ASA's and most of them were well directed. They can be recalled at this link.

<https://www.argoinvestments.com.au/shareholder-centre/annual-general-meeting>

ASA asked the only questions after item 1.

The remuneration report was adopted with a significant against vote of 16.5%; 7.5%, nearly half the against votes, coming from ASA's voted proxies. Given a confluence of conditions, we voted against remuneration this year. What will happen next year is an open question, an aspect of which is captured in our question, 'Were changes to the payment of incentive scale for the total portfolio return half of long term incentive not intended to induce change in behaviour or investment strategy but to offer easier opportunity to obtain incentive reward, following the board's 2019 remuneration review which found that the TPR tranche of LTI was not providing intended opportunity for payment?'

Mr Russell Higgins was re-elected as a director, with very little opposition, after he gave a useful answer to our question, 'How do you manage the tension between competing objectives of the company receiving higher dividends now and higher future earnings?' He repeated the board's priority for dividends over NTA growth, in concert with shareholder surveys which emphasised this priority.

Mr Roger Davis was re-elected as a director, with very little opposition, after he gave an answer of 17 years to our question, 'When change to measuring total portfolio return (TPR) for long term incentive was contemplated, what back-testing was undertaken to test the effect of the change?' The actual effect, the result of back-testing, was not mentioned and the virtual meeting arrangement stopped the obvious follow-up question.

A new constitution was adopted by the required super majority, with a significant 9.3% against; five-sixths of the against votes being lodged by ASA. We commented, 'Some of the changes proposed are inappropriate in our opinion; in particular:

- it will be more difficult for shareholders to nominate a director
- it will be constitutionally more difficult for shareholders to call a poll.'

The chair debated both these points, giving a response we considered reasonable. He also gave what most people would think a reasonable response to our question, 'If displaying proxy votes statistics before a vote is taken (or a poll is closed) is said to be something which always would happen, why was that guarantee removed by the constitution?' Argo has conducted all votes by poll. Our recollection is that this practice was adopted only last year, after years of lobbying by ASA. Additionally, we consider the constitution to offer protection against some possible unfortunate practice of some future chair, as indeed happened at the AGM of another listed company in Adelaide last year. We intend to engage with the board to get some replaceable items properly inserted into the constitution.

The chair closed the poll and closed the meeting. No pies, no pasties, no hot beverage; a feature of a virtual meeting.