



**ARGO GLOBAL LISTED INFRASTRUCTURE LIMITED**

ABN 23 604 986 914

## **2018 Annual General Meeting CHAIRMAN'S ADDRESS**

*Delivered by Mr. Russell Higgins AO at the 3rd Annual General Meeting of Argo Global Listed Infrastructure Limited (AGLI or Company) held at the Adelaide Oval on Monday 22 October 2018 at 1.00pm.*

### **Strong financial results**

Stronger markets and portfolio outperformance contributed to AGLI's record financial result. For the year to 30 June 2018, the Company announced a full year profit of \$16.2 million, up from \$7.8 million last year.

### **Fully franked dividend**

The Board was very pleased to declare AGLI's first fully franked dividend of 2.5 cents per share. Together with the 1.25 cents per share interim dividend, shareholders received a full year dividend of 3.75 cents per share, an increase of 7% on the previous year.

The Board aims to provide a sustainable and growing stream of dividends to shareholders, which are franked whenever possible. The quantum of both the interim and final dividends for 2018-19 will be determined by the Board in light of the financial position of the company at the time. However, I am pleased to say that we expect to be in a position to be able to fully frank both the interim and final dividends for 2018-19.

### **Investment outperformance**

While infrastructure lagged the strong growth in broader equity markets over the year, AGLI's portfolio has added considerable value above the benchmark index, particularly in recent months. For the six months to 30 September 2018, AGLI's portfolio performance was +11.1%, easily outperforming the global listed infrastructure benchmark index return of +9.4%.

These performance figures are testament to the skill of our specialist portfolio manager, Cohen & Steers. Shortly, one of Cohen & Steers' senior portfolio managers, Bob Becker, will comment further on the recent strong portfolio performance and their investment approach.

### **Positive progress**

In the current investment climate, it is worthwhile to take a moment to recap the Company's history and outline some of the characteristics of the investment opportunity.

AGLI successfully listed in July 2015, raising a record \$286 million to make it the largest listed investment company (or LIC) IPO up to that point. We attracted 11,000 shareholders to the register, half of whom were Argo shareholders. Argo Investments participated in the IPO, acquiring an 8.7% stake for \$25 million. Argo remains a shareholder and in fact has increased its investment in AGLI through participation in the Dividend Reinvestment Plan.

We acknowledge that AGLI got off to a slow start as it started life in very challenging conditions. We listed on the ASX during the week that the Greek debt crisis came to a head and due to the extreme uncertainty and possibility of contagion if the Greeks defaulted on their sovereign debt, we decided to stagger the initial investment of the IPO proceeds. In hindsight, this precaution led to underperformance as the markets quickly shrugged off the crisis and rallied strongly.

In the months following the IPO, sluggish economic growth and widespread political uncertainty weighed on markets globally. Further, geopolitical developments including Brexit and the election of US President Donald Trump, contributed to considerable market volatility. Against this backdrop, AGLI underperformed its benchmark, but still paid out full year dividends of 3.0 cents per share.

In our second year, most global markets climbed higher and, consistent with its generally defensive nature, the infrastructure sector underperformed broader equities. As AGLI is unhedged, the relatively strong Australian dollar created a headwind and contributed to the portfolio's underperformance. Despite the difficult conditions, AGLI again increased its dividend. In FY2017, shareholders received full year dividends of 3.5 cents per share, an increase of 16.7% on the previous year.

Our third year saw strong investment outperformance by the portfolio managed by Cohen & Steers, and the declining Australian dollar improved our returns further. Over recent months particularly, progress towards AGLI's investment objectives has gathered momentum. For the six months to 30 September, AGLI's NTA (after all fees, expenses and tax) increased 9.6% and the share price rose 16.1%, both including the recently paid fully franked final dividend.

We continue to believe that the global listed infrastructure sector provides diversification benefits, particularly for Australian investors with portfolios heavily weighted to domestic equities. Infrastructure's defensive qualities, lower volatility and low correlation to broader equities, differentiate AGLI as an investment proposition.

### **Reducing the share price discount to NTA**

One of the unique features of LICs is that they can trade at a discount or premium to their underlying asset value. Many of the newer LICs trade at a discount, which can provide an opportunity for investors to get exposure to the LIC's underlying securities at a discount to their true value and generate gains if the LIC's share price moves closer to its NTA.

AGLI is currently trading at a discount of around 15% to its NTA and we have commenced several initiatives aimed at reducing this discount. First, in April of this year, we implemented an on-market buy-back. Since then, AGLI has purchased just over 1.7 million shares at around a 15% discount to NTA. These shares have been cancelled which improves the NTA value and earnings per share of the remaining shares. Second, the Company buys the shares required for participants in the Dividend Reinvestment Plan 'on-market', rather than issuing new shares at a discount to NTA. Third, we are also working very hard to promote awareness and

understanding of AGLI through increased communication and marketing activities. Argo has increased internal resources over the last 12-18 months to meet these objectives and recently appointed a communications manager.

We believe these additional measures will encourage new shareholders to invest in AGLI at what is an attractive entry point for those investors.

### **Opposition to the removal of refundable franking credits**

As you are no doubt aware, the Labor Party has adopted a policy to abolish refundable franking credits. That is, if the policy were legislated, the Government would no longer provide cash refunds of excess franking credits.

We strongly oppose the removal of refundable franking credits on the grounds that it would have a fundamentally inequitable impact.

In Australia, a company pays tax on its taxable income, and franking credits recognise that tax already paid when the income is distributed by way of dividends to the shareholders, that is the owners, of the company. These franking credits should have the same value to all Australian taxpayers regardless of their marginal tax rate. To do otherwise is inequitable. And to suggest that taxpayers with a zero marginal tax rate have paid no tax is wrong – the company has already paid tax on that dividend income on the shareholders' behalf.

If implemented, Labor's policy would unfairly and disproportionately affect many individual and SMSF investors. It would have a particularly negative impact on low-and-middle income earners. For Australian shareholders reliant on the income from refundable franking credits, the policy would amount to an immediate 30% tax increase.

We recently made a formal submission voicing our objection to the policy to the House of Representatives Standing Committee on Economics Inquiry into the implications of removing refundable franking credits. In addition, AGLI is a member of the Listed Investment Companies and Trusts Association. This body represents the growing number of LICs and listed investment trusts and it is also making a submission to the Inquiry. We will put those submissions on our website once they are released by the House of Representatives Committee.

### **Survey results**

This time last year we conducted a survey of AGLI shareholders at the AGM, subsequent investor information meetings and online. I would like to share some of the findings with you today:

- For more than half of our shareholders, the most important reason for investing in AGLI is for international equity exposure or diversification from Australian shares
- Other important reasons for holding AGLI shares are for infrastructure sector exposure, long-term capital growth and dividend income
- It seems our shareholders are very well-informed, with close to 80% making their decision to invest in AGLI based on their own research. A further almost 20% make investment decisions based on advice from a broker or planner
- Pleasingly, 92% of our shareholders are long term investors and intend to hold AGLI shares for the long-term, being five or more years.

Thank you to our shareholders who completed this survey. Surveys such as these help us to deepen our understanding of you as shareholders and the issues of importance to you. We welcome all feedback and if you have any suggestions, including on how we can improve our communication and shareholder engagement, please get in touch with our staff. Contact details will be available at the end of today's presentation.

## **Directorate**

On 30 June 2018, Mr. Ian Martin AM retired from AGLI's Board after three years as Chairman, and from the Argo Investments Board after 14 years of service, including the last six years as Chairman. As the inaugural Chairman of AGLI, Ian played a critical role in establishing AGLI and the successful IPO process.

On behalf of the Board, I would like to take this opportunity to formally express my appreciation and thanks for the invaluable contribution Ian has made to AGLI.

## **Outlook**

With a strong balance sheet and no debt, AGLI has entered the new financial year in a sound position to benefit from a growing global listed infrastructure sector. The Company has now been operating for just over three years and we have been pleased with the AGLI's performance over the last 12-18 months particularly. In this time, AGLI's NTA per share has risen and dividends have increased, with the most recent dividend being fully franked. Actively managed by a specialised and highly experienced portfolio manager, AGLI's portfolio is comfortably outperforming the sector benchmark and returns have proven to be less volatile than the broader market.

We believe global listed infrastructure continues to represent an attractive investment opportunity with defensive qualities and stable, long-term returns. The asset class also offers investors exposure to a highly diversified portfolio of assets in terms of both geographies and asset types. Characterised by supportive industry fundamentals and a constructive regulatory environment, global infrastructure is a relatively conservative sector with a strong growth outlook.

The Board remains committed to maximising long-term returns by delivering shareholders a combination of capital and dividend growth.

## **Thank you**

I would like to conclude by thanking Jason Beddow and the team for their continued efforts. We have a small team of talented individuals who are committed to creating value for our shareholders.

I would also like to thank my fellow Board members for their valuable contributions to AGLI.

Finally, on behalf of the Board, I warmly thank our loyal shareholders for their ongoing support and to our new shareholders, welcome to AGLI.