

ARGO INVESTMENTS LIMITED

ABN 35 007 519 520

MANAGING DIRECTOR'S ADDRESS

DELIVERED BY MR. ROB PATTERSON AT THE SIXTY THIRD ANNUAL GENERAL MEETING OF ARGO INVESTMENTS LIMITED HELD AT THE ADELAIDE CONVENTION CENTRE ON MONDAY 26 OCTOBER, 2009 AT 10 A.M.

Accounting Standard 139 and long-term investing

Long-term equity investors such as Argo “harvest” the income from their investment portfolios to deliver an operating profit from which they pay dividends to shareholders. This profit will fluctuate in line with the underlying economic environment from year to year.

Accounting Standard 139 imposes a requirement on Directors to impair equity investments through the Income Statement where there has been a significant or prolonged decline in their market value below cost. As we value all of our investments at market value in the Balance Sheet, the asset backing fully reflects the impact of any impairment, irrespective of how it is brought to account.

The Standard is not appropriate for long-term investors such as Argo, in that it fails to accept that the sharemarket is cyclical and can be subject to “booms” and “busts” from time to time. The accounting fraternity, in taking a narrow view of what constitutes a “significant” or “prolonged” decline in market value below cost, do not accord with a long-term investor’s policy of holding an investment portfolio through severe market downturns. In fact, their interpretation risks exaggerating the market cycle, since long-term assets are devalued through the Income Statement and as we have seen in infrastructure and property, there can be consequent problems in terms of companies satisfying debt covenants which also leads to difficulties in arranging refinancing.

We strongly believe that the movement in the market values of equity investments held for the long-term should pass directly through the Balance Sheet and not be reflected in the Income Statement. The Australian Listed Investment Companies Association and its members individually have made submissions to the Accounting Standards Boards, both globally and locally, to encourage this to happen.

Executive Remuneration

In view of the intense focus on executive remuneration in the aftermath of the global financial crisis, I want to assure shareholders that Argo is active in scrutinising and voting on all resolutions put to shareholders of investee companies.

Through this process, we regularly inform companies of our concerns with the structure of their remuneration arrangements and the amount of executive remuneration where we consider it to be excessive. On a number of occasions, this has resulted in us voting against the remuneration report and associated resolutions dealing with executive equity issuance.

Investment Portfolio

Argo’s Total Portfolio Return of negative 16.8% represented significant outperformance of its benchmark for the year ended 30 June, 2009. The S&P ASX All Ordinaries Accumulation Index experienced the worst percentage fall in a financial year since 1982 and fell 22.1% for the year.

Fortunately the sharemarket recovery, which commenced early in March 2009, has continued into the current financial year, as has Argo’s outperformance.

I will now ask Jason Beddow, our Associate Director - Chief Investment Officer and Chris Hall, our Associate Director - Investment and Business Development to talk specifically about the Investment Portfolio.

Major investment purchases by Argo during the year were:-

	\$M
Rio Tinto Ltd.	36.5
Wesfarmers Ltd.	15.5
National Australia Bank Ltd.	12.4
Commonwealth Bank of Australia	12.2
Santos Ltd.	10.0
Westpac Banking Corporation	9.6
QBE Insurance Group Ltd.	9.6

In each case, these were existing investments that raised new capital at very attractive prices for investors.

We also added to many of our other existing holdings and there were no new investments added to the portfolio.

Since balance date, very few purchases have been made in view of the substantial rise in the sharemarket, although we have continued to support a number of capital raisings made by existing investments, including \$4.8 million in National Australia Bank Ltd.

Investments that were taken over during the year were Macquarie Communications Infrastructure Group, MYOB Ltd., Queensland Gas Company Ltd. and St. George Bank Ltd. A number of hybrid investments were redeemed and a number of investments, which no longer satisfied our investment criteria following the global financial crisis, were sold.

Since balance date, ABB Grain Ltd. has been taken over and our holding in Bendigo and Adelaide Bank Ltd. has been sold.

Our investment decisions are based on fundamental analysis of companies, including industry structure and the company's position within it, quality of management and Board, credit quality, cash flow generation potential, level and sustainability of dividend growth and of course, valuation consideration.

Argo's ten largest equity investments, excluding our holdings in other listed investment companies, based on market values as at 30 September, 2009 were:-

	Market Value \$M
BHP Billiton Ltd.	266.7
Westpac Banking Corporation	227.0
Macquarie Group Ltd.	222.1
National Australia Bank Ltd.	153.3
Rio Tinto Ltd.	141.8
Wesfarmers Ltd.	122.1
Australia and New Zealand Banking Group Ltd.	120.6
Commonwealth Bank of Australia	113.8
Woolworths Ltd.	112.3
Telstra Corporation Ltd.	104.3

