ARGO INVESTMENTS LIMITED

ABN 35 007 519 520

CHIEF EXECUTIVE OFFICER'S ADDRESS

DELIVERED BY MR. JASON BEDDOW AT THE SIXTY SEVENTH ANNUAL GENERAL MEETING OF ARGO INVESTMENTS LIMITED ("THE COMPANY") HELD AT THE ADELAIDE CONVENTION CENTRE ON MONDAY 28 OCTOBER, 2013 AT 10.00 A.M.

I would also like to welcome you to Argo's 67th Annual General Meeting. It is hard to believe that my third year as Chief Executive Officer is coming to its conclusion.

In this time, the global economy has experienced great volatility, and whilst conditions in general now seem more stable, a number of key issues continue to impact global markets including; an uncertain economic growth outlook, political and civil unrest and more recently the debt ceiling debate in the United States. Despite continued stimulus across the United States, Europe and Japan, global unemployment rates remain high and doubts remain over the sustainability of economic growth.

Despite these testing conditions, it is pleasing that Argo's portfolio has outperformed the S&P/ASX 200 Accumulation Index over this period, including the year ended 30 June, 2013.

Global equity markets have been relatively strong so far in calendar year 2013, in line with modestly improving economic data, although we must bear in mind that these economies continue to be fuelled by extensive quantitative easing by central banks across the world.

In September, Australian business confidence surged to its highest level in three and a half years, according to the National Australia Bank's monthly business survey, the first conducted since the Federal election. This would appear to reflect a positive reaction to the outcome of the election. The S&P/ASX 200 Index has increased approximately 11.5% so far this financial year.

Although this is encouraging, the challenge will be in the translation of this confidence into real activity and investment. There are some encouraging signs in the housing markets, particularly in New South Wales and Western Australia, but activity remains weak in mining, manufacturing and retailing. We expect the unemployment rate to be a key factor in determining the strength of the Australian economy for the next 12 months.

Investment Process

We have continued to develop our internal research process. This incorporates a greater focus on assessing the quality of our investee companies, with particular emphasis on management and boards, industry sectors and specific franchises. Each company is rated by our relevant analyst on these quality measures. The scores are then combined with our financial analysis which includes valuations, balance sheet strength and dividend paying capabilities. The results are subject to review by the full investment team.

The emphasis on quality is objectively applied across the portfolio, with priority given to sectors which are suffering from structural shifts. This increased discipline has seen us continue to reduce the number of holdings in the portfolio to 98 as at 30 September, 2013. While a number of companies were taken over, positions have been exited where the outlook for profitability and sustainability of dividends was questionable. We have been reinvesting these proceeds into larger companies with solid franchises, strong balance sheets and the likelihood of continued dividend growth, thereby improving the overall quality and robustness of the portfolio.

An additional part of the investment process concerns a topic that continues to receive a large amount of public scrutiny, which is the voting of institutional shareholders on matters before Annual or other General Meetings. Some institutions outsource their voting to independent proxy advisors, but at Argo we undertake this task internally and take it very seriously.

The process begins with our investment analyst, who reviews the relevant Notice of Meeting and proposed resolutions. A recommendation is formed for discussion with me as the Chief Executive Officer. If we are considering voting against a resolution, we will contact the company, usually via the Company Secretary, to better understand the issue at hand. This discussion often escalates to meetings with the Chair of the Remuneration Committee or other relevant Board Committees.

If we are still not satisfied, we are prepared to vote against the resolution.

In certain circumstances, we may decide to either support or abstain from voting on the resolution. However, in these instances we will write to the company formally, stating the issues we wish to have addressed if our voting support is to be retained in the future.

Over the past few years, we have voted against a number of Remuneration Reports and a few Director elections. These procedures are time consuming, however it is pleasing that we regularly receive positive feedback from our investee companies regarding this process. Our suggestions have often led to progressive changes of the remuneration policies of these companies.

Investment Portfolio

Major investment purchases during the financial year were:-

	$million
Australia and New Zealand Banking Group	32.1
Wesfarmers	20.6
Westpac Banking Corporation	17.3
Newcrest Mining	15.5
Telstra Corporation	15.0
National Australia Bank	13.9

We also added to over thirty of our other existing holdings.

Since balance date, $32 million has been spent on further investment purchases, with the major ones being Wesfarmers, Commonwealth Bank of Australia, Steadfast Group, DUET Group, Southern Cross Media, Telstra Corporation, Brambles and Sydney Airport.

Steadfast Group is a new addition to the portfolio. We participated in the initial public offering in early August and have since added to our position. Steadfast is Australia's largest general insurance broking network with 280 insurance broking businesses in the group.

Since balance date, there have also been two significant sales in Australian United Investment Company (AUI) and Diversified United Investment (DUI) resulting in the receipt of $20.1 million and $15.4 million respectively. Argo has owned large holdings in these Listed Investment Companies (LICs) for many years, with purchases made at large discounts to the prevailing NTA at the time. These LICs have similar attributes to Argo in that the management costs are low, the portfolios are run in a tax effective manner and both companies have delivered a growing fully franked dividend.

However, a one-off opportunity arose to reduce our sizeable positions at a modest discount to NTA. The proceeds will be re-deployed in a more concentrated manner into our preferred stocks. Our residual holdings in these LICs remain significant and will continue to be an important part of our diversified investment portfolio.

When comparing Argo's 20 largest equity investments, based on market values as at 30 September, 2013, to this time last year, Westpac Banking Corporation has overtaken BHP Billiton to become our largest investment. There are two new additions to the list, being Twenty-First Century Fox and Ramsay Health Care, following significant share price appreciation over the previous twelve months. They replaced Orica and AGL Energy in our top 20 investments.

The importance of the top 20 investments is significant to Argo as they are the major drivers of the Company's capital performance and income generation. At 30 September, 2013, these investments accounted for 64% of total assets and provided 65% of the Company's income for the year.

Dividend growth is equally important for Argo's portfolio in the long term. It is interesting to note that two companies from the energy and materials sectors, Woodside Petroleum and Rio Tinto, provided the largest percentage dividend increases for the twelve months to 30 September, 2013. Woodside's dividend jumped over 90% as it raised its payout ratio and also paid a special dividend. At the other end of the scale, QBE Insurance Group's dividend disappointingly fell almost 50%.

One of the strengths of Argo's portfolio is its diversification. This is illustrated by its spread across industry groups. As at 30 September, 2013, the portfolio investments were allocated to the following sectors. The Materials group includes our Mining, Construction Materials and Chemical company investments. Since this time last year, the main changes have been an increase in our weighting to Banks and Energy and a decrease in Listed Investment Companies.

Sectors	Weightings
Banks	22%
Materials	15%
Consumer Staples	9%
Other Financials	8%
Industrials	7%
Listed Investment Companies	7%
Consumer Discretionary	6%
Energy	6%
Telecommunications & I.T.	6%
Health Care	4%
Cash & Short-Term Deposits	4%
Utilities	3%
Property Trusts	3%
	100%

We have continued to prioritise investments in larger, well capitalised companies with relatively high, predominantly franked, dividend yields and scope for dividend growth.

This has been a sound strategy which has delivered strong portfolio performance, as investors in Australia have acquired these types of securities in their search for yield in an environment of low interest rates.

The Australian equity market continues to offer an attractive yield relative to alternative equity markets globally and more importantly relative to that available from cash deposits. In addition, Australia's dividend imputation system provides tax benefits for shareholders receiving franked dividends.

In times of economic uncertainty and share market volatility, investors are often tempted to seek safety in cash. However, it is interesting to note that a longer term investment in Argo shares, held throughout a 15 year period from 1 July, 1998 which included the "Tech Crash" in 2000 and the "Global Financial Crisis" of 2008 and 2009, has still delivered a compound annual shareholder return of 9.8% per annum. Over the same period, cash deposits returned approximately 4.1% per annum. $10,000 invested in Argo on 1 July, 1998 would have grown to $40,648 as at 30 June, 2013, while the equivalent cash investment grew to $18,390. The Consumer Price Index shows the inflationary impact over this time frame. No allowance is made for the additional benefit of the franking credits attached to Argo's dividend.

Investment Outlook

The Australian economy appears sluggish and companies continue to reduce costs to compete in the current economic conditions. This has led to a lack of new investment decisions being undertaken across a number of industries.

In response, the Reserve Bank of Australia has continued to cut interest rates in order to stimulate the non-resource segments of the economy, with the cash rate now at a record low level of 2.5%. This likelihood of slowing Australian economic growth saw the Australian dollar fall almost 15% against the U.S. dollar from mid-April to late June of this year, although the recent uncertainty in the United States and perceptions of a stronger China has seen some of this fall recouped. Continued low interest rates and a weaker Australian dollar would provide some relief and stimulate consumer spending and business investment domestically.

Against this backdrop, we do not expect strong earnings growth from Australian companies over the coming year and therefore predict only modest dividend growth, particularly with the payout ratio of companies in the S&P/ASX 200 Index approaching the higher end of their historic range, at around 75%. Nevertheless, modest earnings improvement should allow for some growth in dividend payments from those companies.

We are closely monitoring outlook commentary given at Annual General Meetings held at this time of the year for any earnings updates.

Conclusion

As a shareholder in Argo, you are a part-owner of a company that actively manages a diversified portfolio of Australian equity investments. Argo is managed internally with no external management or performance fees charged to shareholders, allowing the people managing your investment to focus on the sole objective of maximising returns to shareholders.

Argo has no debt and with cash reserves of approximately $200 million, remains of the view that for a long-term investor, the Australian equity market is relatively good value. As a result, we will continue to selectively invest funds into quality, well managed companies with solid cash flows and dividend streams.

Argo's investment philosophy has stood the test of time and the dedicated Argo team remains committed to maximising long-term returns to shareholders. I would like to thank the Directors for their support and contribution during the year and also thank the Argo team personally for all their hard work. We look forward with enthusiasm to the future challenges and opportunities.