ARGO INVESTMENTS LIMITED

ABN 35 007 519 520

CHAIRMAN'S ADDRESS

DELIVERED BY MR. IAN MARTIN 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 welcome you to the sixty-seventh Annual General Meeting of Argo Investments Limited.

This is my second AGM as Chairman and I am proud to play my part in the stewardship of a Company with such a fine tradition of producing good outcomes for its shareholders by adhering to its philosophy of investing in quality Australian companies, paying an attractive dividend, and keeping its management expenses as low as possible.

Background

Before I review the results of what has been a very good year for the Company, I think it is interesting to reflect on the heritage, philosophies and values on which Argo has been built.

Argo was established in 1946 as an investment vehicle for the clients of an accounting practice and a legal practice in Adelaide. The investment company was named Argo, after the ship in Greek mythology which was used by Jason and his Argonauts to search for the Golden Fleece.

Alf Adamson, who operated the accounting practice, soon developed a reputation as a shrewd investor, which brought enquiries from outside the two firms' client bases. This was the catalyst for the investment company to take on a life of its own.

In its 67 year history, Argo has only had three chief executives – Alf Adamson, Rob Patterson and Jason Beddow. Jason of course took over in 2010 and as I reported comprehensively last year, we have also had significant Board refreshment over that period.

I am very happy to report that these leadership changes have been successfully bedded down and that the Company remains in excellent shape. We have no debt, total assets of $4.6 billion and rank at about number 56 in Australia's top 100 listed companies by market capitalisation.

Argo's core values and investment philosophy have been consistently maintained throughout its history. The Company's business model is deliberately conservative, but also robust and flexible, which has enabled us to deal with ever changing business and economic conditions and stand the test of time.

Result for the year ended 30 June, 2013

The headline is that the year was a good one for Argo, especially given that we were experiencing a highly uncertain economic and political climate.

The Company's profit, earnings per share, dividends and net tangible asset backing per share (NTA) all improved, whilst our management expense ratio was held steady. The financial results for the year ended 30 June, 2013 were announced to the Australian Securities Exchange on 5 August, 2013 and are summarised in the following table:

Summary of financial results

	2013	*2012*	*change*
Profit	**$175.0 million**	$167.3 million	+4.6%
Earnings per share	**27.7 cents**	26.8 cents	+3.4%
Final dividend per share	**13.5 cents[(a)]**	13.0 cents[(b)]	+3.8%
Total dividends per share for the full year	**26.5 cents**	26.0 cents	+1.9%
Net tangible asset backing per share	**$6.52**	$5.50	+18.5%
Management Expense Ratio	**0.18%**	0.18%	steady

(a) Includes a 0.75 cent per share listed investment company (LIC) capital gain component
(b) Included a 1 cent per share listed investment company (LIC) capital gain component

I would particularly highlight the following points:
- Argo’s profit was $175.0 million up from $167.3 million in the previous year;
- the profit and earnings per share increases of 4.6% and 3.4% respectively were achieved due to increased dividends and distributions received from the investments in Argo's portfolio, partially offset by a decline in interest income on cash deposits due to lower interest rates available this year; and
- the final dividend was increased by half a cent, resulting in full year dividends of 26.5 cents per share, fully franked, reflecting the Board's desire to pay out the bulk of Argo's profit as dividends, whilst maintaining a reasonably consistent, sustainable and tax effective income stream for shareholders.

Investment performance

The following table provides annual performance statistics for Argo's portfolio and our relevant benchmark index for various periods to 30 September, 2013. As always, we measure Argo's portfolio performance by the movement in NTA per share assuming dividends paid are reinvested. However, as the number of different holdings in Argo's portfolio has been reduced over the years to about 100 stocks currently, we now consider the S&P/ASX 200 Accumulation Index to be the more appropriate benchmark to use going forward, rather than the S&P/ASX All Ordinaries Index, which contains around 500 stocks.

	1 year	**3 years**	**5 years**	**10 years**	**15 years**
Argo portfolio performance	+26.6%	+9.7%	+7.6%	+9.4%	+10.3%
S&P/ASX 200 Accumulation Index	+24.3%	+9.3%	+7.3%	+9.8%	+9.4%

Argo’s short-term performance has been good, with the investment portfolio returning 26.6% in the year to 30 September, 2013, outperforming the S&P/ASX 200 Accumulation Index which returned 24.3% for the same period. We have also outperformed the Index in most of the longer periods which are our main priority as a long-term investor.

I would also remind you that as Argo is internally managed, our performance figures are calculated after deducting all administration expenses and tax, whereas the Index figures do not take account of these costs.

Share price and net tangible asset backing per share

It is also pleasing to note that Argo's share price performance returned 31.8% over the year to 30 September, 2013, reflecting a combination of stronger equity markets and a reduction in the discount to NTA.

At last year's AGM, I mentioned that Argo shares were trading at a discount of 5.7% to NTA as at 30 September, 2012 and that various measures were being undertaken to reduce this discount. Since that time, the Argo team has actively engaged in marketing activities directed at self-managed superannuation funds and financial planners in order to raise awareness of Argo shares as an attractive investment option which is a professionally managed, diversified, low cost and easily traded exposure to the Australian equity market. These activities and improving sentiment toward equities have helped to close the discount substantially and at 30 September, 2013 it was only 1.8%.

Capital management

At last year's AGM, I pointed out that the Directors had not considered conditions suitable to offer the Share Purchase Plan (SPP) in 2012, primarily due to the size of the discount to NTA at which Argo shares were trading at the time. As the discount had been reduced by March 2013, we reintroduced the SPP. I am pleased to report that the offer was well supported, with $76 million raised for further investment, in addition to the $31 million raised during the year via the Dividend Reinvestment Plan. Argo has also been attracting new investors, with more than 70,000 shareholders now registered.

Governance

A key part of Argo's strong corporate governance framework is a planned process of ongoing Board renewal. Between 2010 and 2012, four new Directors were appointed to the Board, following three retirements during that period. No further changes have occurred at Board level during the past year and I am pleased to report that the newer Directors have settled in quickly and brought fresh ideas and perspectives to our Company. The collective breadth of our Directors' experience across most sectors of the Australian economy has certainly fostered a stimulating environment where management is continually challenged to ensure that its thinking and practices are fresh and up to date.

In light of these changes, you might be interested to learn a little bit about how the Board operates, the factors we pay particular regard to when we select Directors, how we review our own performance and how we see the division of responsibilities between the Board and management.

These governance matters are comprehensively dealt with in our Annual Report which you can download from our website, but let me provide you with a very quick summary:

- Before we appoint new Directors, we always conduct a thorough review of the existing skill sets, the new skill sets we need, and the diversity of background, experience and gender on the Board. We also endeavour to make sure that our Directors collectively have experience across the broad spectrum of the Australian economy and that their skills are current. We then undertake a thorough search using a professional search firm; followed by an extensive interview process, background and reference checks, and we do take into account the workload of potential new Directors to ensure they have sufficient time available to dedicate to Argo.

- The Board also goes through an annual performance review, which includes the Chairman talking to all Directors individually about their own performance, the performance of the other Directors and the Board as a whole. Moreover, the Chairman of the Remuneration Committee goes through a similar exercise with all Directors to review the performance of the Chairman. We have decided that from time to time, external consultants may be engaged to facilitate the process and I envisage we might do that in the next year or two.

- As to the role of the Board, obviously we have responsibility for approving the strategy of the Company and ensuring there is an appropriate governance framework in place which is being operated effectively. Naturally, we also appoint the CEO, set his performance goals and determine remuneration policies and levels.

- The Board does not make decisions about specific stocks we hold in the portfolio on a day to day basis. That is management's job. Of course, the Board does endeavour to stimulate management's thinking on investment themes, sectors and stocks, and we clearly define specific risk limits and delegated authorities. We ratify all investment transactions on a monthly basis. We also regularly review all portfolio holdings to ensure that management's views are appropriately contested and that they get the benefit of the Board's broad experience across sectors.

- We firmly believe this model is right from a governance perspective and is the best way to hold management truly accountable for their actions.

Operating environment

Even in a good year, our business model and investment philosophy are constantly tested by changes in the operating environment, particularly by rapidly developing technology and especially digital technology.

One impact has been on our investment portfolio, where certain stocks in industries such as traditional media and retailing have been compromised by advances in digital technology and we have reduced our weighting to these types of stocks accordingly.

In addition, rapid and ongoing technological change has impacted on the way Argo goes about its business. For our investment team, we have recently invested in a new portfolio management system to ensure our investment analysts have state of the art analytical tools.

With respect to our administrative processes, we have always prided ourselves in the personal service we have been able to provide by running the Company's share registry internally. However, in November last year, we took the decision to outsource the day to day management of the share registry to Computershare to ensure that we could offer the full range of online services that most shareholders now expect in a cost effective manner. We hope that you will embrace this change and register your holdings online with Computershare to make the most of their services and to help us keep our management expense ratio as low as possible, and of course it is also environmentally friendly.

Another potential challenge which emerged prior to the Federal election relates to the design of the Parental Leave Levy proposed by the Coalition. We have been contacted by a number of shareholders who are concerned that the introduction of such a levy undermines the dividend imputation system, as the payment of a levy does not accumulate franking credits. We agree. We believe that the principle of ensuring that corporate profits are only taxed once, which is at the foundation of Australia's dividend imputation system, is an important one which should be upheld. I therefore wrote to both Mr. Abbott and Mr. Hockey prior to the election to express our concerns, question other aspects of the levy which are specific to Argo's situation and request that these issues are taken into account as they work through the details of the scheme. We will continue to argue our case on these matters as the Government finalises the policy.

Outlook

This time last year, we were reflecting on a number of global concerns, including an anaemic U.S. economy, global deleveraging and slowing growth in China. Since then, some of these seem to have partially abated, although it is debatable by how much and whether the underlying imbalances inherent in the world economy have been fundamentally addressed, or just papered over. However, over the same period, global equity markets have recovered quite substantially. The question now of course, is how much optimism have markets already factored in and have they moved ahead of themselves?

In Australia, while improving global conditions will underpin demand for our resource exports, it is also clear that the economy will continue to be buffeted by some powerful divergent forces: particularly the slowing in resource sector capital expenditure; the impact on competitiveness of the stubbornly high Australian dollar; and on the positive side of the ledger, the stimulatory impact of lower interest rates and improved business confidence since the election.

Do not believe anybody who says they know with any precision how those things will pan out. However, what I would emphasise is that in these conditions Argo will continue to do what it has always done: look through the short-term noise by investing in good quality Australian businesses when we perceive them to be attractively priced, and of course judiciously trimming our holdings when we consider their long-term prospects have deteriorated.

Finally, I would like to take this opportunity to publicly thank Jason Beddow for his leadership since taking over as CEO in 2010, and also to thank him and his team for their hard work, dedication, and achievements over the past year.