ARGO INVESTMENTS LIMITED
ABN 35 007 519 520

2014 Annual General Meeting
MANAGING DIRECTOR'S ADDRESS

Delivered by Mr. Jason Beddow at the 68th Annual General Meeting of Argo Investments Limited ("Argo" or "the Company") held at the Adelaide Convention Centre on Monday 27 October, 2014 at 10.00 a.m.

I would also like to welcome you to Argo's 68th Annual General Meeting, my fourteenth year working for Argo, and after three years as Chief Executive, my first as Managing Director.

This time last year when I stood before you, the share market's S&P/ASX 200 index had just passed through 5,441 points. The Reserve Bank had reduced interest rates to a record low level of 2.5% just two months earlier, and the Australian dollar was trading at 96 US cents. You might look at those numbers today and say that not much has changed. The share market is down less than 1% since then, our currency has fallen about 8%, but from what was a historically high level, and the cash rate remains at its record low level of 2.5%.

However, despite these benign indicators, we would argue that investing in the last twelve months became increasingly difficult, as earnings expectations became clouded, the valuations of many companies became stretched, and the well-publicised issues regarding the global outlook, both economically and geopolitically became more difficult to ignore. We are therefore pleased that Argo's share price remains higher than where it was trading twelve months ago, our profit for the 2014 financial year was strong and importantly continued to grow, and we were able to deliver another year of good dividend growth for our shareholders.

A positive surprise that assisted our strong profit result was the ability of a large number of Australian companies to continue to deliver increased earnings and dividends, despite having relatively weak revenue growth. Even after a number of years of low revenue growth, companies were still able to deliver real cost savings and productivity gains in their businesses. Further modest earnings increases should allow continued growth in dividend payments from those companies.

Global equity markets have become increasingly volatile so far in the 2015 financial year, as a number of the issues mentioned by the Chairman weigh on investment markets. While the S&P/ASX 200 Index is currently flat for the financial year to date, its positive and negative movements have become more pronounced. The index, which recently fell almost 10% from its early September highs, has now recovered over 5% in the past two weeks.

Investment Portfolio

Major investment purchases during the financial year were:

	$m
Mermaid Marine Australia	17.3
Australia and New Zealand Banking Group	15.8
Telstra Corporation	15.7
Transurban Group	15.0
Commonwealth Bank of Australia	14.7
Westpac Banking Corporation	13.5
Sydney Airport	12.7

We also added to 28 existing holdings.

Major investment sales during the financial year were:

	$m
Australian United Investment Company	20.1
Diversified United Investment	15.4
Cochlear*	7.5
Leighton Holdings (partial takeover)	6.6
James Hardie Industries*	5.2
BKI Investment*	5.2

* completely removed from the portfolio.

Since our 30 June balance date, an additional $75 million has been spent on further investment purchases, with the major ones being Commonwealth Bank of Australia, Santos, Asaleo Care, Telstra Corporation and AGL Energy.

Asaleo Care is a new addition to the portfolio. We participated in the initial public offering (IPO) and have since added to this position. There has been a resurgence of IPOs in the Australian market and I will discuss these opportunities later.

Also since balance date, we have accepted Woolworths South Africa's takeover offer for our shares in David Jones, receiving in excess of $13.6m. We sold our holdings in Orora, which was spun out of Amcor, and News Corporation for $7.5m and $7.8m respectively.

The sale of News Corporation deserves further explanation, as it follows last year's split of the "old" News Corporation company into two separate, publicly-listed companies, Twenty-First Century Fox (FOX) and News Corporation. The "new" News Corporation, which we recently sold, retained the newspaper print and digital businesses including the Wall Street Journal, book publishing, a 61% investment in REA Group, 50% of Foxtel, 100% of Fox Sports and Amplify (a digital education business). However, FOX kept the core global portfolio of cable and broadcasting media and entertainment assets, as well as television production and film studio Twentieth Century Fox. Rupert Murdoch remains the Chairman of both companies. Within months of this split FOX received shareholder approval for the removal of its listing from the ASX, which took place on 8 May, 2014. FOX is now only listed on the Nasdaq exchange in the United States.

This is not the first time Argo has held an "overseas" stock, as from time to time Australian companies in our portfolio have been taken over by foreign companies, with Argo receiving foreign stock as consideration for the takeover. The FOX situation is really no different. This is the same business we have analysed and invested in for many years, it simply now trades on another exchange. We feel the business is in a very strong position which is not being recognised in the current share price and importantly offers exposure to a business which is not replicated by other alternatives listed on the Australian market. While we do not intend to retain FOX as an investment forever, we do feel that there will be a more prudent time to realise the value of this investment sometime in the future.

When comparing Argo's 20 largest equity investments, based on market values at 30 September, 2014, to this time last year, Westpac Banking Corporation remains our largest holding, with Australia & New Zealand Banking Group overtaking BHP Billiton to become our second largest investment. There has been one new addition to the top 20, being Suncorp Group following significant share price appreciation over the past twelve months. It replaced QBE Insurance Group, which had another disappointing year.

The importance of the top 20 investments is significant to Argo as they are the major drivers of the Company's capital performance and their dividends underpin our income generation. At 30 September, 2014, these investments accounted for 63% of total assets and provided 67% of the Company's income for the year. The dividend contributions of the banks and Telstra are significant, and investors searching for yield have continued to support these securities, resulting in their strong share price performance.

Dividend growth within the portfolio is equally important as we strive to grow our dividend over time. Macquarie Group and Suncorp Group's large increase was due to them paying special dividends. Interestingly, excluding these special dividends, FOX and CSL provided the largest percentage dividend increases in the top 20 for the twelve months to 30 September, 2014, albeit these are relatively low dividend paying companies and this was from a relatively low base.

One of the strengths of Argo's portfolio is its diversification. This is illustrated by its spread across industry groups. As at 30 September, 2014, the portfolio investments were allocated to the following sectors.

Banks	21%	Utilities	3%
Other Financials	9%	Telecommunication Services & IT	7%
Energy	6%	Property Trusts	3%
Consumer Staples	9%	Materials	14%
Consumer Discretionary	6%	Industrials	7%
Listed Investment Companies	7%	Health Care	5%
Cash and Short-term deposits	3%		

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 other financials, telecommunication services & I.T. and healthcare, and a decrease in our listed investment company and cash holdings.

Resurgence of IPOs

A feature of the last twelve months has been the surge of IPOs listing on the Australian Securities Exchange. We actively engage with this IPO activity coming to the market, the most obvious reason being to access a good investment opportunity. However, just as important is the knowledge we can gain from these new public companies, which are often competitors, customers or suppliers to existing listed companies, some of which we may already own. Of particular interest are businesses that are involved with new technologies which may impact the way a business, process or manufactured good is performed or made.

While we analyse dozens of opportunities, only a small number make the grade. If we highly rate the management, like the industry structure, understand the business and think the IPO pricing is reasonable, we will look to participate in the IPO. Of course, if a business meets all of our hurdles it will almost certainly be in demand from other money managers and in some cases we may only be allocated a small holding. However, we still think this is worthwhile and a good opportunity to make an initial investment, build a relationship with management and look for opportunities to potentially add to the holding over time.

We added six companies to the portfolio by participating in IPOs during the 2014 financial year, they are:

- Affinity Education Group – listed in December 2013. It owns and operates child care centres across Queensland, New South Wales and Victoria.
- Asaleo Care – listed in June 2014. It is a personal care, hygiene and tissue product company which owns many of Australia's key brands in this sector including Libra, Sorbent, Deeko and Handee.
- Managed Accounts Holdings – listed in June 2014. It provides investment administration and associated services for financial advisers, investment managers and dealer groups.

- Monash IVF Group – listed in June 2014. The company has been a driving force in the development of assisted reproductive technologies since the 1970s. Monash is one of Australia's largest IVF providers.
- Pact Group Holdings – listed in December 2013. It manufactures plastic packaging from 62 plants across Australia, New Zealand and Asia. Pact services customers in the food, dairy, beverage, agricultural and industrial sectors and provides a range of services to assist customers in reducing the environmental impact of their product packaging.
- Steadfast Group – listed in August 2013. It is a provider of services to over 300 insurance broking businesses in Australasia, with offices across Australia, New Zealand and Singapore.

Since balance date we have participated in two additional IPOs, 3P Learning and Regis Healthcare.

- 3P Learning – listed in July 2014. It is a global online education company with cloud based software products in numeracy, literacy and science, for school students from kindergarten to year 12. Mathletics is their dominant product, which has a global presence.
- Regis Healthcare – listed in October 2014. It is a diversified residential aged care provider, with over 4,700 operational places across 45 facilities located across Australia.

With the addition of Regis Healthcare in October, the portfolio now has 102 holdings. After divestments this is only a modest increase of four on the 98 we held at this time last year. We will continue to assess any upcoming IPOs with rigour and be disciplined in any additional investment choices. However, these new investments have allowed us to broaden our portfolio diversification and gain exposure to a number of industries with higher growth potential than some of the more traditional businesses.

Outlook and conclusion

The recent falls across global equity markets have brought the Australian share market index back to a level which we believe is closer to fair value and longer term averages, based on consensus forward earnings expectations. However, this overall assessment can be misleading and we would like to make some observations regarding the individual sectors within this broader index.

While some sectors, such as banks and utilities, are trading near their historic price to earnings ratios (P/E) averages, there is a clear divergence for others. For example, it is not surprising that contracting and mining service companies exposed to the resources sector, as well as the mining companies themselves, are currently trading at a discount to their historical P/E ratios, based on 12 month forward earnings expectations. Perhaps more surprising however, is that energy stocks are trading at a 20% discount to their historical P/E ratios. Conversely, offshore cyclical and telecommunication companies are expensive compared their recent history. This historical comparison does not indicate where these companies should be valued for the next 10 years, but it is worth remembering when analysing where the true value in the market may be.

As we always do at this time of year, we are closely monitoring outlook commentary given at Annual General Meetings for any earnings updates.

Argo continues to hold no debt and retains cash reserves of approximately $135 million. The recent pull back in the market has provided some investment opportunities and 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 staff personally for all their hard work. We look forward with enthusiasm to the future challenges and opportunities.