ARGO INVESTMENTS LIMITED
ABN 35 007 519 520

2015 Annual General Meeting
MANAGING DIRECTOR'S ADDRESS

Delivered by Mr. Jason Beddow at the 69th Annual General Meeting of Argo Investments Limited (Argo or the Company) held at the Adelaide Convention Centre on Monday 26 October, 2015 at 10.00am.

Good morning ladies and gentlemen. I would also like to welcome you to Argo's 69th Annual General Meeting.

Last year I presented a table with four simple data points, the share market's S&P/ASX 200 Index, the Reserve Bank of Australia (RBA) cash rate, the Australian dollar versus the US$ and Argo's share price. As I was thinking about the year that was, I find it a useful exercise to revisit these data points.

The share market index is down only slightly over the past 12 months, although this does no justice to the large gyrations that investors have had to navigate throughout that period, including a 15% rally from last October that saw the index breach 6,000 points early in 2015, followed by an 18% fall that briefly saw the index trade below 5,000 points. Global events were the main driver of volatility and the Chairman has mentioned a number of these.

The Australian dollar has had a meaningful fall, as a result of the decline in commodity prices and our terms of trade, two rate cuts by the RBA and until recently, the expectation that the US would begin to increase interest rates. The Australian economy has been helped by the fall in the A$ and lower interest rates, which have fuelled a healthy housing boom and filled some of the hole from the decline in mining investment.

As the Chairman has already discussed, we are pleased with the performance of Argo and its portfolio throughout this increasingly difficult and volatile period. Despite the twists and turns in the markets, Argo's share price has been relatively resilient, offering some downside protection to shareholders amongst the increasing volatility. We feel that this is the result of the loyalty of Argo shareholders and also some recognition from the market of Argo's performance and the fact that Argo's dividend has increased 13% over the past three years, during which time the RBA has cut interest rates from 3.5% to 2.0%, a significant reduction for those living on interest income.

Investment Portfolio

For the 2014-15 financial year, the major purchases in the portfolio were:

	$m
Medibank Private	30.0
Argo Global Listed Infrastructure	25.0
APA Group	19.5
Santos	19.3
Commonwealth Bank of Australia	17.6
National Australia Bank	12.8
Asaleo Care	11.7
Affinity Education Group	11.7

Overall, we increased our holdings in 43 existing stocks and added 7 new holdings to the portfolio.

The major sales during the financial year were:

	$m
Milton Corporation	25.8
Toll Holdings*	22.8
David Jones*	13.7
Newcrest Mining	10.6
Echo Entertainment*	7.6
Orora*	7.5
Southern Cross Media*	7.5

∗ completely removed from the portfolio

In total, we exited 9 holdings during the year, including 2 by takeover, being Toll Holdings and David Jones. We also reduced our investment in a further 5 holdings.

Since our 30 June balance date, approximately $120 million has been spent on further investment purchases, with the major ones being Commonwealth Bank of Australia, Westpac Banking Corporation, Origin Energy, DUET Group, ANZ Banking Group, CBL Corporation, BHP Billiton and Primary Healthcare. There have been meaningful additions to our holdings in the major banks, largely through their capital raisings, and I will provide some more detail on this in a moment.

Argo continues to look for opportunities in small to mid-sized companies and CBL Corporation (CBL) is a recent example of this. CBL has come to market as an initial public offering (IPO), dual-listed on the New Zealand and ASX exchanges. It is involved in direct insurance underwriting, managing agencies and reinsurance in specialist insurance classes. CBL operates in several jurisdictions, with most business written in Europe, and in particular France, where builders' warranty insurance is a key line of business. We held a number of meetings with senior management prior to the IPO and were impressed with both the Board and management, who remain very conservative and have a long track record of delivering profitable growth. Argo was allocated approximately $7m of stock and is a top 10 shareholder. The stock has traded up approximately 20% since listing in mid-October.

Overall, the Argo portfolio currently has 103 holdings, and while we will continue to assess any upcoming IPOs or new investments with rigour, we remain disciplined on any additional investment choices. New investments allow us to broaden the portfolio's diversification and gain exposure to industries with potentially higher growth.

Also since balance date, we have continued to sell down our holdings in Medibank Private and Milton Corporation.

Banking Sector

It is worth adding a few comments on the Australian banking sector, which now makes up in excess of 30% of the S&P/ASX 200 Index. For some time, investors have been anticipating that the Australian banks would be required to increase the amount of capital they hold. In July this year, it was announced that they will need to set aside more money to cover potential losses in their residential mortgage portfolios, effective from July 2016. This will require the major banks to increase their minimum average mortgage risk-weights to at least 25%, up from the current position of around 16-18%. The additional capital that will be required to be held against residential mortgages will better align the banks' capital positions with the potential risks arising from their residential mortgage exposures during periods of high investor demand and the associated rapid increase we have seen in house prices, particularly in Sydney and Melbourne.

These changes were announced by the nation's financial supervisory body, the Australian Prudential Regulation Authority (APRA), and have been made in line with recommendations stemming from the government's Financial System Inquiry, chaired by David Murray, and the global banking Basel framework.

Although shoring up the capital reserves of the banks will make the lenders more resistant to economic downturns, there may be some impact to shareholder returns in the coming financial year or even next few years, as banks seek to raise the additional funds to satisfy the new regulatory regime. The four major banks have responded by already raising a very large amount, in fact over $20bn in new capital in the past 15 months. To put that in perspective, 2014 was a record year for IPOs in Australia with a total of $16.7bn raised, with the previous record of $13.3bn raised in 2005.

The banks remain highly profitable and have a number of levers to manage their underlying business, including:
Tightening credit standards - including debt serviceability levels and Loan to Valuation lending ratios;
Margin management - through repricing deposits, reducing mortgage discounts, or out of cycle rate increases as we have recently seen;
Continued productivity improvements - with accelerated cost out programs and a continued focus and spend on further information technology investment; and
Prudent loan loss provisioning - which remains conservative and robust.

However, we believe that the banks are likely to deliver more modest returns for the foreseeable future. Last week the Federal Government released its response to the Financial System Inquiry, which has accepted the overwhelming majority of the Inquiry's recommendations, including six additional measures that are consistent with the Inquiry's underlying philosophy. The Government's response sets out an agenda which will be implemented in stages over the coming years, and which is likely to require even further additional capital into the future.

Following the recent market pullback, the banks are trading back in line with their 5 and 10 year averages on a forward price to earnings (P/E) ratio and slightly ahead of their 5 and 10 year average dividend yields. At current prices, ANZ Banking Group offers the highest 12 month forward dividend yield of 6.7%, whilst Commonwealth Bank of Australia's yield is the lowest of the majors at 5.7%. We feel that the dividend yields currently available are likely to support bank share prices around these levels.

When comparing Argo's 20 largest equity investments, based on market values at 30 September 2015, to this time last year, Westpac Banking Corporation and ANZ Banking Group remain our two largest holdings, while BHP Billiton has slipped from 3rd to 6th largest. Although the top 20 holdings still account for approximately 63% of the overall portfolio, there has been a more meaningful change to its composition than usual over the last 12 months. There are four new additions to the top 20, being APA Group, Sydney Airport, Amcor, and also QBE Insurance which has replaced Suncorp Group as our 20th largest holding. Of note is the removal of Origin Energy, Santos and Woodside Petroleum from the top 20, largely due to the substantial fall in the oil price over the past 12 months.

Energy Sector

The supply growth in global oil production has been strong over the last few years, including the increased output from the US shale oil industry, which has lifted total US oil output to 29 year highs of 9 million barrels per day. In addition, the supply disruptions of 2013 have disappeared, with strong supply growth from Libya, Nigeria and Iran causing the oil market to move into oversupply.

Although the oil price had already been declining, the catalyst for the more significant fall in the oil price occurred on 28 November 2014, when the Organisation of the Petroleum Exporting Countries (OPEC) signalled it would not cut production to curb oversupply. The oil price reacted quickly, with its biggest monthly fall since the GFC. By not cutting production, OPEC stepped away from its historical role as the market's balancing producer, and is currently allowing oil prices to be more competitively determined by supply and demand, and ultimately, the cost curve.

Since that time, the oil price has traded between US$37 and US$60 per barrel, which is significantly impacting energy producing companies. In particular, Origin Energy and Santos have been caught by the falling oil price impacting their current and potential future revenues, just as they are both completing very large, capital intensive Liquefied Natural Gas (LNG) projects in Queensland. These projects both receive revenues from their LNG cargoes which are linked to the oil price.

More recently, we have seen the rate of new investment in oil production declining, but with large global stockpiles it may take some time for the current oversupply to correct. The oil price is likely to remain weak in the short term, until evidence that the oversupply is beginning to self-correct, either through an improvement in demand growth, a reduction in the pace of supply growth, or an about-face from OPEC by cutting its production. Longer term, the outlook for oil still looks reasonable, although the peak prices may be behind us, as the long run cost of new supply to generate an adequate return is above current prices.

This chart [*refer Slide #28*] shows the Total Return performance of the major Energy and Energy-related stocks over the past 12 months to 30 September, 2015 and includes the relative size of Argo's holdings compared to their weighting in the S&P/ASX 200 Index. Also shown is the impact of these relative positions on the total portfolio return of Argo, which is known as the attribution impact. As can be seen, Santos and Origin Energy have fallen 69% and 57% respectively. Due to our relatively large overweight positions, this has had a negative combined impact of over 1% on Argo's total portfolio return versus the Index. However, being underweight Woodside Petroleum and not owning any Oil Search had a small positive impact.

Both Santos and Origin Energy have recently reacted to the low oil price and their negative share price movements.

Santos and its Managing Director, David Knox, have agreed that he will stand down once a successor has been appointed. The Chairman, Peter Coates, has been appointed Executive Chairman to lead a full strategic review to examine all options to restore and maximise shareholder value, including asset sales and other strategic opportunities. Last week, Santos rejected an all cash takeover proposal by Scepter Partners for the entire company at $6.88 per share. Scepter Partners is a direct investment syndicate for sovereign wealth, with core stakeholders that include senior members of Asian and Gulf-based ruling families.

Origin Energy announced a set of initiatives aimed at strengthening its balance sheet, the most significant being a 4 for 7 renounceable rights entitlement offer to raise $2.5bn of new equity. Additionally, Origin plans to reduce its dividend for the next two years, make further reductions in capital expenditure, sell non-core assets and reduce headcount by over 800 people.

One of the strengths of Argo's portfolio is its diversification. This is illustrated by its spread across industry groups. As at 30 September 2015, the portfolio investments were allocated to these sectors [*refer Slide #29*]. Since this time last year, the main changes have been an increase in our weighting to Consumer Discretionary, Utilities, Healthcare and Other Financials sectors, and a decrease in our Energy, Materials and Consumer Staples weightings.

Argo Global Listed Infrastructure

Approximately half of Argo Global Listed Infrastructure Limited (AGLI) shareholders are also shareholders of Argo, so we thought that we would give a brief update on AGLI, in light of the fact that the company is not holding an AGM this year due to the timing of its listing date. AGLI listed on the ASX on 3 July, 2015 and Cohen and Steers, its portfolio manager, began investing the IPO proceeds at this time, and as stated in the prospectus, the funds were fully invested by the end of July.

It was an interesting time to begin life as an investment company, as the Greek debt crisis came to a head just as we began investing, and volatility has continued in global equity markets, negatively impacting investor confidence. Against this backdrop, the S&P/ASX 200 Index delivered one of its worst monthly returns since the Global Financial Crisis in August, and elsewhere the MSCI World Index and US S&P500 Index were also weak.

The global infrastructure sector, broader equity markets and commodity prices have shown some signs of stabilising after the large falls in the September quarter, and while infrastructure stocks declined in this environment, they materially outperformed broader global equity markets, reflecting the defensive elements of the asset class. This is highlighted well in this chart [*refer Slide #31*], which shows AGLI's share price, NTA and the blended A$ benchmark of 90% of the FTSE Global Core Infrastructure 50/50 Index and 10% of the Merrill Lynch Fixed Rate Preferred Securities Index, all performing very well versus the MSCI World Index (in Australian and US dollars) and the S&P/ASX 200 Index.

We are pleased to be able to show the top 10 portfolio holdings as at 30 September 2015 [*refer Slide #32*], and you will note that an Australian company is currently the largest holding. The portfolio is diverse, with 61 infrastructure equity investments and 20 infrastructure preferred or fixed income investments.

These pie charts [*refer Slide #33*] show the portfolio weights by sub-sector and geography, which are updated and released to the ASX in AGLI's monthly NTA report. The best performing sub-sectors over the past quarter have been water and regulated electric, as well as the preferred and corporate bonds doing well in a volatile and falling market. The sub-sector that has been hit hardest is pipelines, in line with the falling oil price, and marine ports and railways, where the slowdown in China particularly has led to downgrades to global growth expectations, including trade.

The IPO participants who received shares and options have generally seen both securities trade positively on the ASX, despite the volatile and uncertain markets. It is also the intention of the manager to release an additional AGLI quarterly shareholder update, including major portfolio holdings and more commentary on the sector, with the first quarterly report to be issued in the next couple of weeks. The AGLI website is the best source of updated material for shareholders, at www.argoinfrastructure.com.au.

Outlook & 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. We remain cautious due to challenges in the domestic economy, although the fall in the Australian dollar should provide some support as we move into 2016.

Volatility has reintroduced itself to global markets, driven by continued concerns about global economic health, including the slowdown in China and eventual interest rate increases in the US. We remain comfortable with our diversified portfolio of quality companies and will look to participate in any opportunities that these market fluctuations may provide. Argo retains cash reserves of approximately $100 million.

The world continues to be fuelled by accommodative monetary policy. Although the US is contemplating a potential first rate hike, elsewhere we expect further quantitative easing in Europe and Japan, and continuing interest rate cuts in New Zealand, Norway and India, which are likely to support yield orientated investments for some time to come.

I would like to thank the Directors for their support and additional workload in what has been a very busy year for Argo. I would also like to make a closing comment on the contribution of the Argo staff, who have been under an increased workload with tight deadlines over this past year. I would like to thank them all for their contribution and hard work during the year.

In addition, there have been a number of small but important changes to the executive team. Chris Hall left us to pursue a role with BlackRock in Hong Kong after eleven years with Argo and we wish him well. Paul Frost has re-joined the team, having worked at Argo previously for five years from 1998 to 2003. He brings a wealth of experience, having been a senior analyst and portfolio manager in a number of successful funds management organisations over the past decade, and Jo Chipperfield is a lawyer who has joined us in the Adelaide office. I welcome them both to Argo. Also, in recognition of their increased responsibilities, Tim Binks has been promoted to Chief Operating Officer and Andy Forster has been promoted to Senior Investment Officer. They have been with Argo since 2007 and 2010 respectively.

The Company's investment philosophy has stood the test of time and we remain dedicated and committed to maximising long-term returns to shareholders. We are optimistic about the future for Argo and look forward with enthusiasm to both the challenges and opportunities ahead.