

# FLAGSHIP INVESTMENTS LIMITED

## SHAREHOLDERS' QUARTERLY REPORT

SEPTEMBER 2014

### OBJECTIVE

Long-term capital growth and income

### STRATEGY

High-conviction portfolio of quality Australian listed equities from a research driven, bottom-up investment philosophy

### DIVIDEND INFORMATION

AUD 0.0325 at 11 April 2014

AUD 0.04 at 26 September 2014

### COUNTRIES WHERE LISTED

Australian Securities Exchange:  
December 2000

### STOCK EXCHANGE CODE

ASX: FSI (formerly HIP)

### RATINGS

- Independent Investment Research  
– Recommended<sup>1</sup>

### DIRECTORS

Henry R Smerdon AM  
*Chairman*

Dr Emmanuel (Manny) C Pohl  
*Managing Director*

Patrick Corrigan AM

Dominic M McGann

Sophie A Mitchell

### COMPANY DETAILS

Flagship Investments Limited

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### OVERVIEW

Following the negative investment returns in the June quarter, it is pleasing to see that the Flagship Investments' underlying portfolio improved in spite of the overall weakness in the market. It increased by 0.8% compared to the All Ordinaries Index which declined by 1.6% with cash returning a positive 0.6%.

#### UNDERLYING PORTFOLIO PERFORMANCE (as at 30 September 2014)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio <sup>^</sup>	12.4%	0.8%	11.1%	22.5%	10.0%
UBS Bank Bill Index	5.1%	0.6%	2.6%	3.3%	3.9%
ASX All Ordinaries	4.2%	-1.6%	1.5%	9.2%	2.3%

<sup>^</sup> Source: EC Pohl & Co Pty Ltd

### INVESTMENT ACTIVITY

We increased cash levels in the portfolio to 9.8% during the quarter with the major sales occurring in Carsales.com, Rio Tinto, Domino's Pizza and SEEK.

### OUTLOOK

Over the last quarter we have seen some troubling geopolitical developments in the Middle East and the Ukraine. While these conflicts have serious implications, especially for the energy sector, the markets overall have been largely unaffected by the politically generated turmoil. Rather, we believe the softening of equity markets over the past quarter after their record highs, is largely attributed to concern regarding the outlook for economic growth in China and Europe, as well as a likely end to quantitative easing and low interest rates in the US.

The US economy is improving albeit with mixed signals. Employment has been solid over the past quarter which should help drive their economy through to calendar year-end, while productivity remains in decline due to low levels of capital investment. The S&P500 posted a modest improvement of 0.62%, while the Dow Jones Index had an increase of 1.29%. In the Eurozone, economic recovery remains fragile as divergences between member-nations continue to widen on the back of previous austerity measures. The FTSE100 declined by 1.80% and the DAX posted a decline of 3.65%. In Asia, the Chinese markets have been cause for concern as the economy struggles to retain its growth momentum while in Japan, Prime Minister Shinzo Abe recently unveiled the third aspect of his economic recovery plan.

In Australia, the economy has been transforming from resource-related to a broader mix, with the falling dollar at the end of the quarter relieving some of the competitive cost pressures and potentially improving the ability for competitive international pricing. At the end of the September quarter, the Australian dollar suffered its biggest monthly drop in over a year and was on the verge of reaching four-year lows. This significant devaluation saw the Australian Dollar decline by 7.23%, closing at a AUDUSD rate of 0.875. The All Ordinaries Index posted a small decline of 1.58% over the quarter with the Small Ordinaries posting a better result of +0.29%.

In summary, while we do see a contraction in P/E ratings from current levels, the short-term financial metrics for the companies in the portfolio, including organic sales growth, earnings and dividend growth, should provide the impetus for an improvement in valuations.

#### PORTFOLIO CHARACTERISTICS (as at 30 September 2014)

NAV (tax on realized gains only) – total	\$41,161,616
NAV (tax on realized gains only) – per share	168.8 cents
Concentration of the Top 20 Holdings	81.5%
Stocks in the underlying portfolio	28

## FUND MANAGER

EC Pohl & Co Pty Ltd  
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 2 Corporate Court  
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## INVESTMENT PHILOSOPHY

- ◆ Investments should outperform the risk-free rate
- ◆ The price one pays determines the ultimate long-term return
- ◆ High quality growth companies outperform over the longer term

## INVESTMENT PROCESS

### INITIAL SCREENING PROCESS

- ROE
- IPOs
- Revenue Growth
- Broker Ideas
- Interest cover
- Internal Ideas

### FUNDAMENTAL ANALYSIS

- Understanding the Business Model
- Sustainable Competitive Advantage
- Organic Growth Opportunities
- Assessing Management
- Assessing the Operating Environment

### PORTFOLIO WEIGHTING

- 3 Year Risk Adjusted Total Return
- Market Risk Analysis

### HIGH CONVICTION PORTFOLIO OF COMPANIES

This process is the basis for all our Australian equities investment decisions

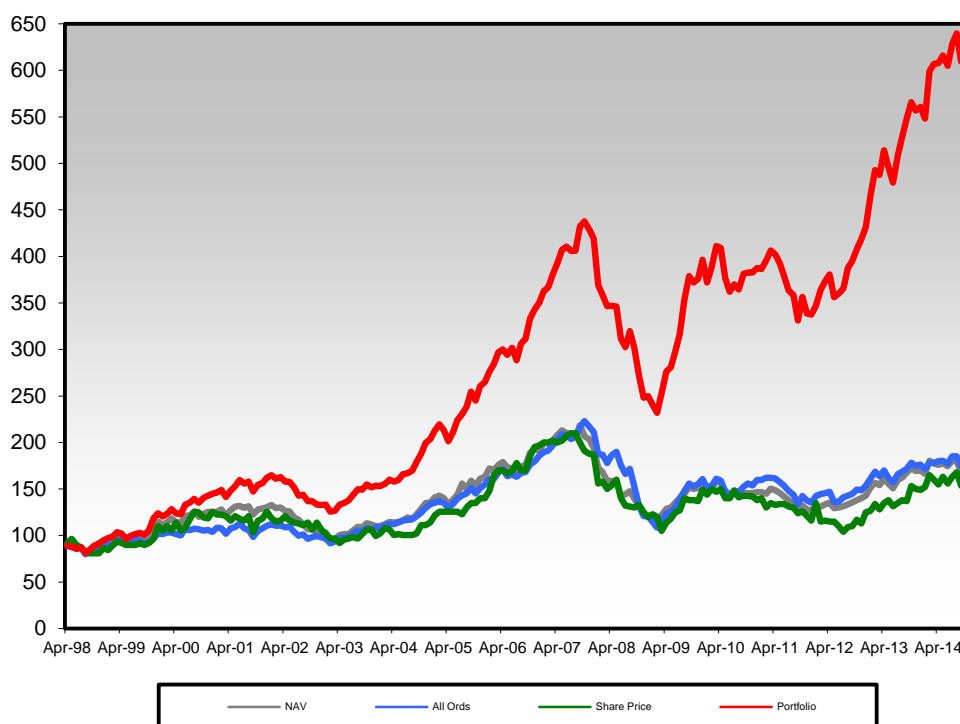
## SECTOR BREAKDOWN (as at 30 September 2014)

Financials	29.1%
Consumer Discretionary	12.9%
Industrials	10.5%
Cash and Equivalent	9.8%
Telecommunication Services	9.2%
Materials	8.6%
Energy	7.1%
Information Technology	5.1%
Consumer Staples	4.1%
Health Care	3.6%

## TOP 5 STOCK HOLDINGS (as at 30 September 2014)

Commonwealth Bank of Australia	7.4%
Telstra Corporation	7.3%
Macquarie Group	5.5%
SEEK	5.3%
REA Group	5.0%

## SHARE PRICE (as at 30 September 2014) (after adjusting for the rights issue)



## STRUCTURE AND TERMS

Dividend Reinvestment Plan	Dividend Reinvestment Plan is an optional way of reinvesting dividends in additional shares, free of brokerage, commission, stamp duty and other costs.
Legal Domicile	Australian Securities Exchange (ASX) Listed Investment Company (LIC)
Fees	Management fee – Nil (The management fee comprises only a performance fee) Performance fee - 15% of the annual outperformance over the UBS Bank Bill Index
MER	0.0%
Reporting and Correspondence	Monthly Net Asset Value prices on <a href="http://www.flagshipinvestments.com.au">www.flagshipinvestments.com.au</a> and <a href="http://www.asx.com.au">www.asx.com.au</a> also quarterly reports, half-yearly and annual reports
Auditor	BDO Audit Pty Ltd
Registry	Computershare Investor Services Pty Limited
Share price and NAV	<a href="http://www.flagshipinvestments.com.au">www.flagshipinvestments.com.au</a> and <a href="http://www.asx.com.au">www.asx.com.au</a>

<sup>1</sup> This opinion is provided by Independent Investment Research and must be read together with whole report including the disclaimer and relevant legal notices which can be found at [www.independentresearch.com.au](http://www.independentresearch.com.au)