

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

DECEMBER 2013

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 0.030 at 12 April 2013

AUD 0.035 at 27 September 2013

COUNTRIES WHERE LISTED

Australian Securities Exchange:
December 2000

STOCK EXCHANGE CODE

ASX: FSI

RATINGS

- Independent Investment Research
– Recommended¹

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

ABN 99 080 135 913

Level 12, Corporate Centre One

2 Corporate Court

BUNDALL QLD 4217

AUSTRALIA

1800 FLAGSHIP 1800 352 474

Tel: +61 7 5644 4405

Fax: +61 7 5574 1457

Email: flagship@ecpohl.com

www.flagshipinvestments.com.au

OVERVIEW

Following the excellent returns in the September quarter, Flagship Investments' underlying portfolio slightly underperformed the market during the quarter. It returned 2.2% versus the All Ordinaries Index return of 2.6%. By comparison, the share price increased by 8.8% over the quarter.

UNDERLYING PORTFOLIO PERFORMANCE (as at 31 December 2013)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.4%	2.2%	29.9%	13.1%	17.5%
UBS Bank Bill Index	5.2%	0.6%	2.9%	3.9%	4.1%
ASX All Ordinaries	4.4%	2.6%	14.8%	3.4%	7.9%

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

During the December quarter, the entire holding in ALS Ltd, ANZ Bank and Wotif.com was sold from the portfolio. The cash that was generated was used to gain exposure to Bendigo & Adelaide Bank, Austbrokers, Bigair, Blue Sky and Energy Action. Corporate action taken by Macquarie and Brambles resulted in the receipt of shares in Sydney Airport and Recall Holdings respectively.

OUTLOOK

The Australian market continued its upward trend during the quarter, driven more by positive sentiment on world equity markets than by domestic issues. The All Ordinaries Index posted an improvement of 2.6% over the quarter with the Telecommunications sector posting a 5.9% increase followed closely by the Health Care sector and the Materials sector with 5.3% and 5.0% increases respectively. The AUD weakened against the USD at quarter-end dropping in value by 4.4%.

Global equity markets continued to rally in the final quarter of 2013 with the MSCI index significantly improving on last quarter's result, posting a 7.6% improvement on the back of many country indexes recording new highs. Steady improvement in the United States in areas such as employment, housing and manufacturing throughout 2013 allowed the U.S. Federal Reserve to announce a gradual withdrawal of its extraordinary stimulus measures, which have kept interest rates at historic lows and supported the economy since 2009. On December 18, stocks in the US surged after the Fed announced that in January 2014 it would begin tapering its asset purchases, indicating that it believed the economy was now on a firm footing. This quarter's performance of the US S&P 500 index was an increase of 9.9%. At quarter-close the index saw its best year since 1997. By comparison the Dow Jones Industrial Average enjoyed its biggest annual gain since 1995 with a respectable 9.6% improvement over the quarter. This quarter was a particularly impressive result as all ten US S&P 500 sectors recorded positive returns.

While we do not see any improvement in the 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 31 December 2013)

NAV (tax on realized gains only) – total	\$40,936,591
NAV (tax on realized gains only) – per share	170.0 cents
Concentration of the Top 20 Holdings	90.72%
Stocks in the underlying portfolio	30

FUND MANAGER

EC Pohl & Co Pty Ltd
 ABN 154 399 916
 Level 12, Corporate Centre One
 2 Corporate Court
 BUNDALL QLD 4217
 AUSTRALIA

PO BOX 7536
 GCMC BUNDALL QLD 9726
 AUSTRALIA

Tel: +61 7 5644 4405
 Fax: +61 7 5574 1457
 Email: flagship@ecpohl.com
www.ecpohl.com

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
- Revenue Growth
- Interest cover
- IPOs
- Broker Ideas
- 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 31 December 2013)

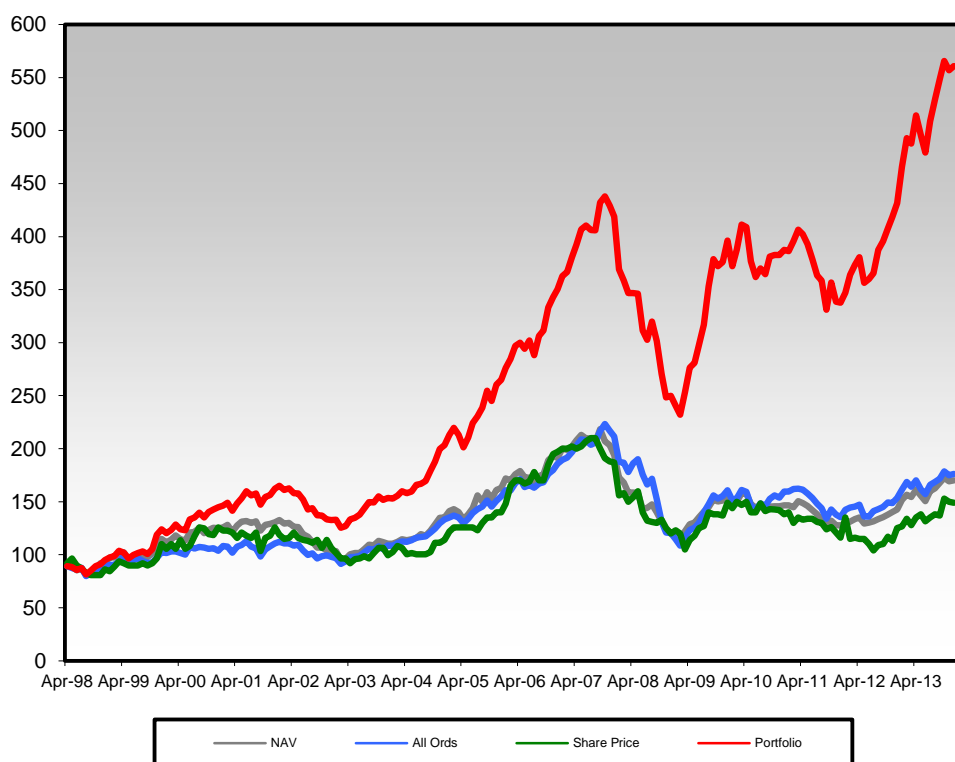
Financials	29.50%
Consumer Discretionary	13.67%
Industrials	13.05%
Information Technology	10.91%
Materials	10.83%
Telecommunication Services	9.17%
Consumer Staples	5.26%
Energy	4.16%
Health Care	1.80%
Cash and Equivalent	1.66%

TOP 5 STOCK HOLDINGS (as at 31 December 2013)

SEEK	9.09%
Telstra Corporation	8.20%
Commonwealth Bank of Australia	8.08%
Carsales.com	7.21%
Rio Tinto	5.43%

SHARE PRICE (as at 31 December 2013)

(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 www.flagshipinvestments.com.au and www.asx.com.au also quarterly reports, half-yearly and annual reports
Auditor	BDO Audit Pty Ltd
Registry	Computershare Investor Services Pty Limited
Share price and NAV	www.flagshipinvestments.com.au and www.asx.com.au

¹ 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