

# FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

JUNE 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 0.035 at 27 September 2013

AUD 0.0325 at 11 April 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 positive returns reported in the December and March quarters, Flagship Investments underlying portfolio declined in line with the overall weakness in the market. It declined by 0.3% compared to the All Ordinaries Index which declined by 0.4% with cash returning 0.7%. By comparison, the share price declined by 2.5% over the quarter.

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

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio <sup>^</sup>	12.6%	-0.3%	26.2%	16.8%	15.2%
UBS Bank Bill Index	5.1%	0.7%	2.7%	3.6%	3.9%
ASX All Ordinaries	4.3%	-0.4%	12.7%	4.9%	6.4%

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

## INVESTMENT ACTIVITY

During the quarter we made some minor adjustments to the portfolio. We lightened our position in SEEK while increasing our position in Brambles, WorleyParsons and Woodside Petroleum. Cash levels were reduced as a result of the payment of the interim dividend

## OUTLOOK

The Australian economy has been affected by the negative impetus from a declining resources sector. However, boosted by a recovery in the housing sector, the economy still remains on track for GDP growth this year. Increased earnings from our iron ore and coal exports replacing to some extent declining investment in the mining industry. The All Ordinaries Index posted a small decline of -0.4% over the quarter with the Utilities sector performing the best with a 6.4% improvement on last quarter. The Energy and the Telecommunications sectors were the next best performers posting 5.2% and 1.9%, respectively. The AUD has strengthened again for the second quarter in a row against the USD, increasing by 1.8%.

At the end of this quarter, the current global economic expansion celebrates its fifth birthday. The recovery, having started in the second quarter of 2009, appears to have lost impetus this year as different regions still battle their own respective headwinds including lack of global demand for goods and services. However, in spite of increased geopolitical risks, the market has had low levels of volatility over the quarter, arguably reflecting investor complacency as they shrugged off the consequences of these issues. Emerging market economies across the board seemed stronger, although tensions continue between Russia and Ukraine, with China continuing to re-assert its claims over islands currently governed by Japan. Turning to the US, this quarter has seen some improvement in the economy. Improvements in general consumer and business sentiment, an improving housing market and a tighter labour market have led to the Federal Reserve continued its tapering of Quantitative Easing, by announcing cuts to its monthly asset purchases. This quarter saw the US S&P500 index hit record highs posting a 4.7% improvement. By comparison the Dow Jones Industrial Average posted a positive result of 2.2%.

In summary, 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 30 June 2014)

NAV (tax on realized gains only) – total	\$42,242,368
NAV (tax on realized gains only) – per share	174.4 cents
Concentration of the Top 20 Holdings	89.4%
Stocks in the underlying portfolio	28

## FUND MANAGER

EC Pohl & Co Pty Ltd  
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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
- 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

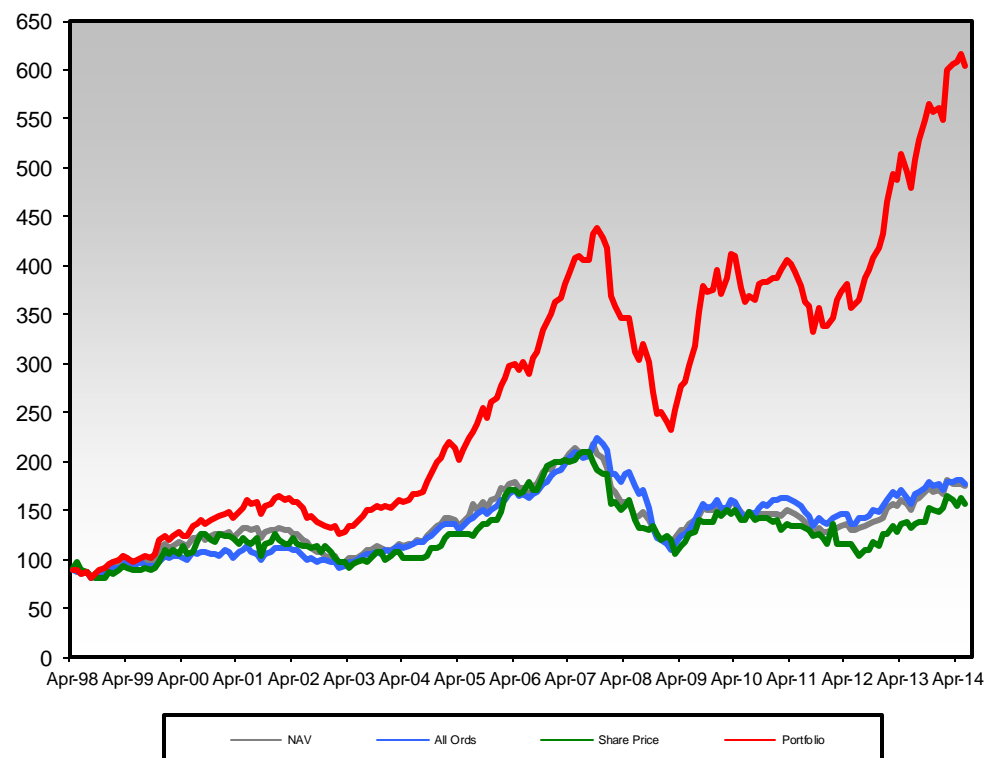
## SECTOR BREAKDOWN (as at 30 June 2014)

Financials	30.2%
Consumer Discretionary	14.3%
Industrials	12.1%
Materials	10.4%
Telecommunication Services	8.9%
Information Technology	8.8%
Energy	7.4%
Consumer Staples	4.0%
Health Care	2.7%
Cash and Equivalent	1.3%

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

Commonwealth Bank of Australia	8.4%
SEEK	7.2%
Telstra Corporation	6.8%
Carsales.com	6.8%
Rio Tinto	5.5%

## SHARE PRICE (as at 30 June 2014) (after a djusting 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)