

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

JUNE 2015

OVERVIEW

Following on from a strong March quarter, both the market and the portfolio declined during the June quarter as shown and discussed below.

UNDERLYING PORTFOLIO PERFORMANCE (as at 30 June 2015)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.2%	-5.4%	6.6%	21.4%	12.2%
UBS Bank Bill Index	5.0%	0.6%	2.6%	2.9%	3.6%
ASX All Ordinaries	4.2%	-7.0%	1.3%	9.7%	4.7%

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

We sold our holding in Sky Network Television Ltd (ASX: SKT) from the portfolio without any new additions. We increased our exposure to Carsales.com, Westpac Banking Group and IPH Limited.

MARKET COMMENT AND OUTLOOK

After a few years of reasonable returns, global market performance has been lacklustre across most asset classes. The economies of the developed world have performed better than those in emerging markets with the US and European economic data suggesting that they are mid-cycle while the economies of the emerging markets, particularly China, are losing steam. Low interest rates are the norm for most of the developed world, while quantitative easing is still in place in Europe and Japan. Volatility in the markets has been largely driven by both Greece, who are continuing to battle their economic woes, and, China who are facing cyclical headwinds as they struggle to deal with slowing economic growth.

The US has had a more positive quarter with consumer spending improving by its largest margin since 2009. The improvement in consumer confidence has been driven by income gains, falling unemployment and low inflation. Notwithstanding this improvement, the S&P500 posted a decline of 0.23% over the quarter after posting positive gains in the first two months while the Dow Jones Index also posted a 0.88% decline during the quarter.

Investor nervousness worsened when Greece missed a payment on its sovereign debt and Greece had to shut down its financial institutions to prevent a run on the banks. When Prime Minister Alexis Tsipras announced a surprise decision to hold a referendum on whether Greece accept further austerity measures there was an increase in market volatility. The German DAX posted a decline of 8.53%; while the FTSE 100 only posted a decline of 3.72%.

Australia is faced with a tougher economic environment as the commodities cycle turns down, causing a decline in national income. However, the depreciating dollar and likelihood of an interest rate cut could provide some relief to the economy going forward. After being under pressure for three consecutive quarters, the Australian dollar has steadied during the current quarter to close at 0.771 which was a 1.33% improvement on the previous quarter. By comparison, the All Ordinaries Index posted a decline of 7.01% following the news and events taking place in Greece and China.

In our portfolio modeling we have factored in an improvement in P/E ratings from current levels. Furthermore, the short-term financial metrics for the companies in the portfolio, including organic sales growth, earnings and dividend growth, should provide an additional impetus for an improvement in valuations.

PORTFOLIO CHARACTERISTICS (as at 30 June 2015)

NAV (tax on realized gains only) – total	\$41,467,865
NAV (tax on realized gains only) – per share	171.9 cents
Concentration of the Top 20 Holdings	87.7%
Stocks in the underlying portfolio	28

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 0.04 at 26 September 2014
AUD 0.035 at 02 April 2015

COUNTRIES WHERE LISTED

Australian Securities Exchange:
December 2000

STOCK EXCHANGE CODE

ASX: FSI (formerly HIP)

RATINGS

• Independent Investment Research
– Recommended¹

DIRECTORS

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COMPANY DETAILS

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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 2015)

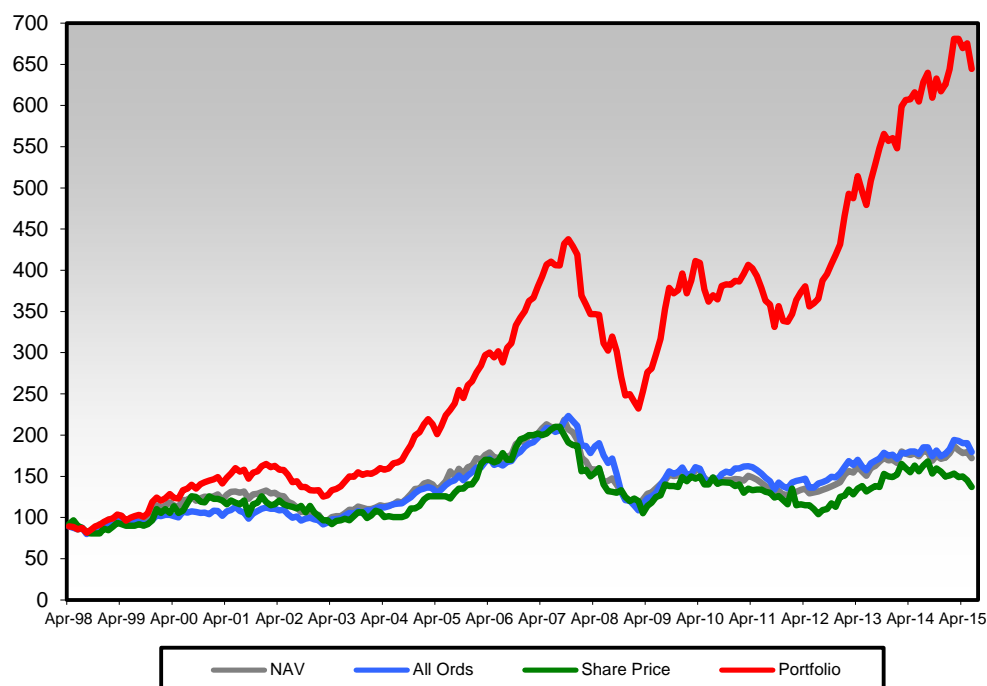
Financials	36.1%
Consumer Discretionary	12.1%
Industrials	10.8%
Telecommunication Services	10.7%
Materials	8.6%
Information Technology	6.7%
Energy	4.7%
Consumer Staples	4.2%
Health Care	3.7%
Cash and Equivalent	2.4%

TOP 10 STOCK HOLDINGS (as at 30 June 2015)

Telstra Corporation	9.3%
Macquarie Group	9.3%
Commonwealth Bank of Australia	7.8%
Westpac Banking Corp	6.2%
Rio Tinto	5.3%
AMP	4.8%
SEEK	4.4%
Brambles	4.4%
REA Group	4.4%
Woolworths	4.2%

SHARE PRICE (as at 30 June 2015)

(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