

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

MARCH 2015

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
– 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

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OVERVIEW

Following on from a positive return during the December quarter, the market was extremely strong during the March quarter with both the Flagship portfolio and the market increasing by 8.8%.

UNDERLYING PORTFOLIO PERFORMANCE (as at 31 March 2015)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.8%	8.8%	12.2%	22.1%	10.6%
UBS Bank Bill Index	5.0%	0.7%	2.7%	3.0%	3.8%
ASX All Ordinaries	4.7%	8.8%	8.5%	9.9%	3.7%

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

We reduced our exposure to BHP, Woodside and SEEK and sold our entire holding in IRESS. We increased our exposure to Catapult and Macquarie Bank and included CSL and IPH in the portfolio.

MARKET COMMENT AND OUTLOOK

The current dominant forces at play in the Global economy are firstly, a sharp drop in the price of oil which has been as a result of weak demand and an increase in production, secondly, there has been the shift in US monetary policy, specifically a potential increase in their short-term interest rates and thirdly, we have seen weaker growth in the Eurozone and parts of Asia. The effects of these have been to cause a boost in consumer-purchasing, subdued inflation and an increase in the value of the USD. The small improvement in the S&P 500 during the quarter of 0.44% ensured that its quarterly winning streak was its longest since 1998, while the NASDAQ's was its longest ever. The Dow registered a slight loss for the quarter declining by 0.26%.

The German DAX was again the strongest performer in the Eurozone, posting a 22.0% improvement while the FTSE 100 only increased by 3.2%. Greece took the top spot as the worst performing equity market worldwide during the quarter, generating negative returns for the fourth consecutive quarter after the election of Prime Minister Alexis Tsipras, the radical leftist leader who holds heavy anti-austerity views. A surprise policy decision by the Swiss National Bank (SNB) saw the removal of the Franc's peg to the Euro causing huge currency volatility and increasing investor nervousness.

Japan surprised the market by sliding back into recession following a sales tax increase while China's slow economic growth has resulted in slower demand growth for many commodities and exports from other emerging markets. However, the NIKKEI, posted a 10.1% improvement and the HANG SENG posted a 5.5% increase.

During the quarter, the Reserve Bank of Australia made a cut to the official cash rate, lowering it by 25bps to 2.25%. The move was partially in response to the new 'currency war' between central banks – with over 17 central banks cutting their rates in 2015 thus far. The Australian dollar suffered a third significant quarterly devaluation of 6.9% with the AUDUSD closing at 0.761. By comparison, the Australian market improved by 8.8% over the quarter.

While we do not see an improvement 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 31 March 2015)

NAV (tax on realized gains only) – total	\$45,561,846
NAV (tax on realized gains only) – per share	181.6 cents
Concentration of the Top 20 Holdings	85.3%
Stocks in the underlying portfolio	29

FUND MANAGER

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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

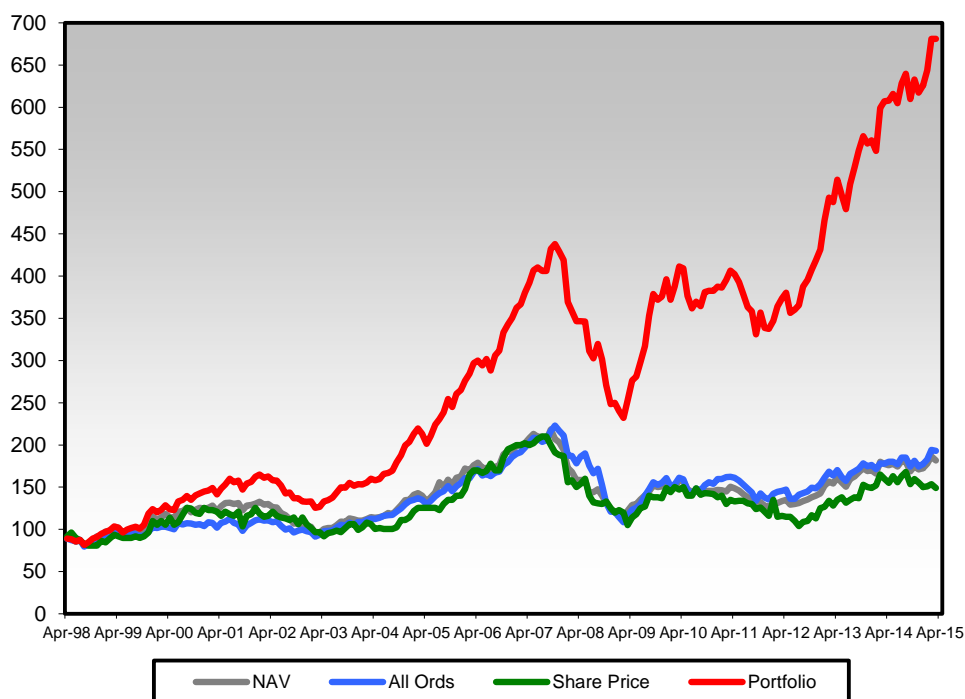
SECTOR BREAKDOWN (as at 31 March 2015)

Financials	35.0%
Consumer Discretionary	14.4%
Industrials	11.0%
Telecommunication Services	10.7%
Materials	9.0%
Information Technology	4.9%
Consumer Staples	4.4%
Energy	4.3%
Cash and Equivalent	3.2%
Health Care	3.1%

TOP 10 STOCK HOLDINGS (as at 31 March 2015)

Telstra Corporation	9.1%
Macquarie Group	8.2%
Commonwealth Bank of Australia	8.1%
Westpac Banking Corp	6.5%
Rio Tinto	5.4%
SEEK	5.1%
REA Group	5.1%
AMP	4.6%
Brambles	4.5%
Woolworths	4.4%

SHARE PRICE (as at 31 March 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