

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

MARCH 2016

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 07 April 2016

AUD 0.0375 at 11 September 2015

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

Dominic M McGann

Sophie A Mitchell

COMPANY DETAILS

Flagship Investments Limited

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OVERVIEW

Flagship's investments underperformed during the quarter as shown below with the Net Tangible Asset Value (NTA) closing at the end of March at 178.7 cents per share. During the past year the investment portfolio performed better than the market, exceeding the All Ordinaries Index by 13.4%.

UNDERLYING PORTFOLIO PERFORMANCE (as at 31 March 2016)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.1%	-5.0%	1.3%	12.3%	11.1%
UBS Bank Bill Index	4.8%	0.6%	2.2%	2.6%	3.2%
ASX All Ordinaries	3.6%	-3.6%	-12.1%	1.1%	0.9%

[^] Source: EC Pohl & Co Pty Ltd

Gross performance before impact of fees, taxes and charges. Past performance no predictor of future returns

INVESTMENT ACTIVITY

During the quarter, we added to our holding in Aconex, Baby Bunting and Rio Tinto while reducing our investment in Invocare. Magellan (ASX: MFG) and APA (ASX: APA) were added to the portfolio while our entire holding in AMP and Platinum was sold.

Our investment thesis on MFG is supported by its success in emerging as a leader in the Australian funds management sector for international equities and global listed infrastructure strategies. Our investment thesis is complimented by strong industry tailwinds of mandated growth in the superannuation industry with contributions set to rise from 9% of gross salary currently to 12% by 2019. The drivers for investment are the growth in FUM to \$85B in five years, including a successful launch of a new global product and their continued success in their Infrastructure strategy.

APA comprising the Australian Pipeline Trust and APT Investment Trust, operates natural gas transportation business with interests in energy infrastructure across mainland Australia, including natural gas pipelines, gas storage facilities and a wind farm. APA also holds minority interests in a number of energy infrastructure enterprises including SEA Gas Pipeline, Energy Infrastructure Investments, GDI Allgas Gas Networks and Diamantina and Leichhardt Power Stations.

MARKET COMMENT AND OUTLOOK

The global economy is continuing to grow, albeit at a slightly slower pace than predicted and while several advanced economies have recorded improved growth over the past year, conditions have become more difficult for a number of emerging market economies with China's growth rate continuing to moderate.

During the quarter under review, financial markets once again exhibited increased volatility on the uncertainty around the global economic outlook and U.S. and European economic policy pronouncements. Appetite for risk has diminished reducing the availability of funding for emerging market sovereigns and lesser-rated corporates. However, funding costs for high-quality borrowers, remains low and globally, monetary policy remains remarkably accommodative.

The ASX 200 index increased by 4.1% during the month, closing at 5,083 which was an increase of 7.8% from mid Feb-16 lows. The increase was driven largely by the Financials sector, which contributed 50%+ of the total index return. Performance was strong across all sizes and styles biased indices in March with Midcap Resources the best-performing index, returning 10.6%. Resources outperformed Industrials in the Large and Mid-Cap space, whilst Small Industrials outperformed Small Resources. The overall market as represented by the All Ordinaries Index declined by 3.6% during the quarter, with an overall decline of 12.1% over the past twelve months.

Although the number of earnings revisions (either up or down) fell post reporting season, aggregate consensus EPS growth for FY16 was lower at -9.2%. As result of the lower earnings base in FY16, FY17 aggregate consensus EPS growth is expected to be higher at +6.0%, whilst FY18 is largely unchanged at +9.6%.

There was a +5.03% improvement in the AUD/USD exchange rate during the quarter on the back of a decision by the Australian Reserve Bank to maintain its interest rate at 2%.

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

PORTFOLIO CHARACTERISTICS (as at 31 March 2016)

NTA (before tax on unrealized gains) – total	\$45,215,967
NTA (after tax on unrealized gains) – per share	178.7 cents
Concentration of the Top 20 Holdings	81.8%
Stocks in the underlying portfolio	30

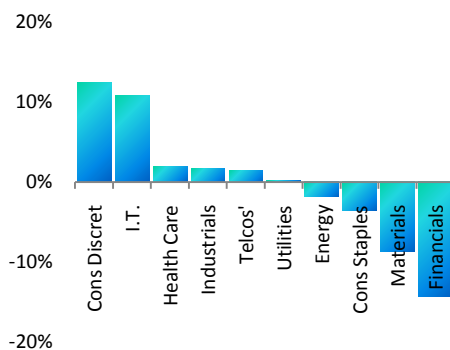
SECTOR BREAKDOWN (as at 31 March 2016)

Financials	28.0%
Consumer Discretionary	18.7%
Information Technology	12.2%
Industrials	10.2%
Health Care	8.4%
Telecommunication Services	6.7%
Material	3.8%
Cash and Equivalent	3.5%
Consumer Staples	3.3%
Energy	2.6%
Utilities	2.6%

TOP 10 STOCK HOLDINGS (as at 31 March 2016)

Macquarie Group	7.2%
REA Group	6.1%
Commonwealth Bank	6.0%
Catapult Group	5.5%
Telstra Corporation	5.3%
Westpac Banking Corp	5.1%
CSL	5.1%
SEEK	4.9%
Carsales.Com	4.3%
Rio Tinto	3.8%

ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES (as at 31 March 2016)



ADDITIONS and REMOVALS during the Quarter

ADDITIONS

APA Group	APA
Magellan Financial Group	MFG

REMOVALS

AMP Limited	AMP
Platinum Asset Management	PTM

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 Tangible Asset Values on www.flagshipinvestments.com.au and www.asx.com.au also quarterly reports, half-yearly and annual reports
Auditor	WPIAS Pty Ltd
Registry	Boardroom Pty Limited
Share price and NTA	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