

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

JUNE 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

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OVERVIEW

Flagship's investments outperformed during the quarter as shown below with the Net Tangible Asset Value (NTA) closing at the end of June at 181.8 cents per share. During the past year the investment portfolio performed better than the market, exceeding the All Ordinaries Index by 14.9%.

UNDERLYING PORTFOLIO PERFORMANCE

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.2%	5.0%	12.3%	14.8%	13.8%
UBS Bank Bill Index	4.8%	0.6%	2.2%	2.5%	3.1%
ASX All Ordinaries	3.8%	3.1%	-2.6%	3.6%	2.7%

[^] 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 BT Investment Management Limited (ASX: BTT) and Reliance Worldwide Corporation (ASX: RWC) to our portfolio. Our new position in BTT is centered on the businesses ability to use its brand and distribution to attract FUM growth; RWC enjoy leading market positions across various geographies and have an attractive growth strategy by way of new and innovative plumbing supplies. During the quarter we exited from our long held position in Woolworths because Woolworths is facing an increasing level of competitive intensity in the marketplace from Coles and Aldi and management are now focused on defending their market share. Furthermore, both ratings agencies have cut their ratings after Woolworths' poor full-year profit results last August.

MARKET COMMENT AND OUTLOOK

During the past twelve months global markets have been subject to a period of heightened uncertainty and increasing volatility, due to the fear of economic slowdowns in the US and Europe; undesirable side-effects of negative interest rates; lagging corporate investment in the US; and, China's increasing debt burden. Commodities have rebounded slightly but remained subdued for most of fiscal 2016. In June, the world watched as Britain voted to exit ("Brexit") the European Union (EU), leaving a political crisis with some adverse economic consequences. Despite Britain's vote to leave the EU, global markets have largely been resilient across most regions - supporting the notion that this was not a global financial crisis. In the US, the Dow Jones and S&P500 were up slightly for the month of June, while the NASDAQ was down 2.1%. European markets on the whole were down, however the FSTE 100 index actually closed up 4.4% in June, and up 5.3% for the quarter. While the ASX is likely to experience some increased volatility from global uncertainty, it's important to note that only around 5.0% of aggregate earnings are derived from the UK and Europe.

The All Ordinaries Index increased over the quarter by 3.1% after posting a decline of 2.5% in the month of June. By comparison, the S&P/ASX Small Ords finished down 1.6% outperforming the broader market. The Small Resources index finished the month up a significant +9.1%, aided by gold stocks. This was an extraordinary finish by any measure – but, particularly, in comparison to the Small Industrials which posted a loss of 4.0% for the month of June.

The UK referendum resulted in appreciation of AUD/GBP cross rate, finishing at 0.5598, up 12.1% in June. In early July the GBP has continued to weaken, which is likely to negatively impact earnings translation for any Australian corporates with UK operations. The AUD/USD rate closed the month at 0.7452 up 3.0%, however was -2.7% for the quarter.

PORTFOLIO CHARACTERISTICS (as at 30 June 2016)

NTA (before tax on unrealized gains) – total	\$46,217,024
NTA (before tax on unrealized gains) – per share	181.8 cents
Concentration of the Top 20 Holdings	82.4%
Stocks in the underlying portfolio	31



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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

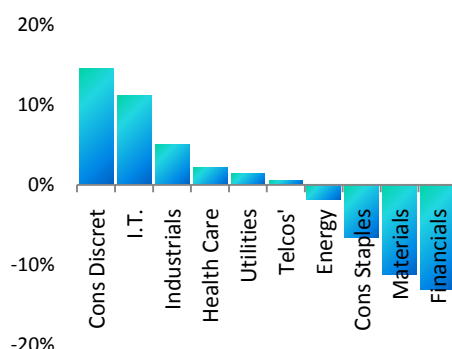
SECTOR BREAKDOWN

Financials	27.3%
Consumer Discretionary	20.0%
Industrials	12.8%
Information Technology	12.1%
Health Care	8.7%
Telecommunication Services	5.6%
Cash and Equivalent	4.8%
Utilities	3.7%
Energy	2.6%
Material	2.4%

TOP 10 STOCK HOLDINGS

Macquarie Group	7.3%
REA Group	6.6%
Commonwealth Bank	5.9%
Telstra Corporation	5.6%
CSL	5.4%
Westpac Banking Corp	4.9%
Catapult Group	4.7%
IPH	4.5%
SEEK	4.5%
Carsales.Com	4.4%

ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



PORTFOLIO CHANGES during the Quarter

ADDITIONS

BT Investment Management	BTT
Reliance Worldwide	RWC

REMOVALS

Woolworths Limited	WOW
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STRUCTURE AND TERMS

Dividend Reinvestment Plan	Dividend Reinvestment Plan is an optional way of reinvesting dividends to acquire 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 - 1300 737 760 OR enquiries@boardroomlimited.com.au
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