



FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

DECEMBER 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

(Cents per share, fully franked)

AUD 0.0375 at 16 September 2016

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

Dominic M McGann
Chairman

Dr Emmanuel (Manny) C Pohl
Managing Director

Sophie A Mitchell
Independent

COMPANY SECRETARY

Brian Jones

COMPANY DETAILS

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OVERVIEW

Flagship's investments under-performed during the quarter as shown below with the Net Tangible Asset Value (NTA) closing at the end of December at 181.5 cents per share. During the past year the investment portfolio under-performed the market with the overall market boosted by a 43.5% increase in the materials sector over the past year and 7.4% in the quarter to December.

UNDERLYING PORTFOLIO PERFORMANCE

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.1%	-0.5%	3.4%	10.2%	17.3%
UBS Bank Bill Index	4.7%	0.4%	2.1%	2.4%	2.8%
ASX All Ordinaries	4.1%	3.5%	7.0%	2.2%	6.8%

[^] 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 TPG Telecom (ASX: TPM) to our portfolio. Our new position in TPM is driven by TPM's quality infrastructure network which has positioned them well to take advantage of the high margin corporate market as well as continuing to command a leading position in the consumer market. Despite the challenges presented by the NBN, we believe TPM, led by David Teoh, will continue to be able to provide strong growth in earnings over the long term through exploiting their network advantages and achieving market share gains in the corporate market and further expansion into mobile.

During the quarter, we exited from our long held position in Telstra Corporation (ASX: TLS) as we believe TLS has the most to lose from the shift towards the NBN and have the least ability to defend the declining margins in their consumer internet business given the large cost base in their business.

We also exited our position in Cover-More group (ASX: CVO) due to a cash bid for the business by Zurich Insurance at \$1.95 per share.

MARKET COMMENT AND OUTLOOK

It may long be remembered that 2016 was the year in which the effects of the GFC permeated into the political process, delivering Brexit and a Trump presidency. World markets recovered from the shock of the Brexit vote in late June as we saw lower bond yields, additional monetary stimulus and stable global economic data easing market concerns. Asset prices have proven to be highly sensitive to changes in these bond yields over the year as we have seen in sectors such as utilities, REITs and some consumer staples. Globally, economic growth has slowed as much of the world is in a maturing phase of the business cycle.

In Australia, the negative effects of the mining slowdown were still evident when, at year end, the Turnbull government downgraded their growth forecasts, giving rise to further criticism by political commentators of the Coalition government. The recovery in commodity price by year-end was the major driver of market performance providing cautious optimism for the remainder of the market in the coming year. Unemployment is low, however under-employment has been a growing issue with most job gains this year being attributed to temporary positions.

The All Ords posted modest gains of 3.5% this quarter while the Small Ords declined over the quarter posting -2.9%. Over the year these respective indexes posted +7.0% and +9.5%. The AUD suffered a minor depreciation against the USD, declining by 1.2% (72.0 US Cents) whilst appreciating against both the EUR and GBP at +2.0% (68.5 EU Cents) and +18.0% (58.4 UK Pence), respectively.

PORTFOLIO CHARACTERISTICS (as at 31 December 2016)

NTA (before tax on unrealized gains) – total	\$46,295,703
NTA (before tax on unrealized gains) – per share	181.5 cents
Concentration of the Top 20 Holdings	89.1%
Stocks in the underlying portfolio	27

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
- IPOs
- Revenue Growth
- Broker Ideas
- Interest cover
- 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

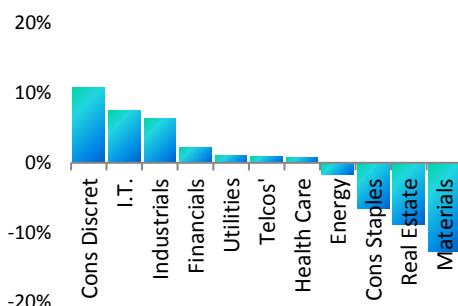
SECTOR BREAKDOWN

Financials	36.1%
Consumer Discretionary	16.9%
Industrials	13.4%
Information Technology	9.2%
Health Care	6.9%
Telecommunication Services	5.2%
Utilities	3.4%
Material	3.1%
Energy	3.0%
Cash and Equivalent	2.9%

TOP 10 STOCK HOLDINGS

Macquarie Group	9.2%
Commonwealth Bank	8.5%
Westpac Banking Corp	7.8%
REA Group	6.1%
TPG Telecom Limited	5.2%
BT Investment Management	5.2%
CSL Limited	4.8%
SEEK	4.4%
Carsales.Com	4.1%
Domino Pizza Enterprises	3.7%

ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



PORTFOLIO CHANGES during the Quarter

ADDITIONS

TPG Telecom	TPM
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REMOVALS

Telstra Corporation	TLS
Cover-More Group Ltd	CVO

ACTIVELY PROMOTING THE COMPANY

Flagship Investments (FSI) is committed to growing the Company and promoting itself to investors, financial advisers and stockbrokers.

In January FSI will be presenting to brokers and financial advisers in Sydney. In March FSI will be participating in the Australian Investors Association Investment Summit in Sydney, as well as undertaking presentations to Shareholders and investors across Australia. Interested parties can contact the Company through contact@flagshipinvestments.com.au for further information about these and other events.

If you would like us to present at your investor function or to visit your office, please contact either us through contact@flagshipinvestments.com.au or +61 7 5644 4405.

VISIT THE WEBSITE

The Company has a website which has additional information about FSI and links to all Announcements and Reports. The address is www.flagshipinvestments.com.au

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 of Nil (the management fee comprises only a performance fee) Performance fee of 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