

# FLAGSHIP INVESTMENTS LIMITED

## SHAREHOLDERS' QUARTERLY REPORT

MARCH 2019

### 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)

4.00 cps paid on 01 March 2019

4.00 cps paid on 07 September 2018

3.75 cps paid on 13 March 2018

3.75 cps paid on 13 September 2017

### COUNTRY WHERE LISTED

Australian Securities Exchange:  
December 2000

### STOCK EXCHANGE CODE

ASX: FSI

### RATINGS

- Independent Investment Research – Recommended<sup>1</sup>

### DIRECTORS

Dominic M McGann

*Chairman*

Dr Emmanuel (Manny) C Pohl

*Managing Director*

Sophie A Mitchell

*Independent*

### COMPANY SECRETARY

Scott Barrett

### COMPANY DETAILS

Flagship Investments Limited

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AUSTRALIA

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### OVERVIEW

During the quarter the Flagship Investments Limited (ASX: FSI) share price largely remained flat, posting +0.3%, compared to the All Ordinaries Index of +9.7%. Note, the share price performance on a rolling 12-month basis maintains material out performance.

When looking at the underlying portfolio, the Company Net Tangible Asset Value (NTA), as at 31 March 2019 (before estimated tax on unrealised gains) closed at 202.1 cents per share. The NTA grew by +13.2% over the quarter. The share price at 165.5 cents per share represents an excellent potential investment opportunity for Shareholders.

### UNDERLYING PORTFOLIO PERFORMANCE

	3 months	1 year	3 years p.a.	5 years p.a.	10 years p.a.	Since Inception (1 May 1998) p.a.
Portfolio <sup>^</sup>	16.3%	21.4%	14.0%	11.0%	15.0%	12.4%
Bloomberg Bank Bill Index	0.5%	2.0%	1.9%	2.1%	3.0%	4.4%
ASX All Ordinaries	9.7%	6.7%	6.7%	3.0%	5.9%	4.1%

<sup>^</sup> 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, there were no companies added or removed from our model portfolio. The reporting season proved to be particularly strong for our portfolio companies (on the whole) as the companies were able to beat expectations. Despite this, we note that our forecast portfolio internal rate of return (IRR) has reduced slightly, which appears in line with global commentary of slowing economic growth.

### MARKET COMMENT AND OUTLOOK

Equity markets rebounded in the first quarter as concerns from the US-China trade dispute eased and major central banks around the world appeared to be more accommodating to the low-growth environment and in some quarters, even though threats of tariff imposition are frowned upon, ardent critics have conceded that the President's strategy may have worked. Nevertheless, political noise continued to be prevalent, the notable events of Brexit look to continue without promise, and the "witch-hunt" of President Trump didn't find evidence of collusion. We can only expect geopolitical news flow to continue to impact markets going forward.

In the US, the Fed adopted a dovish stance concerning adjustments to planned interest hikes in an attempt to compensate for slowing economic momentum. The trade tensions with China seem to be abating with a resolution to the dispute between the countries increasingly seems likely, and by quarter-end, the Fed's lowering of expectations for growth and inflation caused the Treasury yield curve to invert – a signal that is usually followed by a recession. In Europe, the Central Bank stepped away from tighter monetary policies which saw strong gains across the board. The ongoing Brexit chaos didn't appear to hold back UK equities, with the market performing in line with global equities, and Theresa May's plan was defeated by a near historic margin (432 against, 202 for). The UK economy continues to suffer the effects of the process as the uncertainty weighed on business investment.

In Australia, an improvement in commodity prices saw the economy improve ahead of expectations. The turmoil of the Liberal party continued with some key resignations and the ongoing gender saga creating further instability within the ranks. Surprisingly, the NSW Liberal party held onto power despite the Nationals losing significant power across the state. The RBA has kept the cash rate unchanged, with some commentators wondering if we may see a cut later this year. The housing market continues to decline, and our construction activity continues to taper off. The key concerns remain on the 'wealth effect' and the potential that our property woes spill over into the broader economy. Despite this, the ASX All Ords posted +9.7% for the quarter, and the Small Ordinaries was up 11.7%, respectively.

The AUD saw a mixed bag of performance against the other major currencies with the AUD posting +0.6% against the US Dollar, reaching 71.0 cents, -1.5% against the Pound (54.5 pence), and +2.9% against the Euro (63.3 cents), by quarter-end.

### PORTFOLIO CHARACTERISTICS (as at 31 March 2019)

NTA (before tax on unrealised gains) – total	\$51,538,100
NTA (before tax on unrealised gains) – per share	202.1 cents
Concentration of the Top 20 Holdings	78.1%
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
- 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

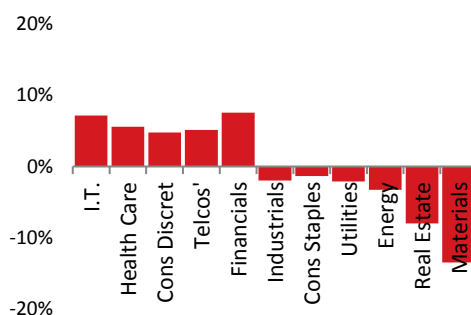
## SECTOR BREAKDOWN

Financials	33.4%
Health Care	12.6%
Consumer Discretionary	10.9%
Information Technology	9.4%
Telecommunication Services	8.7%
Cash	7.4%
Industrials	6.4%
Materials	4.7%
Consumer Staples	3.8%
Energy	2.7%
Utilities	0.0%

## TOP 10 STOCK HOLDINGS

Macquarie Group	6.5%
Magellan Financial Group	5.9%
Pendal Group	5.6%
SEEK Limited	5.4%
Westpac Banking Corporation	4.8%
Rio Tinto Limited	4.7%
Commonwealth Bank	4.5%
CSL Limited	4.2%
Carslaes.com	3.9%
HUB24 Ltd	3.8%

## ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



## PORTFOLIO CHANGES during the Quarter

### ADDITIONS

No additions to the Portfolio

### REMOVALS

No removals from the Portfolio

## ACTIVELY PROMOTING THE COMPANY

Flagship Investments Limited (FSI) (the Company) is committed to growing the Company and promoting itself to Investors, Financial Advisers, Stockbrokers and Investor Associations across Australia.

During the quarter the Company continued an active presence meeting with Brokers, Advisers and Shareholders in various cities. It also participated as exhibitor at the Australian Investors Association "Back to the Future" investment summit in Sydney as well as at various other Investor presentations and exhibitions. In the coming quarter the Company will be present at the Australian Shareholders Association National Conference in Melbourne.

For further information about these and other events, please contact the Company on +61 7 5644 4405 or toll-free 1800 352 474, or through the website [contact@flagshipinvestments.com.au](mailto:contact@flagshipinvestments.com.au) - including if you would like us to present at your investor function or to visit your office.

## VISIT THE WEBSITE

The Company has a website which has additional information about FSI and links to Announcements and Reports. The address is [www.flagshipinvestments.com.au](http://www.flagshipinvestments.com.au)

## STRUCTURE AND TERMS

Dividend Reinvestment Plan	Dividend Reinvestment Plan (DRP) is an optional way of reinvesting dividends to acquire additional shares. When new shares are issued under the DRP, they are 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 Bloomberg Bank Bill Index (formerly called UBS Bank Bill Index).
MER	0.0%
Reporting and Correspondence	Monthly Net Tangible Asset Values on <a href="http://www.asx.com.au">www.asx.com.au</a> and Quarterly Reports, Half-Yearly and Annual Reports on <a href="http://www.flagshipinvestments.com.au">www.flagshipinvestments.com.au</a>
Auditor	WPIAS Pty Ltd
Registry	Boardroom Pty Limited - <b>1300 737 760</b> OR <a href="mailto:enquiries@boardroomlimited.com.au">enquiries@boardroomlimited.com.au</a>
Share price and NTA	<a href="http://www.flagshipinvestments.com.au">www.flagshipinvestments.com.au</a> and <a href="http://www.asx.com.au">www.asx.com.au</a>

<sup>1</sup> 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](http://www.independentresearch.com.au)