



# FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

JUNE 2017

## 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 0.035 at 07 April 2017

AUD 0.0375 at 16 September 2016

AUD 0.035 at 07 April 2016

## COUNTRIES 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

Brian Jones

## COMPANY DETAILS

Flagship Investments Limited  
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2 Corporate Court  
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## OVERVIEW

Flagship's investments substantially out-performed during the quarter as shown below with the Net Tangible Asset Value (NTA) closing at the end of June at 182.9 cents per share. During the past year and during a difficult period for active managers, the investment portfolio has marginally under-performed the All Ordinaries Index, although still maintaining a stellar long-term track record.

## UNDERLYING PORTFOLIO PERFORMANCE

	Since Inception (May 1998) p.a.	3 months	1 year	3 years p.a.	5 years p.a.
Portfolio <sup>^</sup>	12.0%	2.4%	8.0%	8.9%	16.7%
Bloomberg Bank Bill Index	4.6%	0.4%	1.8%	2.2%	2.5%
ASX All Ordinaries	4.0%	-2.4%	8.5%	2.3%	6.9%

<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 we added both ARB Corporation (ARB) and Cochlear (COH) to the portfolio and we removed Sirtex (SRX). ARB was added back to the portfolio in May after being sold earlier in the year. ARB is a high quality business with good growth options and a sustainable competitive advantage in the products and markets that it operates in. COH is one of the larger companies within the index and is also a high quality growth business with a strong sustainable competitive advantage around its implant products. We included the stock into the portfolio in April after a detailed research process. Shortly after its inclusion, the FDA in the US approved the release of the latest implant product upgrade (Nucleus 7), which added to the stocks already positive momentum. During the quarter we exited the SRX investment following the dismissal of the Group CEO, after he sold shares before a material downgrade, and which was followed by the departure of its Chief Medical Officer. Given the circumstances surrounding the CEO's dismissal, it was deemed that SRX was no longer investment grade, therefore not suitable for inclusion in the portfolio.

## MARKET COMMENT AND OUTLOOK

Global markets produced a range of results over the quarter with both political and economic events continuing to influence outcomes. The US market remained strong with the S&P 500 up 2.6% and the NASDAQ up 3.9% - both close to record highs on the back of a growing US economy.

In Europe, the economy continues to show signs of improvement, with unemployment steadily declining from previous highs. While the European recovery looks healthier than it has been historically, a range of political events have caused volatility in the markets. The French elections produced a surprising result with Macron's party taking a comfortable victory in May. Conversely, in the UK, the Conservatives lost their majority generating more uncertainty for that country and consequently the UK market was down 0.1% for the quarter. Germany was relatively stable with the DAX up only 0.1%.

Markets in Australia were generally down for the June quarter. The fall in banks and the decline in the price for most commodities drove overall performance down and this was best seen in the ASX 20 index which was down 5.1% and ASX 200 was down 2.5%. The All Ords posted a decline of 2.4% this quarter, while the Small Ords posted a negligible decline of 0.8%.

In Australia, the RBA announced that they would hold the cash rate at 1.5% which resulted in the AUD depreciating against most currencies. The AUD appreciated by 0.7% against the USD (76.87 US Cents) and declined against the EUR and GBP at 5.9% (67.3 EU Cents) and 3.0% (59.0 UK Pence) respectively.

## PORTFOLIO CHARACTERISTICS (as at 30 June 2017)

NTA (before tax on unrealized gains) – total	\$46,639,651.39
NTA (before tax on unrealized gains) – per share	182.9 cents
Concentration of the Top 20 Holdings	87.66%
Stocks in the underlying portfolio	28

## FUND MANAGER

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[www.ecpohl.com](http://www.ecpohl.com)

## 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

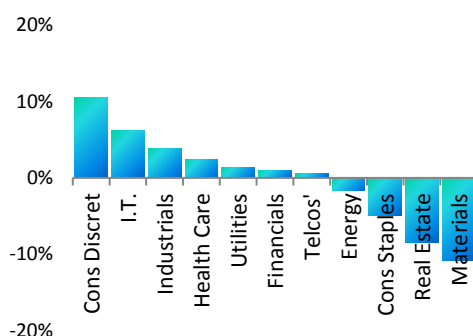
## SECTOR BREAKDOWN

Financials	34.7%
Consumer Discretionary	16.9%
Industrials	11.9%
Health Care	9.8%
Information Technology	8.1%
Materials	5.0%
Telecommunication Services	4.3%
Utilities	3.6%
Energy	2.9%
Consumer Staples	1.9%
Cash	1.1%

## TOP 10 STOCK HOLDINGS

Macquarie Group	7.5%
Westpac Banking Corp	7.1%
Commonwealth Bank	7.0%
CSL Limited	6.5%
REA Group	5.4%
Magellan Financial Group Ltd	5.3%
Rio Tinto Limited	5.0%
IPH Limited	4.9%
SEEK Limited	4.9%
TPG Telecom Limited	4.3%

## ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



## PORTFOLIO CHANGES during the Quarter

### ADDITIONS

ARB Corporation	ARB
Cochlear Limited	COH

### REMOVALS

Sirtex Medical	SRX
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## ACTIVELY PROMOTING THE COMPANY

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

The Company continues its active engagement program in the June quarter through broker roadshows presentations in various capital cities including at the Australian Shareholders Association Annual conference in Melbourne in May. In the coming quarter Dr Emmanuel Pohl, MD of FSI will be presenting at the Australian Investors Association National conference in the Gold Coast. In addition to this, representatives of the Company will be meeting with Shareholders, brokers and other investment professionals in Brisbane, Sydney, Melbourne, Adelaide and Perth.

Please contact the Company for further information about these and other events through [contact@flagshipinvestments.com.au](mailto:contact@flagshipinvestments.com.au) or +61 7 5644 4405 or toll-free 1800 352 474, 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 all Announcements and Reports. The address is [www.flagshipinvestments.com.au](http://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 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.flagshipinvestments.com.au">www.flagshipinvestments.com.au</a> and <a href="http://www.asx.com.au">www.asx.com.au</a> also Quarterly Reports, Half-Yearly and Annual Reports
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)