

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

MARCH 2014

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 27 September 2013

AUD 0.0325 at 11 April 2014

COUNTRIES WHERE LISTED

Australian Securities Exchange:
December 2000

STOCK EXCHANGE CODE

ASX: FSI (formerly HIP)

RATINGS

- Independent Investment Research
– Recommended¹

DIRECTORS

Henry R Smerdon AM
Chairman

Dr Emmanuel (Manny) C Pohl
Managing Director

Patrick Corrigan AM

Dominic M McGann

Sophie A Mitchell

COMPANY DETAILS

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OVERVIEW

Following the positive returns reported in the December quarter, Flagship Investments underlying portfolio had an excellent reporting season, handsomely outperforming the market during the quarter. It returned 8.3% versus the All Ordinaries Index return of 0.9% and a return from cash of 0.6%. By comparison, the share price increased by 7.4% over the quarter.

UNDERLYING PORTFOLIO PERFORMANCE (as at 31 March 2014)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.8%	8.3%	24.5%	14.3%	19.1%
UBS Bank Bill Index	5.1%	0.6%	2.8%	3.7%	3.9%
ASX All Ordinaries	4.4%	0.9%	8.5%	3.1%	8.9%

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

During the March quarter the entire holding in Recall and Sydney Airports, which we received as a result of corporate action by Brambles and Macquarie respectively, was sold from the portfolio. Cash levels were increased to 6% of the portfolio with material changes in our exposure to Bendigo and Adelaide Bank, Carsales.com, IRESS, Navitas, Telstra and Woolworths. Some of the cash generated was used to affect some minor increases in our exposures with material increases in our exposure to Rio and Bigair.

OUTLOOK

The Australian market continued its upward trend during the quarter, driven by a more positive outlook for an economy that seems on its way to a successful transition from the resources 'capex cliff' to an East Coast recovery. The All Ordinaries Index posted an improvement of 0.9% over the quarter with the IT sector the best performer at 5.3%, followed by the Utilities sector and the Financial sector with 3.2% and 2.8% increases respectively. The AUD has strengthened against the USD during the quarter, increasing by 3.9%.

At the start of the new year it is clear that we have a global landscape complicated by the divergence in economic policy. The US is leading the world's economic recovery with Europe pre-occupied with banking reform, Japan struggling with their tight fiscal constraints while China has begun reforming its own economy. The major driver in economic performance in the US has been the significant advances made in their Energy sector; Hydraulic fracking, which made the extraction of oil and gas from shale rock possible, has become commercially viable and is very profitable. This has led to the idea that the US may be energy independent in the near future.

The international markets saw minimal improvement during the quarter with the MSCI index posting a modest 0.8% improvement. This quarter's performance of the US S&P500 index saw an increase of 1.3%. By comparison the Dow Jones Industrial Average saw a small decline of 0.7%, following the previous quarter's biggest annual gain.

While we still do not see any improvement in the P/E ratings from current levels, the short-term financial metrics for the companies in the portfolio, including organic sales growth, earnings and dividend growth, should provide the impetus for an improvement in valuations.

PORTFOLIO CHARACTERISTICS (as at 31 March 2014)

NAV (tax on realized gains only) – total	\$42,755,061
NAV (tax on realized gains only) – per share	177.5 cents
Concentration of the Top 20 Holdings	86.12%
Stocks in the underlying portfolio	28

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

SECTOR BREAKDOWN (as at 31 March 2014)

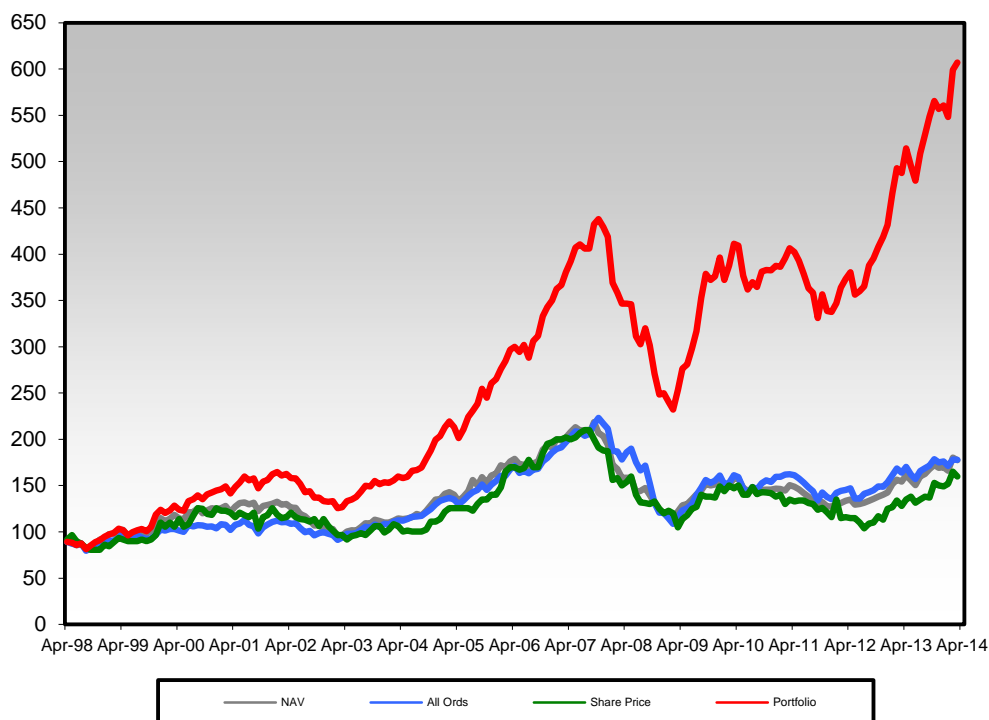
Financials	27.76%
Industrials	14.59%
Consumer Discretionary	14.42%
Materials	10.86%
Information Technology	8.27%
Telecommunication Services	8.09%
Cash and Equivalent	5.83%
Consumer Staples	4.03%
Energy	3.72%
Health Care	2.45%

TOP 5 STOCK HOLDINGS (as at 31 March 2014)

SEEK	11.16%
Commonwealth Bank of Australia	7.05%
Carsales.com	6.22%
Telstra Corporation	6.00%
REA Group	5.92%

SHARE PRICE (as at 31 March 2014)

(after adjusting for the rights issue)



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 Asset Value prices on www.flagshipinvestments.com.au and www.asx.com.au also quarterly reports, half-yearly and annual reports
Auditor	BDO Audit Pty Ltd
Registry	Computershare Investor Services Pty Limited
Share price and NAV	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