

FLAGSHIP INVESTMENTS LIMITED

OCTOBER 2012 UPDATE

SHAREHOLDERS' QUARTERLY REPORT

OBJECTIVE

Long-term capital growth and income

STRATEGY

High-conviction portfolio of quality Australian listed equities from a research driven, bottom-up investment philosophy

LISTED

December 2000

COUNTRIES WHERE LISTED

Australian Securities Exchange

ASX CODE

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

Flagship Investments Limited's underlying portfolio outperformed its benchmark during the quarter. It returned 9.7% versus the All Ordinaries Index return of 6.6%. In comparison, the share price of the Company was unchanged over the quarter.

UNDERLYING PORTFOLIO PERFORMANCE (as at 30 September 2012)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	10.9	9.7	19.3	1.4	-1.8
UBS Bank Bill Index	5.4	0.9	4.4	4.6	5.1
ASX All Ordinaries	3.5	6.6	8.3	2.4	-7.7

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

During the September quarter, two new companies ARB Corporation Limited (ARB) and Trade Me Group Limited (TME) were added to the portfolio. ARB Corporation Limited manufactures, distributes and sells four-wheel drive vehicle accessories and light metal engineering works in Australia, USA and Thailand AND has an export network through more than 100 countries around the globe. Trade Me Group Limited is the dominant player in the New Zealand online classifieds business.

The reporting season is now over and, while economic news over the past six months has been mixed, the investment portfolios performed extremely well and more especially over the last quarter. This was due to the excellent results reported by companies in the portfolio during the current reporting season with a 5% increase in the cash dividends received by the portfolio. This reflected the strong cash flows inherent in their businesses and hence the resilience of the business model in a very tough economic environment.

OUTLOOK

The short-term financial metrics that the companies in the portfolio produced during the reporting season were solid and positive despite several macro related headwinds including a high Australian dollar, the low level of consumer confidence and increased equity market volatility. The difficult macro conditions that our companies have faced in recent years will normalize in the long-term and provide a one off boost to earnings growth at some stage in the future. In the meantime, the organic sales, earnings and dividend growth that the portfolio has been producing should continue to drive valuations higher.

PORTFOLIO CHARACTERISTICS (as at 30 September 2012)

NAV (tax on realized gains only) – total	\$32,897,164
NAV (tax on realized gains only) – per share	135.5 cents
Concentration of the Top 20 Holdings	92.66%
Stocks in the underlying portfolio	25

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

- 5 Year Risk Adjusted Total Return
- Top Down Cash Analysis

HIGH CONVICTION PORTFOLIO OF COMPANIES

This process is the basis for all our Australian equities investment decisions.

SECTOR BREAKDOWN (as at 30 September 2012)

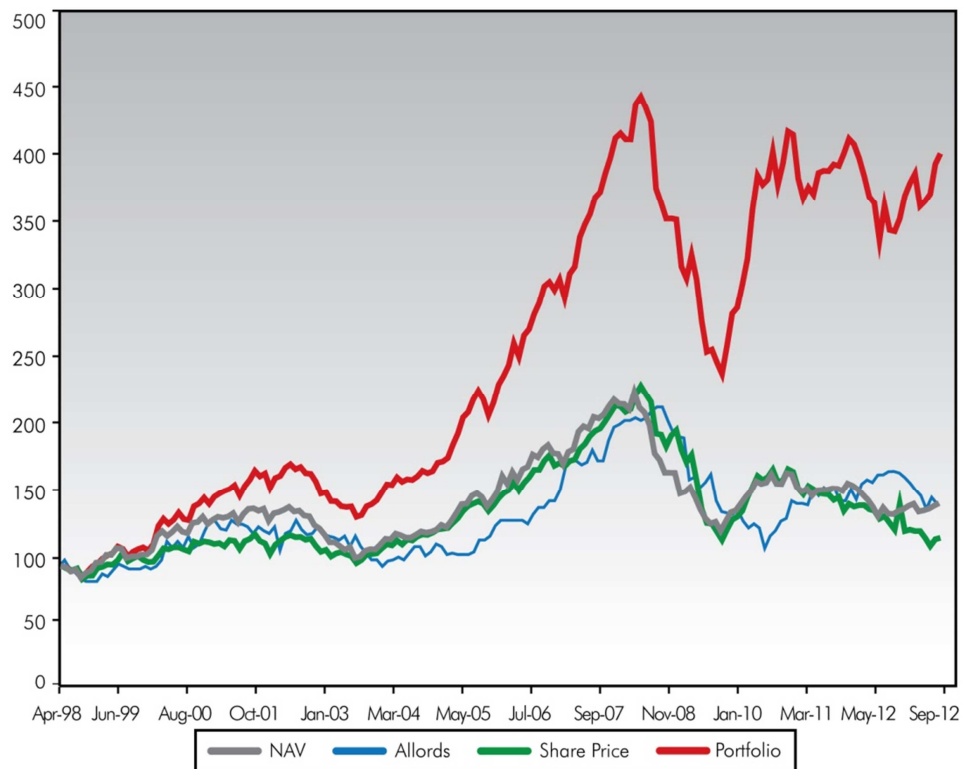
Financials	28.37%
Consumer Discretionary	19.16%
Information Technology	11.44%
Materials	10.83%
Industrials	9.24%
Consumer Staples	7.19%
Energy	6.76%
Health Care	5.67%
Cash and Equivalent	1.34%

TOP 5 STOCK HOLDINGS (as at 30 September 2012)

Commonwealth Bank of Australia	7.27%
Woolworths	7.19%
Carsales.com	6.78%
SEEK	6.67%
BHP Billiton	5.82%

SHARE PRICE (as at 30 September 2012)

(after adjusting for the rights issue)



STRUCTURE AND TERMS

Legal Domicile	Australian Securities Exchange (ASX) Listed Investment Company (LIC)	
Fees	Management fee – Nil (2011/2012) 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	
Dividend Information	AUD 0.03 at 10 May 2012	AUD 0.03 at 12 October 2012
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