



FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

SEPTEMBER 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 0.0375 at 13 September 2017

AUD 0.035 at 07 April 2017

AUD 0.0375 at 16 September 2016

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 out-performed the market during the quarter as shown below with the Net Tangible Asset Value (NTA) (before estimated tax on unrealised gains) closing at the end of September at 177.0 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 exceeding the return on cash and 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 [^]	11.8%	0.1%	3.8%	8.7%	14.6%
Bloomberg Bank Bill Index	4.6%	0.4%	1.8%	2.2%	2.4%
ASX All Ordinaries	3.9%	-0.3%	4.0%	2.7%	5.5%

[^] 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 Corporate Travel (CTD) to the portfolio. CTD is a corporate travel provider to the SME market, both domestically and abroad. They uniquely focus on ROI outcomes for the customer which has been a key driver of their success historically. We expect that the historical growth profile of the business to continue through our investment horizon, with the key risks to our investment thesis playing out being - 1. Jamie Pherous leaving, 2. Poorly executed acquisition integration, 3. Macro Events which impact travel, and 4. Technology Changes that may enable companies to process their bookings on their own. While key man risk is an issue, Jamie is focussed on ensuring adequate succession planning and has been building a strong senior management team. While macro events may impact international travel, domestic travel is less impacted, and this makes up a significant volume of their TTV. Technology, as always, presents risks and opportunities. Currently we view CTD's technology as a tool that aids contract wins and provides efficiency in its business however, importantly, we do not identify technology as its Sustainable Competitive Advantage. In our view, the real secret to corporate travel is the help they provide to companies to manage cost control and measure the return on its investment.

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 3.96% and the NASDAQ up 5.79% - both close to record highs. While the political environment remains as uncertain as ever, the market continues to react favourably to the policies of the Trump Administration and the threat of interest rate hikes only confirms the fact that the economy is growing. In Europe, momentum is slowly building and confidence is somewhat returning to the market. There are still plenty of structural issues that need to be dealt with but the recent reappointment of the Merkel Administration helped to drive confidence in the German market with the DAX up 4.09% for the quarter in local currency terms (up 7.64% in USD terms). France was also more stable as the Macron Administration sets about the large task of trying to reform the French economy. The CAC was also up 4.08% in local currency terms (up 7.64% in USD terms).

The ASX All Ordinaries Index was down 0.33% during the September quarter. The weakness during the quarter was driven by several sectors but the Telecommunications Sector was the largest underperformer with the sector down 18.59% for the quarter. The Utilities Sector was down 7.21% given concerns on interest rates and the Healthcare sector, which is dominated by USD exposures was down 6.10%. The ASX Small Caps index was up 3.20% driven by the Small Resources which was up 12.16%.

The AUD appreciated by 1.9% against the USD (78.35 US Cents), declined by 1.5% against the EUR (66.3 EU Cents) and by 0.9% against the GBP (58.49 UK Pence).

PORTFOLIO CHARACTERISTICS (as at 30 September 2017)

NTA (before tax on unrealized gains) – total	\$45,091,562
NTA (before tax on unrealized gains) – per share	177.0 cents
Concentration of the Top 20 Holdings	85.59%
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

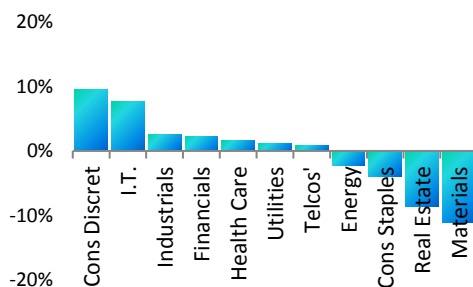
SECTOR BREAKDOWN

Financials	35.8%
Consumer Discretionary	16.0%
Industrials	10.7%
Information Technology	9.7%
Health Care	8.6%
Materials	5.4%
Telecommunication Services	3.8%
Utilities	3.4%
Consumer Staples	3.0%
Energy	2.9%
Cash	0.7%

TOP 10 STOCK HOLDINGS

Macquarie Group	8.0%
Westpac Banking Corp	7.7%
Commonwealth Bank	6.6%
Rio Tinto Limited	5.4%
CSL Limited	5.2%
IPH Limited	4.8%
Magellan Financial Group Ltd	4.7%
Carsales.Com Ltd	4.6%
Domino's Pizza Enterprises	3.8%
TPG Telecom Limited	3.8%

ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



PORTFOLIO CHANGES during the Quarter

ADDITIONS

Corporate Travel Limited CTD

REMOVALS

None

ACTIVELY PROMOTING THE COMPANY

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

Amongst events the Company participated in during the September quarter, Dr Emmanuel (Manny) Pohl, MD of FSI, presented at the Australian Investors Association National Conference at the Gold Coast, where the Company was an event participant and exhibitor.

The Company continues its active engagement program in the September quarter through broker roadshows presentations in various capital cities including at the Australian Securities Exchange /Australian Shareholders Association (ASX/ASA) Investor Education Days in Sydney, Melbourne, Adelaide, Perth and Gold Coast, where Dr Pohl will be speaking. Dr Pohl will also be a key speaker and the Company will be an exhibitor at the Switzer Listed Investment Company conference in Melbourne in October.

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, 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

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 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