

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

DECEMBER 2015

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 02 April 2015

AUD 0.0375 at 11 September 2015

COUNTRIES WHERE LISTED

Australian Securities Exchange:
December 2000

STOCK EXCHANGE CODE

ASX: FSI

RATINGS

• Independent Investment Research
– Recommended¹

DIRECTORS

Henry R Smerdon AM
Chairman

Dr Emmanuel (Manny) C Pohl
Managing Director

Dominic M McGann

Sophie A Mitchell

COMPANY DETAILS

Flagship Investments Limited

ABN 99 080 135 913

Level 12, Corporate Centre One

2 Corporate Court

BUNDALL QLD 4217

AUSTRALIA

1800 FLAGSHIP 1800 352 474

Tel: +61 7 5644 4405

Fax: +61 7 5574 1457

Email:

contact@flagshipinvestments.com.au

www.flagshipinvestments.com.au

OVERVIEW

Flagship's investments performed strongly during the quarter as shown below with the NAV closing at the end of December at 185.5 cents per share. During the past year the investment portfolio performed better than the market, exceeding the All Ordinaries Index by 16.7%.

UNDERLYING PORTFOLIO PERFORMANCE (as at 31 December 2015)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.6%	14.4%	15.9%	18.9%	13.4%
UBS Bank Bill Index	4.9%	0.5%	2.3%	2.6%	3.4%
ASX All Ordinaries	3.9%	5.7%	-0.8%	4.6%	2.0%

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

FSI added two new positions over the quarter: Baby Bunting Group Ltd (ASX: BBN) and PWR Holdings Limited (ASX: PWH). BBN listed during the quarter and is Australia's largest nursery retailer and one-stop-baby shop – 'The Bunnings for Babies' – it is a specialist retailer catering to parents with children from newborn to 3 years of age. PWH is an end-to-end bespoke product design and implementation business that manufactures high-performance auto car cooling systems. PWH operates in a niche part of the industry and only provides this service to high performance motor sports and high end production vehicles. During the quarter we decided to sell our position in Navitas Limited (ASX: NVT).

MARKET COMMENT AND OUTLOOK

2015 has been a particularly eventful year for investors with aggressive quantitative easing (QE) by the European Central Bank (ECB), a spike in bond yields, the Greek debt drama, raised concerns over Chinese economic growth, political upheaval in the middle east and the slump in the oil price. Furthermore, monetary policy divergence was evident in December when, within two weeks of each other, the ECB provided more stimulus and lowered interest rates into negative territory and committed to extending its QE program into 2017, while the US Federal Reserve (the Fed) decided to head in the opposite direction, increasing interest rates by 25 basis points for the first time since 2006. 2015 was the fifth consecutive year of negative commodity price returns and spreads over Treasuries moved significantly higher than the historical average.

Employment conditions in the US continued to improve, giving rise to the prospect of U.S. monetary policy normalization and a strengthening of the U.S. dollar in 2015 and the December interest rate rise by the Fed brought an end to the period of low interest rate policy. During the December quarter the S&P500 improved by +6.45% reducing the overall decline over the calendar year to -0.73%; the NASDAQ posted an increase of +8.38% and +5.73% over the same respective periods and the Dow Jones Index was the worst performer, closing the year with a decline of 2.23%.

Europe's economy remained relatively stagnant over the year, struggling with low inflation, large numbers of refugees and political turmoil with member-states. As the markets rallied through to year-end, the German DAX posted a +11.21% improvement during the quarter; the FTSE posted a +2.98% increase while the EUR gained +3.00% against the USD.

China's transition from heavy industrial investment toward a greater service orientation, raised concerns about economic growth and policy stability resulting in a currency devaluation and volatile equity markets. Japan, on the other hand, has continued with their QE and corporate profits have been growing despite a lackluster economic recovery. The Shanghai Index and the NIKKEI posted similar returns for the year of +9.41% and +9.07%, respectively.

There was a +3.89% improvement in the AUDUSD exchange rate during the final quarter of 2015 which tempered the decline during the year to 10.70% which was the second largest devaluation since 2008. The All Ordinaries Index posted a modest improvement of +5.65% during the quarter, reducing the decline in the All Ordinaries to 0.82% for the year.

FUND MANAGER

EC Pohl & Co Pty Ltd
 ABN 68 154 399 916
 Level 12, Corporate Centre One
 2 Corporate Court
 BUNDALL QLD 4217
 AUSTRALIA

PO BOX 7536
 GCMC BUNDALL QLD 9726
 AUSTRALIA

Tel: +61 7 5644 4405
 Fax: +61 7 5574 1457
 Email: flagship@ecpohl.com
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
- 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

PORTFOLIO CHARACTERISTICS (as at 31 December 2015)

NAV (tax on realized gains only) – total	\$47,002,060
NAV (tax on realized gains only) – per share	185.5 cents
Concentration of the Top 20 Holdings	82.7%
Stocks in the underlying portfolio	31

SECTOR BREAKDOWN (as at 31 December 2015)

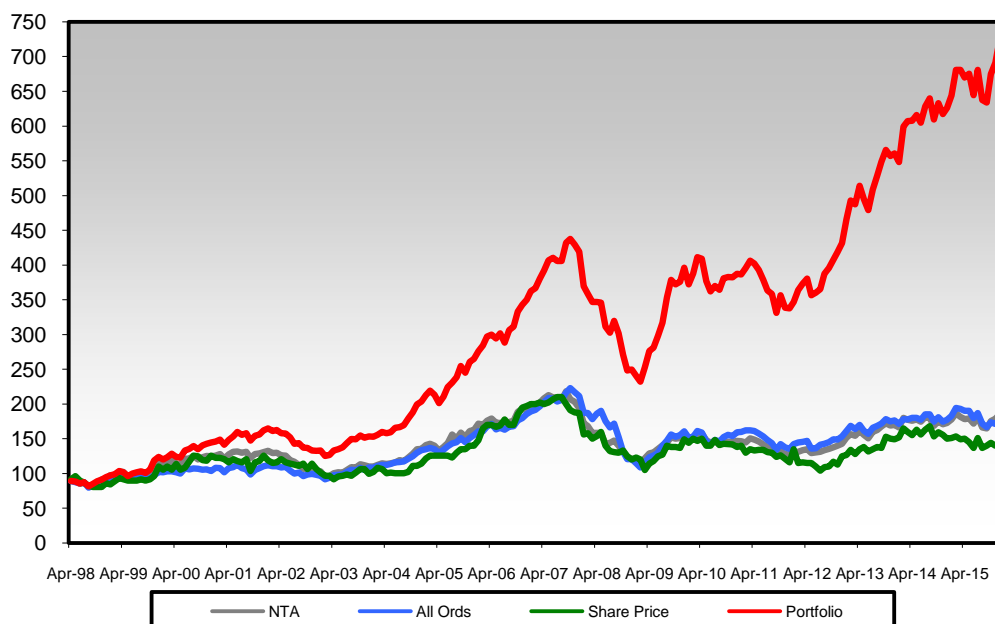
Financials	34.4%
Consumer Discretionary	17.5%
Industrials	9.9%
Information Technology	9.7%
Health Care	9.2%
Telecommunication Services	6.9%
Consumer Staples	3.5%
Cash and Equivalent	3.2%
Material	2.9%
Energy	2.8%

TOP 10 STOCK HOLDINGS (as at 31 December 2015)

Macquarie Group	8.6%
Commonwealth Bank	6.5%
REA Group	5.9%
Telstra	5.3%
Westpac Banking Corp	5.3%
CSL	5.0%
AMP	4.9%
Catapult Group	4.6%
Seek	4.4%
Carsales.Com	4.1%

SHARE PRICE (as at 31 December 2015)

(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	WPIAS Pty Ltd
Registry	Boardroom 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