

# FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

DECEMBER 2018

## 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)

4.00 cps paid on 07 September 2018

3.75 cps paid on 13 March 2018

3.75 cps paid on 13 September 2017

3.50 cps paid on 07 April 2017

## COUNTRY 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

Scott Barrett

## COMPANY DETAILS

Flagship Investments Limited  
ABN 99 080 135 913  
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2 Corporate Court  
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AUSTRALIA

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www.flagshipinvestments.com.au

## OVERVIEW

During the quarter the Flagship Investments Limited (ASX: FSI) investment portfolio reversed the prior quarters gains, delivering a total return for the calendar year of 1.1%, significantly outperforming the All Ordinaries Index, which generated a loss of 7.4%. Over the past 12 months the portfolio has successfully maintained 20-year track record of outperformance of 8.0% as shown below.

At 31 December 2018, the Company Net Tangible Asset Value (NTA) (before estimated tax on unrealised gains) closed at 178.6 cents per share, with the Share Price of 165 cents per share representing an excellent potential investment opportunity for Shareholders.

## UNDERLYING PORTFOLIO PERFORMANCE

	3 months	1 year	3 years p.a.	5 years p.a.	10 years p.a.	Since Inception (1 May 1998) p.a.
Portfolio <sup>^</sup>	-12.1%	1.1%	6.6%	9.4%	13.4%	11.7%
Bloomberg Bank Bill Index	0.5%	1.9%	1.9%	2.2%	3.1%	4.4%
ASX All Ordinaries	-9.7%	-7.4%	2.2%	1.3%	4.6%	3.7%

<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 back ResMed (ASX: RMD) and WiseTech Global (ASX: WTC) into the portfolio. Previously, the two companies, while still highly rated as investment grade, were sold due to their excessive valuation. Recent market movements provided us with an attractive price to re-purchase the stock. In contrast, we sold Integrated Research Limited (ASX: IRI). While our investment thesis remained intact, recent departures of the Chairman, CEO, and Head of the Americas has meant our process requires an immediate sell of the position.

## MARKET COMMENT AND OUTLOOK

As 2018 has drawn to a close, we reflect upon a bitter-sweet year where the world economy looked to be in good health yet heading toward more challenging times. The outlook is now tempered by continuing trade tensions, slowing Chinese growth, monetary policy normalisation, and further geopolitical noise. Around the world, we have seen a continued divide amongst communities as the global liberal order continues to be challenged. This year has seen some of the most influential technology companies subject to the widespread crisis, the effects of climate change are increasingly prevalent, generational inequality has led to political turmoil, and more so than ever, sustainability is becoming a prerequisite for success.

During the quarter, the US midterm elections resulted in the Republicans losing a majority in the house of representatives, which may lead to tempered growth stemming from a gridlocked Congress. Financial markets suffered significant declines despite the underlying momentum from strong consumption and extended corporate investment. European markets were mixed as EU economic growth slowed and Angela Merkel announced her ambitions to step-down. UK economic growth slowed with the continued uncertainty over Brexit. In Asia, the flow on effect from the US-China trade war is being felt with many regional economies slowing and China appears to be suffering from the effects of their moderating economic growth.

In Australia, continued political, economic, and social upheaval fostered further uncertainty and has tempered expectations for growth. Further disorder within the Liberal Party has meant continued volatility, despite Prime Minister Scott Morrison's best efforts. The Royal Commission has laid bare gross dissatisfaction with the banks and some of our largest companies. The cash rate has remained at 1.5% since 2016. The ASX All Ords posted -9.7% for the quarter and -7.4% for the year while the Small Ordinaries was down 14.2% and 11.3%, respectively.

Turning to the AUD, we have seen our currency weaken against all major currencies this year as the housing market downturn began to weigh on the broader economy. During the year, the AUD depreciated by 9.6% against a strong US Dollar, reaching 70.5 US cents, with declines of 4.2% against the Pound (55.3 pence), and 5.4% against the Euro (61.5 cents), respectively.

## PORTFOLIO CHARACTERISTICS (as at 31 December 2018)

NTA (before tax on unrealised gains) – total	\$45,553,746
NTA (before tax on unrealised gains) – per share	178.6 cents
Concentration of the Top 20 Holdings	79.1%
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

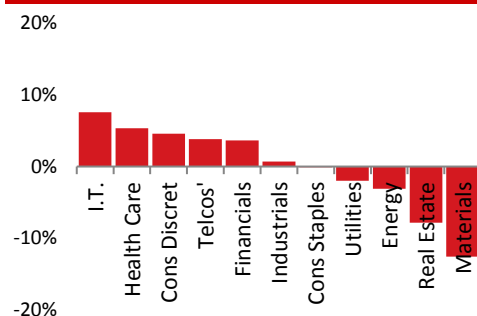
## SECTOR BREAKDOWN

Financials	31.9%
Health Care	13.2%
Consumer Discretionary	11.0%
Information Technology	9.7%
Industrials	9.0%
Telecommunication Services	7.6%
Consumer Staples	5.3%
Materials	4.9%
Cash	4.6%
Energy	2.8%
Utilities	0.0%

## TOP 10 STOCK HOLDINGS

Macquarie Group	6.1%
Pendal Group	5.5%
Commonwealth Bank	5.2%
Rio Tinto Limited	4.9%
SEEK Limited	4.6%
CSL Limited	4.6%
IPH Limited	4.5%
Magellan Financial Group	4.3%
Westpac Banking Corporation	4.1%
The A2 Milk Company	4.1%

## ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



## PORTFOLIO CHANGES during the Quarter

### ADDITIONS

ResMed Inc	RMD
Wisetech Global Ltd	WTC

### REMOVALS

Integrated Research	IRI
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## ACTIVELY PROMOTING THE COMPANY

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

During the quarter the Company continued an active presence meeting with Brokers, Advisers and Shareholders in various cities. It also participated as exhibitor at the Australian Investors Association Investment Summit in Sydney, as well as at various other Investor presentations and exhibitions.

In the coming quarter the Company will be present at the "Back to the Future" investment Summit in Sydney.

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](mailto: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 Announcements and Reports. The address is [www.flagshipinvestments.com.au](http://www.flagshipinvestments.com.au)

## STRUCTURE AND TERMS

Dividend Reinvestment Plan	Dividend Reinvestment Plan (DRP) is an optional way of reinvesting dividends to acquire additional shares. When new shares are issued under the DRP, they are 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.asx.com.au">www.asx.com.au</a> and Quarterly Reports, Half-Yearly and Annual Reports on <a href="http://www.flagshipinvestments.com.au">www.flagshipinvestments.com.au</a>
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)