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Chairman's Address – Annual General Meeting

8 November 2019

Ladies and Gentlemen, I welcome you to the 22nd Annual General Meeting of our Company.

I am pleased to present the Chairman's Report of Flagship Investments Limited for the 2018-19 Financial Year.

THE YEAR IN REVIEW

At the commencement of the financial year, we believed that FY19 returns would be modest. Upon reflection, however, we did not anticipate the volatility that has occurred throughout the last 12 months. After a flat start to the financial year, the All Ordinaries Index dropped 9.7% in the second quarter (resulting in a 7.4% decrease over the calendar year), before recovering again by the end of the third quarter. Key themes from FY18 continued throughout the financial year; namely, ongoing trade tensions between the US and China, and the fallout from the Banking Royal Commission (until the report was released in February 2019). The Australian equities market was delicately poised as the Federal Election loomed and then reacted confidently as the country resumed a "business as usual" approach following it.

Our portfolio, which continues to have a small to mid-cap bias, performed well and returned 16.7% over the 12-month period. There is growing rhetoric that the price gap between perceived short-term overperforming stocks versus long-term performing stocks is widening. This does allow for some opportunities but equally devalues our portfolio in the short term.

THE MARKET OUTLOOK

The opportunities in the new financial year remain uncertain. Domestic monetary policy and government tax cuts could fuel the local economy while the New York Fed's indicator on potential recession at 33% is at its highest since the GFC. The optimism or otherwise towards the economic outlook is as long lasting as the latest survey inputs. As business, consumers and markets react to threats - real or imagined - the task at hand requires a disciplined and patient commitment to the investment process.

DIVIDEND

Our portfolio of investments has performed very well over the last 12 months and, in keeping with our conservative approach to dividend declaration, the Directors have decided to approve a final dividend for the year of 4.25 cents per share. It represents an overall dividend for the year of 8.25 cents per share. The FY19 dividends are fully franked and fully attributable to LIC capital gains (please refer to Note 15 of the Financial Statements for additional commentary).



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THE INVESTMENT MANAGEMENT TEAM

As noted above, the disciplined execution of the investment process is fundamental to our business. To that end, I want to record my personal appreciation and that of the Board as a whole, to our Investment Manager led by Dr Manny Pohl and his team of professionals at EC Pohl & Co (ECP). Our continuing success could not have been achieved without the outstanding contribution of these very committed individuals.

On an individual level, it was very pleasing to see Manny's contribution to the finance sector and community recognised with an Order of Australia in the 2019 Queen's Birthday Honours. It is a fitting distinction for a very deserving and humble recipient and the Board passes on its congratulations to Manny.

THE BOARD

I wish to record my appreciation for my fellow Board members for their support and input throughout the past year. In a climate of increased focus on Corporate Governance, I am confident that the rigour and commitment from our Board ensures the best interests of Shareholders and other stakeholders are managed and protected. As an example, a particular topic within the investment industry revolves around incorporating ESG (Environmental, Social and Governance) principles into the investment process, this is in fact the case with ECP. For more detail, Shareholders should consider page 6 of the Annual Report which explains the Investment Manager's implementation of the Principles of Responsible Investing (which incorporates an ESG framework). Importantly, at a Board level, we will continue to consider ESG principles to continue to enhance our social licence to operate.

In conclusion, I want to sincerely thank Shareholders for their on-going support, and I acknowledge those who were able to attend the 20 Year celebration held at the NSW Art Gallery in July 2018. We look forward to many more milestones ahead.

Dominic McGann
Chairman

8 November 2019