

# FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

SEPTEMBER 2015

## OVERVIEW

Following on from the decline in the June quarter, both the market and the portfolio declined during the September quarter as shown and discussed below although our portfolio did substantially out-perform the market over the quarter and the rolling periods shown.

### UNDERLYING PORTFOLIO PERFORMANCE (as at 30 September 2015)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio <sup>^</sup>	11.9%	-1.6%	4.1%	17.1%	10.7%
UBS Bank Bill Index	4.9%	0.5%	2.6%	2.7%	3.5%
ASX All Ordinaries	3.6%	-7.2%	-4.5%	4.7%	1.8%

<sup>^</sup> Source: EC Pohl & Co Pty Ltd

## INVESTMENT ACTIVITY

We sold our holdings in BHP, Worley Parsons and Bendigo & Adelaide Bank from the portfolio and added Aconex, Cover-More, InvoCare, Pacific Smiles and MainstreamBPO to the portfolio. We increased our exposure to CSL, Trade Me and Woodside.

## MARKET COMMENT AND OUTLOOK

For the first time since 2011, world equity markets as represented by the MSCI index posted two consecutive quarterly declines, with an 8.86% decline in the September quarter following a 0.3% decline in the June quarter. Much has been written about the cooling Chinese economy, economic stress in Greece as well as underwhelming corporate earnings reports and falling energy prices in the US, however, the catalyst for the major market decline was the significant Yuan devaluation which led to plunging commodities prices and a drop in the price of oil.

By the end of the quarter, the US had experienced their worst investment returns in four years. Volatility increased with investors fearing that the Fed would raise interest rates and the Dow Jones Index closed down 1,334.81 points for the quarter. The S&P500 fell 6.94%, its worst performance since the 14.3% decline in the third quarter of 2011 and the NASDAQ dropped 7.35% during the quarter.

Europe's economy remained stagnant, struggling with low inflation, large numbers of refugees and protracted negotiations about renewed funding for Greece showing little progress. As a result the German DAX posted an 11.74% decline, while the FTSE posted a 7.04% decline.

In Asia, China took center-stage as the government looked to address the plunge in their equity markets with little effect. The Shanghai Composite Index fell by 28.63%, removing all its positive gains made from the previous three quarters. The NIKKEI posted a significant decline of 14.07% and similarly the HANG SENG posted a 20.59% decrease.

In Australia, Malcom Turnbull became Australia's 29th Prime Minister which could mean that the government focus will now be on small business, support of innovation, public transport, education and tax reform. This should provide the impetus required for the economy to transition from mining to non-mining, as corporate CAPEX and business investment has remaining weak, in spite of a stimulatory interest rate environment and a relatively benign budget. The second quarter improvement in the AUDUSD exchange rate was short lived. By quarter-end, we saw the exchange rate decline by a further 8.94%; the biggest decline since mid-2013. The All Ordinaries Index posted another significant quarter decline of 7.20% after posting a strong improvement in July; and the Small Ordinaries Index closed at 1963.6, declining by 5.26%.

In our portfolio modeling we have factored in an improvement in P/E ratings from current levels. Furthermore, the short-term financial metrics for the companies in the portfolio, including organic sales growth, earnings and dividend growth, should provide an additional impetus for an improvement in valuations.

### PORTFOLIO CHARACTERISTICS (as at 30 September 2015)

NAV (tax on realized gains only) – total	\$41,836,486
NAV (tax on realized gains only) – per share	165.1 cents
Concentration of the Top 20 Holdings	83.3%
Stocks in the underlying portfolio	30

## 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 (formerly HIP)

## RATINGS

- Independent Investment Research  
– Recommended<sup>1</sup>

## 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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## 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

- 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 (as at 30 September 2015)

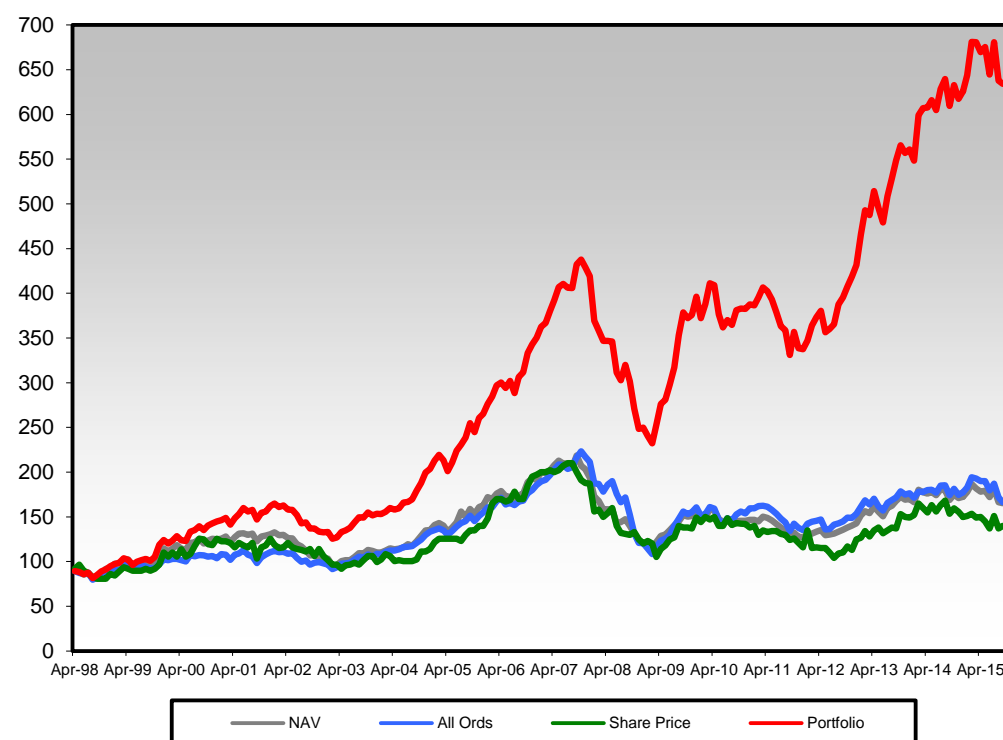
Financials	35.1%
Consumer Discretionary	16.8%
Industrials	9.0%
Health Care	8.7%
Information Technology	8.7%
Telecommunication Services	8.1%
Consumer Staples	4.1%
Materials	3.6%
Energy	3.2%
Cash and Equivalent	2.7%

## TOP 10 STOCK HOLDINGS (as at 30 September 2015)

Macquarie Group	9.1%
Commonwealth Bank	6.3%
Telstra	6.1%
REA Group	5.5%
Westpac Banking Corp	5.4%
AMP	5.3%
CSL	4.8%
Woolworths	4.1%
Seek	4.0%
Carsales.Com	3.9%

## SHARE PRICE (as at 30 September 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 <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> also quarterly reports, half-yearly and annual reports
Auditor	BDO Audit Pty Ltd
Registry	Computershare Investor Services Pty Limited
Share price and NAV	<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)