

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

SEPTEMBER 2013

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 0.03 at 12 April 2013

AUD 0.035 at 27 September 2013

COUNTRIES WHERE LISTED

Australian Securities Exchange:
December 2000

STOCK EXCHANGE CODE

ASX: FSI (formerly HIP)

RATINGS

- Independent Investment Research
– Recommended¹

DIRECTORS

Henry R Smerdon AM
Chairman

Dr Emmanuel (Manny) C Pohl
Managing Director

Patrick Corrigan AM

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: flagship@ecpohl.com

www.flagshipinvestments.com.au

OVERVIEW

Flagship Investments Limited's underlying portfolio outperformed the market during the quarter. It returned 14.5% versus the All Ordinaries Index return of 9.3%. By comparison, the NAV per share increased by 11.4% over the quarter.

UNDERLYING PORTFOLIO PERFORMANCE (as at 30 September 2013)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.5%	14.5%	38.7%	12.8%	12.7%
UBS Bank Bill Index	5.2%	0.7%	3.1%	4.1%	4.2%
ASX All Ordinaries	4.4%	9.3%	18.4%	4.0%	2.4%

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

During the September quarter, the entire holding in Cochlear was sold from the portfolio. We took advantage of our cash holding to increase our holding in AMP, Carsales.com, Rio Tinto and Telstra. We took up the rights issues on offer in ALS, IRESS and Domino's Pizza and acquired shares in Sirtex Medical, a biotechnology and medical device group that manufactures and distributes effective liver cancer treatments utilising small particle technology. We reduced our holding in IRESS after the rights issue and reduced our exposure to Navitas and REA Group.

OUTLOOK

The Australian market rebounded this quarter and was the top performing market worldwide outside of Europe. As is the case for many of the other regions, an improvement in economic data with a change in Government brought life back to our market. The All Ordinaries Index posted a significant improvement of 9.3% over the quarter with the Resource sector leading the market with a 15.6% gain. The AUD strengthened against the USD at quarter-end by 2.1%, improving from the previous quarter's large devaluation.

International equity markets had a more positive quarter with the MSCI significantly improving on last quarter's result, posting a 7.7% improvement. The US S&P500 index by comparison increased by only 4.7%. While the improvement in the US market reflected the increased optimism in world economic data, the prospect of the US Federal Reserve tapering its quantitative easing programme damped enthusiasm. However, the surprise decision by the US Federal Reserve to delay the tapering triggered a rally in September and equities delivered positive returns at quarter-end. The US government was again dogged by the prospect of a shutdown, which came into effect on 2nd October after congress failed to reach a budget deal.

While we do not see a dramatic improvement in the P/E ratings from current levels, the short-term financial metrics for the companies in the portfolio, including organic sales growth, earnings and dividend growth, should provide the impetus for an improvement in valuations.

PORTFOLIO CHARACTERISTICS (as at 30 September 2013)

NAV (tax on realized gains only) – total	\$40,664,656
NAV (tax on realized gains only) – per share	167.7 cents
Concentration of the Top 20 Holdings	90.62%
Stocks in the underlying portfolio	26

FUND MANAGER

EC Pohl & Co Pty Ltd
 ABN 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 QUALITY COMPANIES

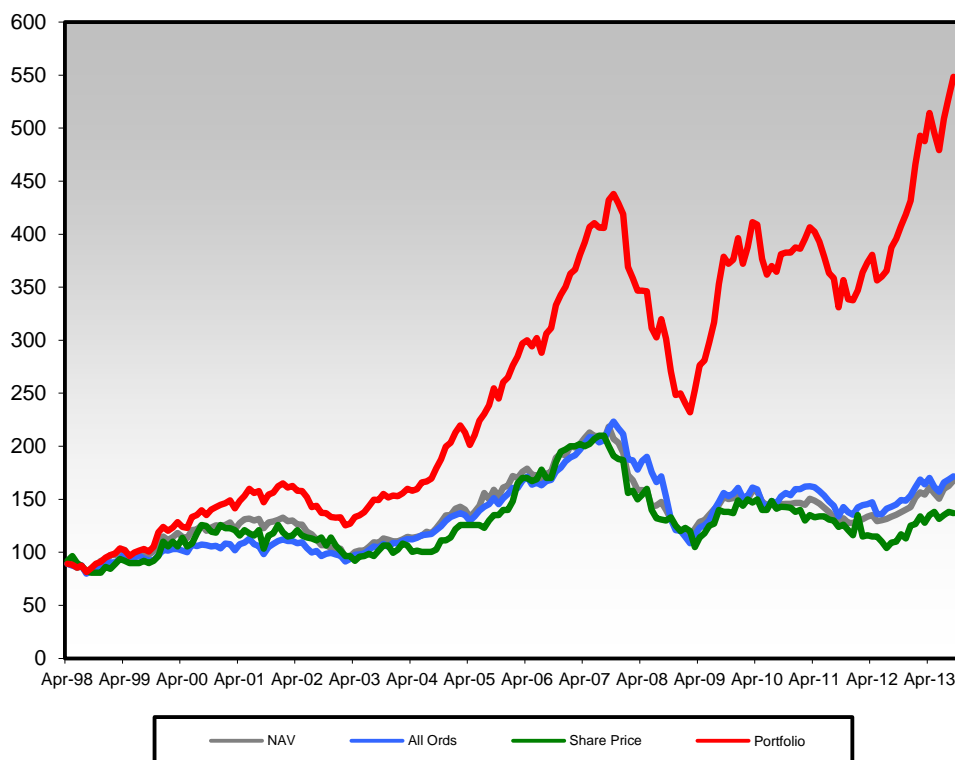
SECTOR BREAKDOWN (as at 30 September 2013)

Financials	28.77%
Consumer Discretionary	15.48%
Industrials	13.02%
Information Technology	11.57%
Materials	9.01%
Telecommunication Services	7.89%
Consumer Staples	5.50%
Energy	5.21%
Health Care	2.11%
Cash and Equivalent	1.45%

TOP 5 STOCK HOLDINGS (as at 30 September 2013)

Carsales.com	8.19%
SEEK	8.14%
Telstra Corporation	7.84%
Commonwealth Bank of Australia	7.48%
Woolworths	5.46%

SHARE PRICE (as at 30 September 2013) (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	BDO Audit Pty Ltd
Registry	Computershare Investor Services 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