

# FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

DECEMBER 2017

## 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)

AUD 0.0375 at 13 September 2017

AUD 0.035 at 07 April 2017

AUD 0.0375 at 16 September 2016

## COUNTRIES 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  
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2 Corporate Court  
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AUSTRALIA

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## OVERVIEW

Flagship's investments (ASX: FSI) out-performed the market during the quarter as shown below with the Net Tangible Asset Value (NTA) (before estimated tax on unrealised gains) closing at the end of December at 194.4 cents per share. By year-end the FSI portfolio has outperformed the All Ords by +7.1%, maintaining our long-term track record – Quality Outperforms.

## UNDERLYING PORTFOLIO PERFORMANCE

	Since Inception (May 1998) p.a.	3 months	1 year	3 years p.a.	5 years p.a.
Portfolio <sup>^</sup>	12.2%	10.2%	14.9%	11.3%	14.9%
Bloomberg Bank Bill Index	4.6%	0.4%	1.7%	2.1%	2.3%
ASX All Ordinaries	4.3%	7.4%	7.8%	4.6%	5.7%

<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

The final quarter of 2017 saw significant investment activity with the addition of four new companies to the portfolio. Two of the positions, HUB24 Ltd (HUB) and Netwealth Group Limited (NWL), operate in the funds administration industry and provide software solutions to advisers. Both companies have exemplary management and are taking large shares of industry flows. Other additions include ResMed Inc (RMD) and Synlait Milk Ltd (SM1), which both have strong competitive advantages and are leaders in their space. APA Group (APA) was removed due to our investment thesis playing out. We believe there are limited growth opportunities relating to their monopolistic position and we believe pricing risk has emerged as regulatory pressures increase.

## MARKET COMMENT AND OUTLOOK

Globally, equity markets have ended 2017 with strong gains across many sectors and multiple geographies, leading to asset valuations reaching all-time highs, whilst volatility reaching an all-time low. The macro environment has provided prolific conditions for most asset classes and has supported the global expansion which is now into its 10th year. The US continued its stellar run, buoyed by hopes of tax reform, and aided by wage gains and unemployment reaching a low of 4.1%. The US Federal Reserve raised rates for a third time, reflecting an improving economy and labour market and we can expect three hikes over the coming year. The S&P 500 posted +6.1% by quarter-end, and the Dow Jones posted +10.3%.

Over 2017, many EU countries have successfully fended off growing populism, however in the past quarter, political events returned to the fore as Germany's Angela Merkel's coalition talks collapsed and separatist movements in Spain have ensured uncertainty clouds the transition to 2018. In the UK, the BoE raised rates for the first time since 2007, however concerns remain regarding GDP growth forecasts. The FTSE 100 posted solid returns of +4.3% and DAX remained flat, posting +0.7% over the quarter. By year-end, respective gains of +7.6% and +12.5% were reported for the twelve-month period.

Australia continues its world class run, reaching 26 years without a recession. Whilst the lucky country has long been the envy of the world, the effect of being recession-free has meant our economy is out of sync with much of the developed world. Imbalances have continued to build within our economy which is argued to limit future growth; and prior mining drags on the economy have been replaced by constrained consumer spending and record levels of household debt. During the quarter, the RBA held the cash rate steady at 1.5%. The All Ordinaries Index posted its best quarter for 2017 with gains of +7.4% while the Small Ordinaries Index posted impressive gains of +13.2%. The twelve-month returns were +7.8% and +16.3%, respectively.

The AUD has remained stubbornly high and by year-end had appreciated +8.4% over the past twelve months against the USD reaching 0.780 US Cents. However, the AUD has not performed as well against the EUR or the GBP, posting -5.1% (0.650 EU Cents) and -1.1% (0.578 UK Pence), respectively.

## PORTFOLIO CHARACTERISTICS (as at 31 December 2017)

NTA (before tax on unrealised gains) – total	\$49,567,597
NTA (before tax on unrealised gains) – per share	194.4 cents
Concentration of the Top 20 Holdings	81.70%
Stocks in the underlying portfolio	32

## 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

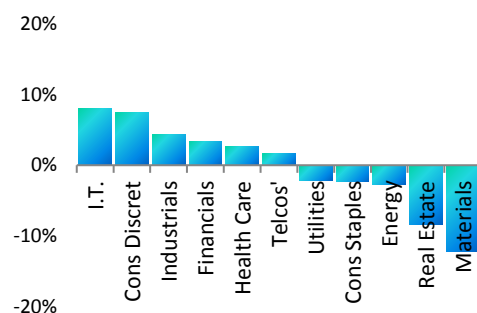
## SECTOR BREAKDOWN

Financials	34.6%
Consumer Discretionary	13.0%
Industrials	12.2%
Information Technology	10.7%
Health Care	9.4%
Materials	4.9%
Consumer Staples	4.6%
Telecommunication Services	4.6%
Cash	3.1%
Energy	2.9%
Utilities	0.0%

## TOP 10 STOCK HOLDINGS

Macquarie Group	7.9%
Westpac Banking Corp	6.8%
Commonwealth Bank	6.3%
IPH Limited	5.2%
Rio Tinto Limited	4.9%
CSL Limited	4.9%
Carsales.Com Ltd	4.7%
Magellan Financial Group Ltd	4.6%
TPG Telecom Limited	4.6%
SEEK Limited	3.5%

## ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



## PORTFOLIO CHANGES during the Quarter

### ADDITIONS

HUB24 Ltd	HUB
Netwealth Group	NWL
ResMed Inc.	RMD
Synlait Milk Ltd	SM1

### REMOVALS

APA Group	APA
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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 and Stockbrokers and Investor Associations across Australia.

Amongst events the Company participated in during the December quarter, Dr Emmanuel (Manny) Pohl, MD of FSI, presented to over 400 Investors at the Switzer Listed Investment Companies Conference in Melbourne, where the Company was also an exhibitor. Dr Pohl was also a speaker at the National ASX ASA Investor Education Day roadshow, where the Company was an event participant and exhibitor in Sydney, Melbourne, Adelaide, Perth and Gold Coast.

The March 2018 quarter will continue the active presence of the Company, including various Investor presentations and exhibitions.

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

## STRUCTURE AND TERMS

Dividend Reinvestment Plan	Dividend Reinvestment Plan is an optional way of reinvesting dividends to acquire additional shares, 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.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	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)