

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

DECEMBER 2014

OVERVIEW

Following the negative stock market returns during the September quarter, it is pleasing to see an improvement in the overall market over the past three months. During the December quarter, the Flagship portfolio increased by 2.7% compared to the All Ordinaries Index which increased by 1.7% with cash returning 0.8%.

UNDERLYING PORTFOLIO PERFORMANCE (as at 31 December 2014)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.4%	2.7%	11.6%	22.8%	9.5%
UBS Bank Bill Index	5.0%	0.8%	2.7%	3.2%	3.8%
ASX All Ordinaries	4.2%	1.7%	0.7%	9.4%	2.0%

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

We utilized the cash on hand to increase our position in a few of our existing investments. The major investments made were in Westpac, Woolworths and Rio while we sold Energy Action and decreased our exposure to Sirtex Medical.

OUTLOOK

Looking back over 2014, one word comes to mind: Volatility. Geopolitical tensions have escalated on the back of Eastern European and Asian conflicts, Ebola scares, ISIS advances into Iraq and Syria as well as Israel's military strikes on Gaza. Volatility in the stock market increased during the last quarter of 2014, particularly in resource stocks which were fuelled by plunging oil prices and declining commodity prices which have responded to reduced global economic growth.

Notwithstanding these issues, the United States economic performance has improved with improved investor confidence. In spite of the fact that the US Federal Reserve announced an end to its quantitative easing (QE) program which began in 2008, the S&P500 performed well over the quarter on the back of lower oil prices that have spurred on a consumer-led recovery. The S&P500 posted a solid improvement of 4.39%, while the Dow Jones Index increased by 4.58%. By comparison the EU is still fragile with a large divergence in the economic performance of its members and which continues to widen. Across the EU and Britain, the energy sectors were underperformers compared to the consumer-orientated sectors. The FTSE100, which is largely skewed toward commodities, saw a slight decrease of -0.86% and the DAX posted a 3.5% increase. In Asia, in spite of the release of negative economic data, the Chinese market has posted positive returns on the back of an interest rate cut which was the first one in over two years. In Japan, the market responded positively to the announcement of further QE by the Bank of Japan and the Nikkei had an impressive 7.9% increase.

In Australia the economy is adjusting to the mining/energy sector investment boom which is now at an end and this is reflected in the value of the Australian dollar which suffered a significant devaluation during the quarter of -6.68% closing with the AUDUSD cross rate at 0.817. However with more than 80% of our trade occurring in the Asia region and sourcing two thirds of all in-bound tourism, Australia is in a position to benefit from the continued economic growth in the region. By comparison, the Australian market increased by 1.73% over the quarter.

In summary, while we do see a slight improvement in 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 31 December 2014)

NAV (tax on realized gains only) – total	\$40,232,459
NAV (tax on realized gains only) – per share	172.6 cents
Concentration of the Top 20 Holdings	88.0%
Stocks in the underlying portfolio	28

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 0.0325 at 11 April 2014
AUD 0.04 at 26 September 2014

COUNTRIES WHERE LISTED

Australian Securities Exchange:
December 2000

STOCK EXCHANGE CODE

ASX: FSI (formerly HIP)

RATINGS

• Independent Investment Research
– Recommended¹

DIRECTORS

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Chairman

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Managing Director

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Dominic M McGann

Sophie A Mitchell

COMPANY DETAILS

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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

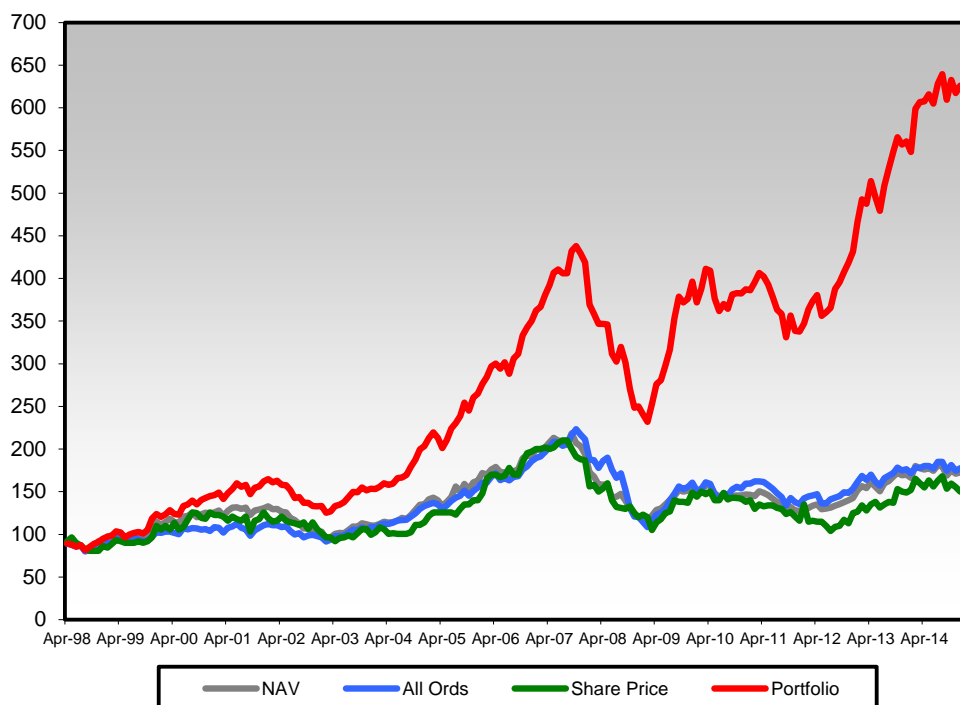
SECTOR BREAKDOWN (as at 31 December 2014)

Financials	31.5%
Consumer Discretionary	14.2%
Telecommunication Services	11.1%
Industrials	11.0%
Materials	10.5%
Information Technology	6.3%
Energy	6.2%
Consumer Staples	5.0%
Health Care	2.1%
Cash and Equivalent	2.1%

TOP 5 STOCK HOLDINGS (as at 31 December 2014)

Telstra Corporation	9.4%
Commonwealth Bank of Australia	8.2%
SEEK	6.3%
Westpac Banking Corp	6.0%
Rio Tinto	5.9%

SHARE PRICE (as at 31 December 2014) (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