

FLAGSHIP INVESTMENTS LIMITED

JULY 2013 UPDATE

SHAREHOLDERS' QUARTERLY REPORT

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 0.03 at 12 October 2012

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 but underperformed cash. It returned -1.7% versus the All Ordinaries Index return of -4.1%. By comparison, the NAV per share declined by 2.4% over the quarter.

UNDERLYING PORTFOLIO PERFORMANCE (as at 30 June 2013)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	11.7%	-1.7%	32.9%	9.8%	9.0%
UBS Bank Bill Index	5.3%	0.7%	3.3%	4.3%	4.5%
ASX All Ordinaries	3.8%	-4.1%	15.5%	3.4%	-2.2%

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

During the June quarter, we increased our holding in Telstra and reduced our exposure to ANZ, Cochlear, Carsales.com, REA Group, SEEK, Westpac, Woolworths, and Wotif.com. We added Als Ltd (ALQ) to the portfolio.

OUTLOOK

The Australian market produced its worst performance for the past financial year during this quarter. This performance was far worse than the MSCI Index (USD) fall of only 0.7% for the same period and can be largely attributed to the poor performance of commodities and the lack of investor confidence, especially overseas investors. This lack of confidence and the decision by the Australian Reserve Bank to lower the cash rate by 25 basis points to 2.75% caused a decline in the value of the Australian dollar against the USD, which fell during the quarter by 12.3%, its largest fall since September 2008.

Much of the declines experienced in Australia, and around the world, can be attributed to a slow down that is materializing in China, the world's largest manufacturer and exporter, as well as pressure being exerted by the Chinese central bank on the Chinese banks to curb liquidity expansion. These events have had a knock on effect around the world with commodity prices affected the most, while overall global economic conditions have deteriorated further.

We took advantage of the strong markets in the first quarter to increase our cash holding and will re-invest these funds now that some value has returned to the market. 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 June 2013)

NAV (tax on realized gains only) – total	\$36,482,361
NAV (tax on realized gains only) – per share	150.6 cents
Concentration of the Top 20 Holdings	86.31%
Stocks in the underlying portfolio	25

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 COMPANIES

This process is the basis for all our Australian equities investment decisions.

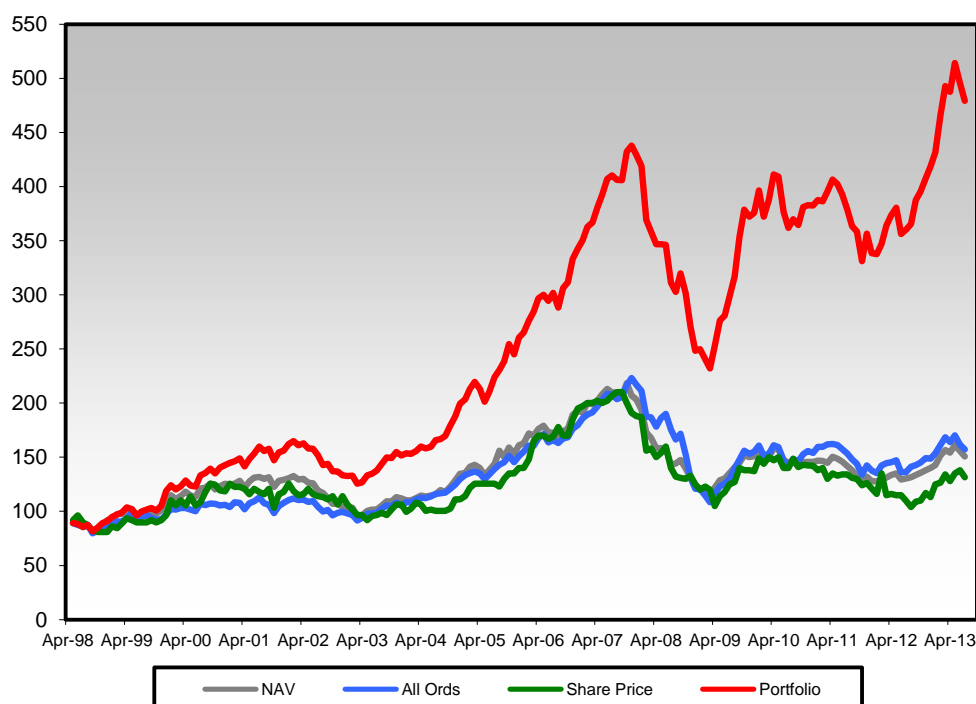
SECTOR BREAKDOWN (as at 30 June 2013)

Financials	28.23%
Consumer Discretionary	16.36%
Industrials	11.06%
Information Technology	9.56%
Materials	7.65%
Cash and Equivalent	7.34%
Telecommunication Services	6.37%
Energy	5.53%
Consumer Staples	4.71%
Health Care	3.19%

TOP 5 STOCK HOLDINGS (as at 30 June 2013)

Commonwealth Bank of Australia	7.84%
SEEK	6.70%
Telstra Corporation	6.37%
REA Group	5.53%
Woolworths	5.53%

SHARE PRICE (as at 30 June 2013) (after adjusting for the rights issue)



STRUCTURE AND TERMS

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