

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

SEPTEMBER 2016

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 16 September 2016

AUD 0.0350 at 07 April 2016

AUD 0.0375 at 11 September 2015

COUNTRIES WHERE LISTED

Australian Securities Exchange:
December 2000

STOCK EXCHANGE CODE

ASX: FSI

RATINGS

- Independent Investment Research
– Recommended¹

DIRECTORS

Henry R Smerdon AM
Chairman

Dr Emmanuel (Manny) C Pohl
Managing Director

Dominic M McGann

Sophie A Mitchell

COMPANY SECRETARY

Brian Jones

COMPANY DETAILS

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OVERVIEW

Flagship's investments outperformed during the quarter as shown below with the Net Tangible Asset Value (NTA) closing at the end of September at 182.3 cents per share, up from 181.8 cents at the end of June 2016. During the past year the investment portfolio performed better than the market, exceeding the All Ordinaries Index by 9.7%.

In September the Company paid a dividend of 3.75 cents per share, fully franked - which went ex-dividend on 30 August 2016. This brings the total dividend paid to Shareholders over the previous 12 months to 7.25 cents per share, fully franked.

UNDERLYING PORTFOLIO PERFORMANCE

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	12.3%	4.1%	18.9%	11.2%	17.9%
UBS Bank Bill Index	4.8%	0.5%	2.2%	2.4%	2.9%
ASX All Ordinaries	3.9%	4.0%	9.2%	1.9%	6.3%

[^] Source: EC Pohl & Co Pty Ltd

Gross performance before impact of fees, taxes and charges. Past performance no predictor of future returns

INVESTMENT ACTIVITY

During the quarter, we sold our holdings in BigAir, Invocare and Mainstream BPO. In the case of BigAir, management are having a number of integration issues from the recent acquisitions that they've made. Invocare's market share at a group level declined over the past year and continued to remain highly valued with reduced expectations of long-term growth. We did not add any new names to the portfolio.

MARKET COMMENT AND OUTLOOK

Global markets have rebounded from post-BREXIT blues, regaining most of the declines that were experienced after Britain voted to leave the European Union (EU). The financial markets over the past quarter have been unusually calm after periods of high volatility prompted by economic slowdowns, fiscal policy changes and of course, the BREXIT. The US election is only six weeks away, an unexpected calling of an Italian referendum and the potential tightening by the US Federal Reserve of monetary policy, all appear looming and could mean a return to uncertain and volatile equity markets.

In spite of fears at the start of the year that the US was headed towards recession, the US economy has performed fairly well in recent months with growth continuing at a modest pace. On the other hand, corporations in the US have reported lacklustre profit growth in spite of extraordinarily low long-term interest rates. This quarter the Fed maintained their interest rate at previous levels and pushed the possibility of a rate hike into the final quarter or next year. Europe has been quite 'underwhelming' and uneventful this quarter following the UK's decision to leave the Eurozone. The BREXIT vote has had a material impact on the pound and the UK economy, but apparently little effect on the rest of Europe and on investor confidence.

Australia was quite uneventful during the quarter, in spite of the double dissolution election which saw Malcolm Turnbull and his coalition team secure a narrow, unconvincing victory with a senate that looks more challenging than the last. There appears to be little change to RBA policy as the new Governor, Philip Lowe, took office.

The All Ordinaries posted modest gains of +4.0% while the Small Ordinaries surpassed its larger index with gains of +7.3%. Our (stubborn) Australian dollar has remained high, strengthening against the USD, EUR and GBP posting improvements of +2.8% (76.6 US Cents), +1.5% (68.1 EU Cents) and +5.4% (59.0 UK Pence), respectively.

PORTFOLIO CHARACTERISTICS (as at 30 September 2016)

NTA (before tax on unrealized gains) – total	\$46,488,747
NTA (before tax on unrealized gains) – per share	182.3 cents
Concentration of the Top 20 Holdings	84.7%
Stocks in the underlying portfolio	28



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

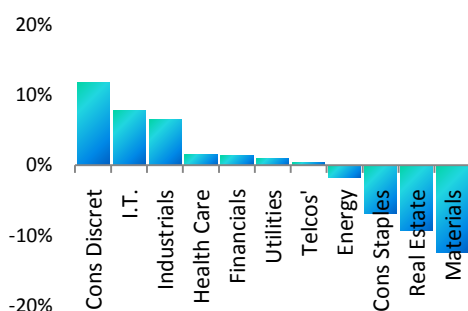
SECTOR BREAKDOWN

Financials	32.5%
Consumer Discretionary	18.1%
Industrials	13.7%
Information Technology	9.3%
Health Care	8.4%
Telecommunication Services	5.1%
Cash and Equivalent	4.0%
Utilities	3.4%
Energy	2.8%
Material	2.7%

TOP 10 STOCK HOLDINGS

Macquarie Group	8.6%
Commonwealth Bank	7.4%
Westpac Banking Corp	7.0%
REA Group	6.2%
Telstra Corporation	5.1%
CSL Limited	5.1%
SEEK	4.6%
Carsales.Com	4.2%
IPH Limited	4.0%
Domino Pizza Enterprises	4.0%

ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



PORTFOLIO CHANGES during the Quarter

ADDITIONS

REMOVALS

BigAir Group Limited	BGL
InvoCare Limited	INV
Mainstream BPO Ltd	MAI

ACTIVELY PROMOTING THE COMPANY

Flagship Investments Limited (FSI) is committed to growing the Company and promoting itself to investors, financial advisers and stockbrokers.

To this end we have appointed InvComs to assist with promoting the Company to the investment community. InvComs representatives will ensure that brokers, financial planners, advisers and investor associations are fully informed at all times. If you would like us to present at your investor function or to visit your office, please contact either us through contact@flagshipinvestments.com.au or +61 7 5644 4405.

VISIT THE NEW WEBSITE

The Company also released its newly enhanced website which has additional information about the FSI and links to all Announcements and Reports. The address is 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 – 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 Tangible Asset Values on www.flagshipinvestments.com.au and www.asx.com.au also Quarterly Reports, Half-Yearly and Annual Reports
Auditor	WPIAS Pty Ltd
Registry	Boardroom Pty Limited - 1300 737 760 OR enquiries@boardroomlimited.com.au
Share price and NTA	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