



# FLAGSHIP INVESTMENTS LIMITED

## SHAREHOLDERS' QUARTERLY REPORT

MARCH 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 16 September 2016

AUD 0.035 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  
– Recommended<sup>1</sup>

### DIRECTORS

Dominic M McGann  
*Chairman*

Dr Emmanuel (Manny) C Pohl  
*Managing Director*

Sophie A Mitchell  
*Independent*

### COMPANY SECRETARY

Brian Jones

### COMPANY DETAILS

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### OVERVIEW

Flagship's investments under-performed during the quarter as shown below with the Net Tangible Asset Value (NTA) closing at the end of March at 180.6 cents per share. During the past year the investment portfolio under-performed the market with the overall market boosted by a revitalization of the materials sector over the past year.

### UNDERLYING PORTFOLIO PERFORMANCE

	Since Inception (May 1998) p.a.	3 months	1 year	3 years p.a.	5 years p.a.
Portfolio <sup>^</sup>	12.0%	1.7%	10.7%	8.0%	15.4%
UBS Bank Bill Index	4.7%	0.4%	1.9%	2.3%	2.6%
ASX All Ordinaries	4.2%	3.2%	14.6%	3.0%	6.0%

<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

During the quarter The A2 Milk Company (ASX: A2M) was added to the portfolio. A2M is benefiting from a first mover advantage with clearly defined functional food products. We believe it's differentiated products place it in a unique position to capture market share in the fast-growing specialty milk and the broader dairy products market.

Class Limited (ASX: CL1) was also added to the portfolio. The investment thesis is predicated on an industry wide move away from desktop software with many accountants opting for a cloud-based administration solution and CL1's drive for a dominant market share in the cloud software as a service offering for the SMSF administration market.

During the quarter, we exited from our long-held position in ARB Corporation (ASX: ARB). Whilst we believe ARB continues to be a quality company with an exemplary management team, we are content to sit on the sidelines until we are satisfied with their growth strategy and the risks associated with this. In addition, we have exited from our position in Brambles Limited (ASX: BXB) due to their substantial management changes and increased competition in the industry.

### MARKET COMMENT AND OUTLOOK

The end of this quarter marked the 8th anniversary of the current bull market. Given that 2016 was the year of political surprises, it was interesting to note that the net impact on returns was somewhat limited. While the markets were extremely volatile following the unexpected outcome of both Brexit and President Trump's victory, the overall trend has been up on the back of continued growth and economic optimism. The Netherlands held their elections in this quarter, the French elections appear hotly contested and we will see Britain formally leave the European Union. The US Federal Reserve (Fed) continued its journey of raising interest rates, raising their interest rate during the quarter by 25 basis points. The current year is likely to follow a similar trend and while European politics and the US Fed are likely to remain the key determinants of market sentiment and uncertainty over the remainder of the year, underlying earnings growth is expected to be the driver of market performance.

In Australia, while the markets have functioned in an environment where there has been limited political or financial news during the quarter, there has been continued debate on the state of the energy sector, in particular, Australia's gas industry, and the lack of supply for the domestic market. The RBA maintained the cash rate at 1.5% and the All Ordinaries Index posted modest gains of 3.2% this quarter while the Small Ordinaries posted negligible gains of 0.4%. The AUD posted gains on the back of political developments in the US which resulted in our dollar appreciating by 5.9% against the USD (76.3 US Cents) and gains were also recorded against the EUR and GBP of 4.5% (71.6 EU Cents) and 4.1% (60.8 UK Pence), respectively.

### PORTFOLIO CHARACTERISTICS (as at 31 March 2017)

NTA (before tax on unrealized gains) – total	\$46,185,906
NTA (before tax on unrealized gains) – per share	180.6 cents
Concentration of the Top 20 Holdings	90.47%
Stocks in the underlying portfolio	27

## 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

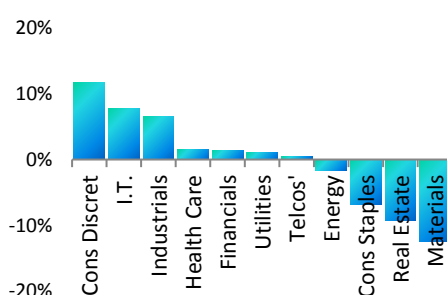
## SECTOR BREAKDOWN

Financials	37.5%
Consumer Discretionary	14.6%
Industrials	10.0%
Health Care	8.3%
Information Technology	8.2%
Telecommunication Services	5.3%
Materials	4.9%
Utilities	3.6%
Energy	3.1%
Cash	3.1%
Consumer Staples	1.4%

## TOP 10 STOCK HOLDINGS

Macquarie Group	9.6%
Commonwealth Bank	8.8%
Westpac Banking Corp	8.4%
REA Group	6.6%
CSL Limited	6.1%
TPG Telecom Limited	5.3%
BT Investment Management	4.9%
Rio Tinto Limited	4.9%
SEEK Limited	4.7%
Carsales.com Ltd	4.0%

## ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



## PORTFOLIO CHANGES during the Quarter

### ADDITIONS

The A2 Milk Company	A2M
Class Limited	CL1

### REMOVALS

ARB Corporation	ARB
Brambles Ltd	BXB

## ACTIVELY PROMOTING THE COMPANY

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

The Company continues its active engagement program in the March quarter through broker roadshow presentations in Sydney, Melbourne and Adelaide. In addition, it was a participant at the Australian Investors Association investor symposium held in Sydney in March. In the coming quarter the Company will continue roadshows to investor professionals and present at the Australian Shareholders Association Annual conference in Melbourne as well as other investor events.

Interested parties can contact the Company for further information about events. Please contact through [contact@flagshipinvestments.com.au](mailto:contact@flagshipinvestments.com.au) or +61 7 5644 4405 or toll-free 1800 352 474 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 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)