

FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

MARCH 2018

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)

3.75 cps paid on 13 March 2018

3.75 cps paid on 13 September 2017

3.50 cps paid on 07 April 2017

COUNTRY WHERE LISTED

Australian Securities Exchange:
December 2000

STOCK EXCHANGE CODE

ASX: FSI

RATINGS

- Independent Investment Research
– Recommended¹

DIRECTORS

Dominic M McGann
Chairman

Dr Emmanuel (Manny) C Pohl
Managing Director

Sophie A Mitchell
Independent

COMPANY SECRETARY

Scott Barrett

COMPANY DETAILS

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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 March at 182.1 cents per share. This was after paying a fully franked dividend of 3.75 cents per share on 13 March 2018. Since inception the FSI portfolio has outperformed the All Ordinaries Index by 7.9%.

UNDERLYING PORTFOLIO PERFORMANCE

	Since Inception (May 1998) p.a.	3 months	1 year	3 years p.a.	5 years p.a.
Portfolio [^]	11.9%	-3.2%	9.4%	7.0%	11.4%
Bloomberg Bank Bill Index	4.5%	0.4%	1.7%	2.0%	2.3%
ASX All Ordinaries	4.0%	-4.8%	-0.6%	0.0%	3.3%

[^] Source: EC Pohl & Co Pty Ltd

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

INVESTMENT ACTIVITY

This quarter saw some change to our portfolio with two additions: Integrated Research Limited (ASX: IRI) and Megaport Limited (ASX: MP1). IRI provides systems monitoring and diagnostics software and has a proven track record of attracting some of the world's largest companies; whilst MP1 addresses the economics of cloud computing for the networking industry and looks to be a great long-term growth story. During the quarter, we exited three positions: Baby Bunting Group Limited (ASX: BBN), Pacific Smile Group (ASX: PSQ) and Aconex Limited (ASX: ACX). Our investment in ACX was a reluctant one to lose, as it was bought by US technology giant, Oracle, for \$1.6 billion.

MARKET COMMENT AND OUTLOOK

Global economic growth has continued into 2018 as consumption, investment and trade continue to provide strong support. Whilst many indicators prove to be in support of a healthy world economy, market volatility has returned creating some headaches for investors. The issues and tensions resulting from geopolitics continues to be a distraction for investors who remain anxious about the potentially rising protectionism and looming trade war. Global bond markets reflected higher inflation, with most major government bond yields climbing.

US equities began the year strongly, boosted by tax reforms, but ended the quarter lower amid concerns over inflation and the impact of protectionism from recent US-China trade tariffs. The US remains a growing economy with solid earnings and the potential for benefits from tax legislation by year-end. The S&P 500 posted -1.2%, and the Dow Jones posted -2.5%. Interestingly, the NASDAQ was surprisingly the best performer, posting +2.3% over the quarter.

Turning to the UK and Europe, equities across the board posted negative returns as worries over US rates and trade affected other markets. UK equities were negatively impacted by sterling strength amid expectations that the Bank of England may lift rates sooner, and faster than the market had previously anticipated. The FTSE 100 posted a significant decline of 8.2%, while the DAX posted a 6.4% loss over the quarter.

Here in Australia, economic performance has been drawn out further as a series of positive economic reports have shown strong business and consumer confidence, a further drop in unemployment and wage growth. During the quarter, the RBA announced that they had held the cash rate at 1.5% with the Governor alluding to a likely future increase in the cash-rate. The All Ords Index posted a disappointing quarter with losses of 4.8%, while the Small Ords also retracted from prior quarter performance, down 3.8% by quarter-end.

The AUD has performed poorly against most major currencies. The AUD has finally depreciated against the US Dollar posting a 1.6% decline reaching 76.80 US Cents and has continued to depreciate further against the EUR and the GBP, posting -4.1% (62.31 EU Cents) and -5.2% (54.74 UK Pence), respectively.

PORTFOLIO CHARACTERISTICS (as at 31 March 2018)

NTA (before tax on unrealised gains) – total	\$46,449,902
NTA (before tax on unrealised gains) – per share	182.1 cents
Concentration of the Top 20 Holdings	82.39%
Stocks in the underlying portfolio	31

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

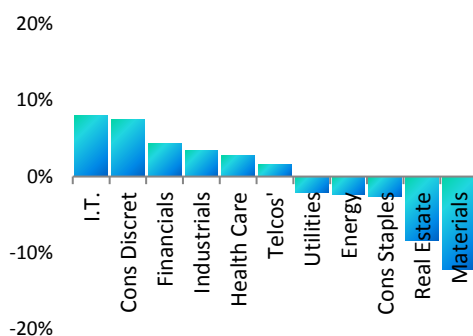
SECTOR BREAKDOWN

Financials	37.3%
Consumer Discretionary	13.3%
Information Technology	12.1%
Industrials	11.2%
Health Care	9.2%
Materials	5.0%
Telecommunication Services	4.0%
Consumer Staples	3.3%
Energy	3.1%
Cash	1.5%
Utilities	0.0%

TOP 10 STOCK HOLDINGS

Macquarie Group	8.6%
Westpac Banking Corp	6.6%
Commonwealth Bank	6.0%
CSL	5.7%
Rio Tinto	5.0%
Carsales.Com	4.6%
Domino's Pizza Enterprises	4.5%
Magellan Financial Group	4.3%
BT Investment Management	4.2%
Reliance Worldwide	4.1%

ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



PORTFOLIO CHANGES during the Quarter

ADDITIONS

Integrated Research Limited	IRI
Megaport Limited	MP1

REMOVALS

Aconex Limited	ACX
Baby Bunting Group Limited	BBN
Pacific Smiles Group Limited	PSQ

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.

During the March quarter the Company participated in the Australian Investors Association National Investment Summit in Sydney, amongst other events.

The June 2018 quarter will continue to see the active presence of the Company, including participating in the Australian Shareholders National Conference in Sydney in May, as well as at various other 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, 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

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 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