

# FLAGSHIP INVESTMENTS LIMITED

SHAREHOLDERS' QUARTERLY REPORT

SEPTEMBER 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)

4.00 cps paid on 07 September 2018

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 – Recommended<sup>1</sup>

## DIRECTORS

Dominic M McGann

Chairman

Dr Emmanuel (Manny) C Pohl

Managing Director

Sophie A Mitchell

Independent

## COMPANY SECRETARY

Scott Barrett

## 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:

contact@flagshipinvestments.com.au

www.flagshipinvestments.com.au

## OVERVIEW

During the quarter the Flagship Investments Limited (ASX: FSI) investment portfolio generated a total return of 6.6% significantly outperforming the All Ordinaries Index, which generated a return of 0.6%. Over the 12 months the portfolio has generated almost triple the return of the same index, a continuation of the 20-year track record of outperformance as shown below. In August, the Company traded ex-Dividend and in September paid Shareholders a fully franked dividend of 4 cents per share.

At 30 September, the Company Net Tangible Asset Value (NTA) (before estimated tax on unrealised gains) closed at \$2.04 per share, with the Share Price of \$1.80 per share representing potential investment opportunity for Shareholders.

## UNDERLYING PORTFOLIO PERFORMANCE

	3 months	1 year	3 years p.a.	5 years p.a.	10 years p.a.	Since Inception (1 May 1998) p.a.
Portfolio <sup>^</sup>	6.6%	27.3%	16.4%	12.8%	12.7%	12.6%
Bloomberg Bank Bill Index	0.5%	1.9%	1.9%	2.2%	3.2%	4.5%
ASX All Ordinaries	0.6%	10.1%	7.7%	3.9%	3.2%	4.2%

<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

AUB Group, Class and Wisetech Global were sold out of the portfolio after share price appreciation compressed the IRR to below our minimum requirements. Reliance Worldwide was sold after acquiring John Guest Holdings Limited in the UK for A\$1.22 billion, which breached our size limit on acquisitions. Trade Me was sold on our concern regarding a weakening competitive position and the departure of the long-term CEO. Fisher & Paykel Healthcare (FPH) is a new addition to the portfolio, while ARB and Netwealth were added back into the portfolio on an improved IRR. FPH specialises in breathing related devices, has been a successful innovator and creator of medical devices that are sold into Hospitals as well as into a Home Care situation and has a material market share in humidification technology.

## MARKET COMMENT AND OUTLOOK

During the September Quarter the US market was up strongly with the S&P 500 up 7.2% and the Nasdaq Composite up 7.1%. These movements meant US markets finished September on a record high which seems at odds with market commentary related to trade wars. The reality of it is, underlying economic growth and employment in the US economy remains strong and investors are buying into these stories and stocks are performing well. There are definitely some concerns as to the impact trade wars are going to have on the US and broader global economies, but the real impacts are yet to be felt in terms of the data or investor sentiment. Unlike the US, China is reporting some negative economic data despite Government attempts to stimulate the economy.

The Australian market was relatively stable during the quarter with the ASX 200 up 0.2%. While the market was relatively flat there were some very large moves within individual sectors with Telecommunications and other Tech related sectors performing well. The Telecommunications sector was up 22.6%, Information Technology was up 9.9% and Energy was up 2.7%. The Utilities sector was down 5.7%, Materials were down 2.8% and Consumer Staples were down 2.2%. The Midcap 50 had a stronger quarter with the index up 2.2% (Industrials up 3.5% and Resources down 4.1%) while the ASX Small Ordinaries was up 0.2% (Industrials up 2.3% and Resources down 7.4%).

Even though future increases in interest rates should result in a contraction 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 30 September 2018)

NTA (before tax on unrealised gains) – total	\$52,002,270
NTA (before tax on unrealised gains) – per share	203.9 cents
Concentration of the Top 20 Holdings	82.79%
Stocks in the underlying portfolio	28

## FUND MANAGER

EC Pohl & Co Pty Ltd  
 ABN 68 154 399 916  
 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](mailto:flagship@ecpohl.com)  
[www.ecpohl.com](http://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
- 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

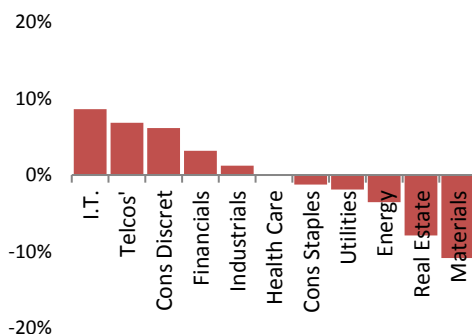
## SECTOR BREAKDOWN

Financials	30.7%
Information Technology	10.7%
Telecommunication Services	10.7%
Consumer Discretionary	10.7%
Industrials	9.3%
Health Care	7.7%
Materials	6.1%
Consumer Staples	5.8%
Cash	5.3%
Energy	3.0%
Utilities	0.0%

## TOP 10 STOCK HOLDINGS

Macquarie Group	6.2%
Rio Tinto	6.1%
Commonwealth Bank	5.3%
SEEK Limited	4.9%
The A2 Milk Company	4.5%
Magellan Financial Group	4.5%
Carsales.Com	4.4%
Pendal Group Ltd	4.4%
IPH Limited	4.3%
Domino Pizza Enterprises	4.2%

## ACTIVE SECTOR WEIGHTS to the ALL ORDINARIES



## PORTFOLIO CHANGES during the Quarter

### ADDITIONS

ARB Corporation	ARB
Fisher & Paykel Healthcare Corporation	FPH
Netwealth Group	NWL

### REMOVALS

AUB Group Ltd	AUB
Class Limited	CL1
Reliance Worldwide	RWC
Trade Me Group	TME
Wisetech Global Ltd.	WTC

## ACTIVELY PROMOTING THE COMPANY

Flagship Investments Limited (FSI) (the Company) is committed to growing the Company and promoting itself to Investors, Financial Advisers, Stockbrokers and Investor Associations across Australia.

During the September quarter the Company continued an active presence meeting with Brokers, Advisers and Shareholders in various cities. It also participated as exhibitor at the Australian Investors Association national conference in Gold Coast, where investment manager Manny Pohl was a key speaker, 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](mailto: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](http://www.flagshipinvestments.com.au)

## STRUCTURE AND TERMS

Dividend Reinvestment Plan	Dividend Reinvestment Plan (DRP) is an optional way of reinvesting dividends to acquire additional shares. When shares are issued under the DRP, they are 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 <a href="http://www.asx.com.au">www.asx.com.au</a> and Quarterly Reports, Half-Yearly and Annual Reports on <a href="http://www.flagshipinvestments.com.au">www.flagshipinvestments.com.au</a>
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)