MAGELLAN
FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ("MFF")
Net Tangible Assets ("NTA") per share for June 2009

MFF advises that its monthly NTA per share as at Tuesday, 30 June 2009 was $0.63 excluding net deferred tax assets[1] of $0.12. These figures are unaudited and subject to review in the course of preparation of financial year end accounts.

For the financial year, MFF's pre tax NTA per share declined by 5 cents (7.4%) compared with declines of approximately 31% for the major global index (or approximately 18% in AUD adjusted terms) and approximately 24% for the major Australian index. As MFF 'marks to market' all of its holdings in its accounts, MFF will report a pre tax loss reflecting the decline in NTA for the financial year, when it reports its full results in August.

During the year, the MFF portfolio was further upgraded with purchases of select globally leading companies seeking to take advantage of the subdued equity prices. Portfolio acquisitions included Nestlé, Yum! Brands, Wal-Mart, Google, Coca-Cola, Procter & Gamble, McDonald's, Tesco, Colgate-Palmolive, Visa and MasterCard. MFF also maintained its key holdings, progressed its buyback and moved towards a fully invested position by financial year end.

MFF's portfolio is majority invested in leading global multinationals. Almost all of these companies have leadership positions (with both suppliers and customers) in emerging markets as well as in the currently recessed more developed markets. In the current difficult ongoing economic conditions we expect the earnings of our investee companies to continue to demonstrate well above average resilience, and they also have satisfactory upside potential from future economic recovery and income growth. MFF's portfolio companies will likely be disproportionate beneficiaries of the 1 billion or so newly middle class, newly urbanised consumers expected over the next decade in emerging markets. We regard the market prices for these securities as being inexpensive relative to their demonstrated earnings power and MFF continued to add selectively to its holdings in June.

The US Government completed its 'Stress Test' of the 19 largest US Bank Holding companies in May. American Express and US Bancorp were not required to raise additional capital, but did so in order to repay the US Government's preference shares, and this has now occurred. American Express was almost alone in not being required cut its dividend, not being required to raise additional capital and projected to remain profitable across the two year period under the stressed scenario used by the regulators (note that this is not a forecast by us or by the regulators), despite its very considerable headwinds. Bank of America was required to raise approximately US $33.9 billion in additional ordinary capital and had more than met this requirement by 30 June. The overall results of the Stress Test and the banks' successful capital raising efforts contributed to the positive overall investor sentiment in the latest quarter.

We remain concerned that the consequences of the economic downturn have a long way to play out. Corporate pessimism remains widespread with many insolvencies, layoffs and deferral of capital expenditure (aircraft are a recent well publicised example). However, restocking of inventory and significant oil and other commodity restocking are encouraging many investors to bet on an early V-shaped recovery. Capital markets have also improved with much stronger debt and equity issuance. Many markets have rebounded from very low levels and some have returned to frothy speculation (the most recent China A share IPO reportedly was oversubscribed by well over one hundred times – for a Chinese pharmaceutical company priced at a reported multiple of expected earnings of about 30 times).

Recent press reports indicated that the inflow into commodity based mutual funds for H1 2009 exceeded the highest previous annual inflow.

We remain very cautious about the near-term economic outlook, the current level of speculative flows and the future effects of the political reactions to the crisis. Funding of Government debt is an increasingly important issue. Investors and politicians should not ‘declare victory’ too early as complacency and over confidence carry risk.

Corporate and consumer confidence continue to be key factors for market participants in assessing the possible severity and duration of the impact of the recession for individuals, regions, industries and companies. Some economies with the highest level of consumer indebtedness actually have rising confidence levels at the moment, as the unprecedented levels of fiscal and monetary stimulus have their initial impacts.

Current market dynamics remain complex. Some market prices currently may reflect a “premium for speculation” as investors chase short term returns. Other prices reflect a “premium for liquidity” as investors chase the apparent security of cash or near cash. Some investors reason that they will get a better equity type return by investing with ‘momentum’ plays, but also want to hold sufficient liquidity as they are fearful of a return of recent losses as economies and markets are still uncertain.

We are patiently and determinedly seeking to focus on companies of the highest quality, many of which are currently returning materially better free cashflow yields than cash, with relatively limited downside business risk over the medium to longer term. We believe that the advantaged business cases for a portfolio of these quality companies will ultimately be reflected in a “premium for quality”. A number of these companies continue to be priced by the market at prices below those of a decade ago, despite much stronger competitive advantages and earnings power.

More than 95% of total investment assets by market value are in global multinationals (being entities that generate 50% or more of their revenue and/or have material operations in 15 or more countries outside the domicile of their primary securities exchange), with a majority of the balance being predominantly North American focused. The revenue and earnings split for the multinationals average about 40% USA, 30% Europe and 30% ROW. The emerging markets proportion continues to rise. As at 30 June 2009, MFF had borrowings of approximately 16.7% of total investment assets, predominantly denominated in AUD, Euro and British Pounds.

Key currency rates for AUD as at 30 June 2009 rates were 0.8085 (USD), 0.5764 (EUR) and 0.8792 (CHF) compared with the 29 May 2009 rates which were 0.8005 (USD), 0.5655 (EUR) and 0.8536 (CHF).

Leo Quintana
Legal Counsel & Co-Company Secretary
3 July 2009

[1] Deferred tax assets less deferred tax liabilities
All figures are unaudited