MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
ABN 32 121 977 844

Level 7, 1 Castlereagh Street,
Sydney NSW 2000 AUSTRALIA

General: +61 2 8114 1888
Facsimile: +61 2 8114 1800
Website: www.magellangroup.com.au

21 October 2011

Company Announcements Office
Australian Securities Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam,

**Magellan Flagship Fund Limited (ASX:MFF)**
**2011 Annual General Meeting**
**Chairman's Address to Members & Chief Investment Officer's Comments**

Magellan Flagship Fund Limited ('**MFF**') hereby lodges copies of:

- the address by MFF's Chairman, Mr Richard Warburton AO; and
- the comments by MFF's Chief Investment Officer, Mr CHirs Mackay,

which will be delivered at today's Annual General Meeting of MFF.

Yours faithfully,

**Leo Quintana**
**Legal Counsel & Company Secretary**

# Chairman's Address
# to the 2011 Annual General Meeting
# Friday 21, October 2011

MFF recorded a pre-tax profit of $1.33 million but a net loss after tax of $0.02 million for 2010/11. MFF had a rise of approximately 18.4% in the 'mark to market' of equity prices, (in base currencies, after operating expenses, and pre tax) offset by the rise in the AUD against other currencies.

In per share terms, net increases in the market value of the portfolio in base currencies benefitted the Company by about $0.14 per share, offset by movements in foreign exchange in the year of approximately $0.14 per share. The Company's net tangible assets per share (pre tax) were 76.2 cents as at 30 June 2011 compared with 75.9 cents per share as at 30 June 2010.

## The Company's Portfolio

MFF's portfolio is overwhelmingly invested in leading global multinationals. The underlying business strength of the portfolio companies is very evident and your Directors are confident about the business prospects for these high quality companies. The portfolio has attractive exposures to developed markets as well as emerging markets.

In 2010/11 the Company maintained its investment focus. Changes to the portfolio were modest during the year. There was only one new holding(China Mobile) and additions included Google, Wells Fargo and Visa. Reductions included Wal-Mart, PepsiCo and Tesco.

Last year I said that "near term economic conditions are difficult in much of the world and economic, political and regulatory risks continue to be significant, including increased Sovereign Risk". These risks have increased in the past 12 months, and the underlying market sentiment has worsened since 30 June. The portfolio has held up better than the market in the latest difficult period and the pre tax NTA per share was 78.1 cents as at 14 October 2011. A majority of our portfolio companies are achieving record profits, but few are near their record share market prices given the weak investor sentiment.

## On Market buy-back

During 2010/11, MFF acquired on-market a further 4.48 million shares at an average price of approximately 63 cents per share. We have continued with the buy-back after 30 June and have bought approximately 940,000 additional shares. We intend to maintain the Company's Balance Sheet strength whilst continuing the buyback where it is a positive use of the company's resources. MFF's investments are in highly liquid shares and we have a modest level of borrowings in comparison with the investment assets.

I now invite Chris Mackay to make some remarks and we look forward to your questions.

Richard Warburton AO

Chairman

**COMMENTS FROM CHRIS MACKAY**
**MAGELLAN'S CHIEF INVESTMENT OFFICER**
**At the Magellan Flagship Fund Limited Annual General Meeting**
**Friday, 21 October 2011**

The MFF portfolio gained about 18.4% (pre tax after costs) in base currencies in the latest 12 months. However this was almost entirely offset by the adverse currency movements (which are almost entirely unrealised), as the AUD rose strongly and the USD fell (as did the Euro).

The quality of MFF's companies is extremely high, their strong market positions are improving and we believe that valuations continue to be attractive. The portfolio results reflect excellent business performances, particularly from our major portfolio companies, as well as some further recovery in market prices. Our quality/value focus and analytical, objective approach, including the share buyback, remain unchanged.

MFF has a high quality, transparent portfolio of companies which have sustainable advantages. We update the ASX daily when there are share buybacks, each week with movements in the NTA and provide monthly commentary on changes to the portfolio and other matters.

Our currency exposure is now negative on a mark to market basis, and momentum and near term prospects have been looking very challenging. At the half year we said that "an immediate market risk is that the December conditions of rising commodity prices and rising AUD continue to impact MFF via the currency translation...". These risks impacted MFF in this half, although there has been a little respite post 30 June.

Most importantly, the portfolio has extraordinary characteristics and we are very confident about the market positions and prospects. These companies combine high ROE, cash generative home market leadership with high return incremental growth options (both domestic and international), favourable technological/demographic trends such as urbanisation and mobile internet, and global reach. Our companies benefit from the rise in opportunities and freedom from increased market based specialisation, trade, and easier transfers of people and capital reflected by the collapse of Communism and the Berlin Wall and the re-entry of China into world trade and investment.

Despite the current prevalence of fear and despair, our companies continue to improve their businesses.

Up on the screen there is a comparison to 30 September 2011 of MFF's investment performance and share price with the Australian and international markets. Our #1 priority is to get to positive overall performance without excessive risks, and adverse currency movements are no excuse.

Time favours quality businesses and, if we are patient, disciplined and objective, we should get results. We also believe that the currency situation will play out in our favour, even though it is as likely as not to get worse rather than better in the near term. Up on the screen are some graphs from last week's press providing context for the rise in iron ore prices which are so fundamental to the AUD strength. Unless "this time is different" there will eventually be a correction.

Overall changes in the portfolio during the year were again modest. We constantly review investment opportunities and portfolio construction, but the quality of the portfolio means that the hurdle is very high for new investments. There are detailed comments about our larger holdings in the Investor Report. I won't repeat them here, except to say that the business performance of MFF's largest holding, American Express, has exceeded our expectations in 2010 and 2011 with a return to record card spending and low debt write offs. However, the poor macro economic outlook and concerns about regulation remain obstacles to a broad recovery in financial company share prices, even for leading financial firms.

At year end we only had one new position (China Mobile). It is growing its 633 million customer base by 60 million net new customers per year, has over $40 billion of cash and $15 billion of after tax earnings, our average purchase price is about 10x after tax earnings (which are deflated by a heavy investment programme) and the dividend payout ratio is currently 43% with plenty of scope for more aggressive capital management (possibly after its Shanghai listing). Of course there are technological, regulatory, competitor, macro economic, investor momentum and other factors which impact the stock price. However we expect China Mobile to be earning far more money as its networks provide many more applications and services for more customers in 10 years, irrespective of any short term factors.

Other larger additions during the year were in Google, Wells Fargo and Visa. We had reduced our small direct exposure to Europe in 2009/10 and reduced this even further this year. We also sold down some retail/consumer exposures such as Wal-Mart and PepsiCo in 2010/11. We expect some sensible opportunities amongst the European based multinationals, which we continue to assess in addition to the small starter position in Danone (acquired after 30 June). Prices of quality US based multinational 'defensive' stocks have largely held up, but financials have become cheaper as political, macro economic and regulatory concerns are heightened and this may also provide opportunities.

It is often easy to become very negative about near term risks and political processes. There are always many risks, but despite headwinds, our companies are producing record levels of profitability and, more importantly, have their best ever future prospects. We will continue our focus on Quality and actively assess value and portfolio construction, whilst being wary of major systemic risks.