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FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for October 2012

MFF advises that its monthly NTA per share as at 31 October 2012 was $0.972 excluding net deferred tax assets[1] of $0.018 These figures are unaudited.

October presented MFF with some opportunities which appear to have decent longer term margins of safety. With net cash levels of approximately 37% of investment assets, we retain capacity to target high quality companies when they become attractively priced. Bargains are currently not abundant because interest rates are low and professional investors have been forced from the sidelines. On the other hand, our portfolio valuations, business case assumptions and portfolio construction/opportunity costs are not stretched. A number of companies that we had sold are becoming more interesting via a mix of share price movements, business progress and resilience.

Our focussed set of financial companies has been, and continues to be, attractively priced. Financials, even those of the highest quality, have higher business risks than the average business risk that we are seeking for the portfolio, and we seek to mitigate partially these risks via portfolio construction. Cash has been the key balance for the financials in portfolio risk/construction in recent months, as we had sold many of our fast moving consumer goods companies. We felt that they became relatively more expensive as some aspects of the market's "flight to safety" may have ignored growing risks of competitive and channel pressures, and overestimated profitable medium term prospects in emerging markets and Europe. We currently remain cautious about stretching to repeat the high levels of emerging markets exposures we had up until the last six months; these weightings will fluctuate with market prices and business cases.

In October we were able to add some companies with below average long term business risks, and added to some financials and to HCA (prior to the record date for its $2.50 per share special dividend). MFF's three bank financials continue to improve their capital, liquidity and fee businesses and between them have over two trillion dollars of deposit funding at an average interest cost close to 0.2%per annum.

The Company's holdings with a market value of A$1 million or greater (which represent about 99.5% of portfolio securities) as at 31 October 2012 were:

Holding	$million	Holding	$million
Tesco	24.6	Danone	8.6
McDonald's	22.7	Sainsbury J	7.8
Wells Fargo	22.3	Wal-Mart	7.4
Visa	18.1	MasterCard	7.0
US Bancorp	17.3	Unilever Plc	4.3
HCA Holdings	14.8	Unilever NV	4.2
Bank of America	14.7	American Express	2.6
CME Group	12.0	Singapore Tech Engineering	1.8
Yum! Brands	10.3	Home Depot	1.7
Lowe's	8.9	SIA Engineering	1.3

The September Quarter company results have been a fascinating mix, including less overall global optimism than in recent quarters. Our focus companies again reported modestly above our expectations for business progress and resilience, but competition continues to increase including in some major categories in major emerging markets such as China.

We have maintained our existing currency positions. Mentioned below are some recent events which appear to increase the likelihood and potential magnitude of currency markets eventually moving in our favour. We are not however expecting a quick reversal, currency remains the main reason why our NTA is not significantly higher and the momentum of the market and next two years of resource projects remain behind a firm AUD.

Underlying long term competitiveness in Australia is deteriorating, policy responses are becoming more difficult, companies are starting to take productive activities elsewhere and opportunities for phased adjustment narrow. The recent suggestion by an esteemed international economist that Australia should base its budgets and policies upon a halving in key commodity prices is a sensible base point, but will not be considered seriously in Australia until the inevitable post mortems after the halving occurs, and the hollowing out is irreversible (once Sydney's petrol refining moves to Singapore it is unlikely to move back). In contrast, even a poorer country such as Chile, has rebuilt its Economic Stabilisation Fund based off the copper price recovery post financial Crisis.

The August deterioration in Australia's trade figures of about $50 billion annualised exceeded most adverse expectations and may indicate that previous estimates of a $150 billion hit to national income, underlying Balance of Payments deficits of 6%, and underlying Federal/State Government deficits of $50 billion may be underestimates, after structural/cyclical adjustments and multipliers occur (high professional and housing income multiplier benefits for Sydney and Melbourne, for example). Damaging policy Europeanisation, Americanisation of political debate and pervasive complacent mediocrity from sustained fortune is intensifying the structural deterioration in Australia's competitiveness and will escalate pressures such as the incentives and distortions of Federal/State financial relations, as primary taxing and escalating/duplicative regulatory powers are held centrally, but States rely upon Federal payments for service and infrastructure delivery.

Central government officials in China are resisting another massive stimulus. The rhetoric of the majority group of the incoming Central administration appears to distance itself from the debt build up and resource misallocation aspects of the 2008/09 response to the Financial Crisis and tilt more towards productivity and rebalancing. China is also critical of exported bubble, inflation and currency distortions from US and European monetary policy. In the absence of another major stimulus from China which causes demand to spike again off stimulus elevated levels, Australian export commodity prices will fall materially. Commodity producers are scrambling to scale up and lower their marginal costs of production. Financing has been arranged for the major incremental additions to production, and the construction timelines are two years or so. Markets materially underestimate the implications of the inevitable cyclical adjustment and multipliers, particularly for Australia. However, this is unlikely to play out quickly and the current drop off in China's steel demand (resulting in export dumping of steel on international markets) is too short term to be regarded as a trend, and has not stopped short term iron ore restocking.

Pre Sandy, the focus of the US Presidential election had hardened and narrowed; the candidates and a majority of the American people expect that the next term's Presidential legacy will be shaped by economic factors, particularly employment. The stimulatory benefits of US macro positioning and beneficial infrastructure spending in responding to the Financial Crisis are underappreciated, possibly because of the administration's damaging rhetoric and microeconomic decisions, and market focus on risks relating to unwinding the stimulus. We believe that the US recovery potential may be stronger than the underlying official figures, for example many of our companies noted positive US economic momentum. Improving US data includes some improvements in the budgets for the federal and various state governments, US bank recapitalisations, profits and loan demand recovery, meaningful energy technology advances and increased competitiveness for many US manufacturers and service providers. The economic platform for the winning US candidate may be more favourable than widely perceived, as US economic breadth, competitiveness, demographics and flexibility are mostly favourable.

MFF's cash weighting is not predicated on a near term major macroeconomic collapse. Our central case is that liquidity/money printing by the ECB will allow a financial crisis from failure of European states or banks to be deferred at least until well after the US and then German elections are out of the way. Nevertheless distortions continue to build and economic depression will continue in parts. Such distortions provide market volatility, risks and opportunities for MFF's cash and for the portfolio companies, even if the next major crisis is some time away. European countries and banks remain dependent upon sustained non commercial official support and forbearance. Many countries and regions will be pressured if China rebalances. Official European responses are challenged by sustained lack of growth, societal regression and some of the largest companies and most productive people are leaving, for example Coca-Cola Hellenic (Greece's largest company) is moving its domicile to Switzerland and primary listing to London, and capital and people react adversely to new French taxes and regulations.

The Federal Reserve's money printing and the repeated trillion dollar plus US fiscal stimulus gives plenty of opportunity for speculative activity in markets whilst officials aim for the return of "animal spirits" in the real economy. Market consensus is that the so called US "fiscal cliff" will be dealt with post election. We have no advantaged insight, and are buying and holding securities where we anticipate that the long term economics are positive almost regardless of what damage the politicians inflict, provided that capitalistic activity is broadly permitted to remain the key driver of prosperity and employment. Very high quality companies with long term advantaged competitive positions, pricing power and strong cashflows are likely to better withstand these risks and damage than most asset classes over time.

As at 31 October 2012, approximately 43% of MFF's portfolio securities by market value were in North American focussed companies, with global multinationals and the two UK focussed companies (Tesco which is about 2/3 UK, and Sainsbury) representing approximately 41% and 15% respectively.

As at 31 October 2012, MFF had net cash of approximately 37% of total investment assets. Cash balances are almost entirely held in a mix of US Dollars, Singapore Dollars, Hong Kong Dollars and Swiss Francs. Borrowings remain in AUD and a small amount of Euro. MFF remains effectively "short" the AUD.

Key currency rates for AUD as at 31 October 2012 were 1.037 (USD), 0.800 (EUR), 0.644 (GBP) and 0.966 (CHF) compared with rates as at 28 September 2012 which were 1.040 (USD), 0.808 (EUR), 0.644 (GBP), and 0.977 (CHF).

Yours faithfully,

Chris Mackay
Director

Leo Quintana
Legal Counsel & Company Secretary

2 November 2012

[1] Deferred tax assets less deferred tax liabilities.