MAGELLAN
FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for February 2013

MFF advises that its monthly NTA per share as at 28 February 2013 was approximately $1.051 excluding net deferred tax liabilities[1] of $0.010. The NTA figure is prior to provision for the interim dividend (1 cent per share unfranked and payable in May 2013). No adjustment has been made for possible future dilution for the 2017 options. All figures in this release are unaudited.

The overall structure of the portfolio is concentrated on quality and value, with a mix of financials and non financials, geographic and business exposures, strong near term earnings growers as well as more steady earners. The portfolio is concentrated in market leaders producing excellent cashflows. Currently we have a high weighting to our preferred range of credit based financials as well as other economically sensitive exposures, such as Google and the dominant US home improvement chains. Out of favour/ attractively priced 'quality' situations are well represented in the portfolio.

Q4 results and other data show signs that the US recovery is broadening and strengthening whilst the Federal Reserve buying programme maintains the massive stimulus of a benign bond market. The recovery in the housing sector has an important multiplier effect. Business risks remain, such as overcapacity in traded sectors, but some of our portfolio companies have exceptional global and industry specific opportunities.

There have been no new holdings so far in 2013. MFF's holdings as at 28 February 2013 with market values above A$1m are:

Holding	$million	%[2]	Holding	$million	%[2]
Tesco	34.5	9.5	Lowe's	13.4	3.7
Apple	34.2	9.4	Sainsbury J	13.0	3.6
Wells Fargo	31.1	8.6	MasterCard	12.5	3.4
McDonald's	26.5	7.3	Mondelez (formerly Kraft)	8.0	2.2
Visa	25.3	7.0	CME Group	6.6	1.8
Yum! Brands	23.4	6.4	China Metal Recycling[3]	5.3	1.5
Bank of America	22.3	6.1	Danone	4.7	1.3
HCA Holdings	21.7	6.0	Home Depot	3.0	0.8
US Bancorp	18.9	5.2	Unilever Plc	2.8	0.8
Wal-Mart	18.3	5.0	Singapore Technologies	2.1	0.6
Google	18.2	5.0	SIA Engineering	1.4	0.4
State Street	16.0	4.4	Treasury Group	1.4	0.4
Bank of New York Mellon	14.9	4.1			

[1] Net tax liabilities less net tax assets.
[2] Percentages of portfolio less net debt (excluding effect of accruals and accounting adjustments). Figures are approximate, rounded and based on market closing prices.
[3] CMR has not traded since 25 January2013 when it announced a transaction with a Chinese State Owned Enterprise and a US short seller research house issued a critical report in relation to which the HKSE has required a detailed response from CMR.

In February we increased a small number of existing positions and sold down some holdings and moved to a net debt position of a little under 5% to fund these increases. We are not inclined to move to utilise a significant part of the 20% borrowing capacity. In current economic settings, at current valuations and with the current portfolio construction, we feel that cash or only a small amount of net debt is appropriate. Our highly liquid securities currently appear to be better than cash, although we continued to lower our weightings in brand name consumer companies given their market prices and business outlooks and our alternatives. We are not currently compelled to sell broadly on account of valuations or perceptions of risks or opportunity costs. However, MFF does not have cash inflows and future purchases must predominantly be funded by sales [special dividends, increased ordinary dividends and buybacks are important but less significant].

It is inevitable that MFF should again at some stage move to a net cash level and wait for opportunities. Decisions will be required about sustainability/cyclicality of the recovery and implications of the removal/reduction of stimulus. The status quo is unsustainable (i.e. that growth will be satisfactory, corporate profits and markets will rise strongly but inflation, interest rates and capital flows remain benign). Wide ranges should be expected in investment outcomes, as well as current probability based assessments of future cashflows, valuations and margins of safety in part reflecting differing assumptions for such key variables. The timing, details, magnitude of changes and sequence are unknowable, with serious underperformance if sales are too early and the stimulus/sustained real recovery drive the momentum rally, or serious underperformance if markets sustain major falls which sustainably impact real economies and real companies within the portfolio. We attempt to concentrate on data, analysis and opportunity costs, irrespective of periodic underperformance (which is inevitable).

Equity market participants had a lot to worry about in February but composite global indices pushed ahead by about 2% in AUD terms. Market rises despite uneasiness (climbing the wall of worry) is reinforcing momentum and investors' confidence. Non participants in the rally, particularly professionals, are being forced off the sidelines and may chase returns. Aggregate investor expectations about future stock returns have risen but we do not perceive equity price bubbles in our focus areas. Higher market prices actually mean lower future aggregate investment returns, except in the unusual circumstance that the aggregate net present value of the positive real economic impact of the higher market prices exceeds the increase [for example via wealth effect multipliers].

As at 28 February 2013, MFF continued to hold cash balances in a mix of US Dollars, Singapore Dollars, Hong Kong Dollars and Swiss Francs. Borrowings are predominantly in AUD, some Euro with a smaller balance in GBP. Currency positions are largely unchanged from those set out in the half yearly report released during the month. MFF remains effectively "short" the AUD, and this position is supported by our analysis of the current data. We consider that AUD purchase prices for our portfolio components are attractive.

Key currency rates for AUD as at 28 February 2013 were 1.024(USD), 0.783(EUR), 0.674 (GBP) and 0.955 (CHF) compared with rates as at 31 January 2013 which were 1.043 (USD), 0.768 (EUR), 0.658 (GBP), and 0.950 (CHF).

Yours faithfully,

Chris Mackay	Leo Quintana
Director	Legal Counsel & Company Secretary

1 March 2013