MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
ABN 32 121 977 844

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

Please find enclosed MFF's monthly NTA per share for December 2013.

Leo Quintana
Company Secretary

3 January 2014

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Net Tangible Assets ('NTA') per share for December 2013

MFF advises that its approximate monthly NTA per share as at 31 December 2013 was $1.519 pre-tax and $1.369 post-tax. These figures are not adjusted for the expected dilution from the exercise of the MFF 2017 options (exercise price $1.05). If all of the MFF 2017 options had been exercised on 31 December 2013 the pre tax NTA would have been reduced by approximately 11.2 cents per share.

Additional information:

	Undiluted
Pre-tax NTA	$1.519
Net deferred tax liabilities	($0.150)
Post-tax NTA	$1.369

All figures in this release are unaudited and approximate. Note that deferred tax liabilities are partially in respect of net gains realised in 2013/14 to date.

There were no material portfolio changes in the month and the focus is unchanged. For most companies in the portfolio, we believe that it is probable that they will continue to be competitively advantaged in providing profitable goods and services for many years. In a few cases probabilities are less clear, but near term cash flows appeared strong relative to their market prices when we purchased them and the frothy markets are helping. We continue to be reluctant to go far down the quality spectrum in this cycle. Capital risk grows as prices rise and currently there are few distressed sellers, even for lesser quality companies (low interest rates increase optionality/reduce perceived opportunity costs for investors holding or chasing "lottery ticket" stocks until sentiment turns).

We continue to be cautious about valuation risks as markets continue to rise. The MFF portfolio equity risk is far higher at current higher price levels than six or twelve months ago, particularly as our high level of exposure to credit based financials continues.

The rising market turned into a flood to lift all boats in 2013, including the MFF portfolio. Even though MFF is favoured by relative performance comparisons, with investment returns after fees and costs for the latest six and twelve months above 20% and 50% respectively, relative performance comparisons can be very dangerous for investors particularly in such frothy markets. Some of the weaker relative performances for the year amongst professional investors were from the most prudent investors who paid to hedge capital risks. MFF had the luck in 2013 that a primary risk hedge (being effectively short AUD) added value (unrealised i.e. on paper), rather than being a cost. We had the added good fortune in the year and in the latest six months that the market values of MFF's financials continued to rise although the Crisis losses remained on many minds. Extrapolation of recent market benefits in equities or in currencies is dangerous.

We continue to watch the wall of money that has bought into ETFs, Index Funds and Hedge funds. Consensus appears to be that it is less risky to buy an index, irrespective of knowledge about the individual components, its breadth or even details of its composition. This approach is currently somewhat supported by recent macro driven markets, but risk controls and markets for individual companies will again become more important. Although recent volatility has been low, risks rise with such activity and as investors move to the same side of the boat to chase recent performance and momentum.

We continue to expect far lower aggregate returns and continue to weigh investments on a case by case basis against existing holdings and increases in net cash levels. Of course the chances of non temporary negative returns are greater at higher prices.

We continue to look for opportunities within the portfolio and outside. MFF's balance sheet is strong, our securities are liquid and there is net cash. The market rise also increases the likelihood of substantial exercise of the 2017 MFF options by the time of their expiry; although the AUD amount buys far less in terms of international securities than at the time of the bonus issue of options.

Data in December appeared to confirm some broadening in the US economic recovery. Markets have also moved the 10 year US Treasury from about 1.6% to about 3% by year end. In addition to the implications of the so called Taper, and ongoing Quantitative Easing, more progress was made on regulation of the financial sector after the Crisis. Although the goal may be achieved of shifting some systemic risk from the largest financial institutions, unregulated markets are already growing very rapidly in response. Cyclicality has not been eliminated (obviously) and early signs are that "hedge funds" are stepping in to provide "shadow banking" and "market making" or liquidity in important securities. Many traditional bankers have been decrying the risks of chasing yield, whereas "hedge fund" operators incentivised by bonuses that are only payable on gains are reporting stellar numbers inflated by such forms of yield chasing carry trades and low current default rates.

Individual emerging markets are attempting to manage various risks, well beyond the situation in Turkey. In China, official figures were released shortly before year end which showed increasing trillions of Government debt, particularly direct and indirect Local Government liabilities. Recent rapid growth in fixed asset investment has been underpinned by the increasing debt levels, but productivity and increases in output have not matched the increasing debt levels. The growth equation may become materially more challenged over the next decade as the rate of growth of debt falls, unless productivity again accelerates. There is increasing publicity about significant defaults in emerging markets and shadow banking problems (including China's so called Trust market). Emerging market and more developed country Governments are grappling with how to weigh bubble risks in asset classes including property against stagnant demand levels, and concurrent inflation and deflation risks. The low quality IPOs, private equity and other sponsor/insider selling around the world bear watching, although equity markets appear to again be lagging debt markets in assessing some market risks.

Holdings above 2% of investment assets as at 31 December 2013 are shown below:

Holding	**%**
Wells Fargo	11.9
Visa	10.4
Bank of America	8.6
Lowe's	7.5
Apple	7.2
Home Depot	6.3
HCA Holdings	6.1
MasterCard	5.7
US Bancorp	5.5
Lloyds Banking Group	5.5
Bank of New York Mellon	4.7
Wal-Mart	4.3
State Street	4.3
Sainsbury J	2.4

As at 31 December 2013, MFF held cash balances in a mix of US Dollars, Singapore Dollars, Hong Kong Dollars and GB Sterling. Net cash was approximately 6.4% of investment assets with borrowings predominantly in AUD and some Euro. Currency positions again remain materially unchanged. We continue to perceive potential partial risk hedging aspects of MFF's "short AUD" position, in current conditions. Also, Australian macro-economic risks are more pronounced in some of the data released in December. Setting policy objectives and getting support for savings measures remain difficult; for example the loss of competitiveness and deteriorating fiscal position are not addressed by the apparent consensus to borrow for low productivity infrastructure projects. The multiplied stimuli of record terms of trade, resources infrastructure spending and Government expenditure well in excess of receipts, eventually reverses.

Key currency rates for AUD as at 31 December 2013 were 0.895 (USD), 0.649 (EUR) and 0.540 (GBP) compared with rates at 29 November 2013 which were 0.914 (USD), 0.671 (EUR) and 0.558 (GBP).

Yours faithfully,

Chris Mackay
Portfolio Manager

3 January 2014