MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
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Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for June 2014

Please find enclosed MFF's monthly NTA per share for June 2014

Geoffrey Stirton
Company Secretary

02 July 2014

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Net Tangible Assets ('NTA') per share for June 2014

MFF advises that its approximate monthly NTA per share as at 30 June 2014 was $1.427 pre-tax and $1.308 post-tax. Note that no adjustments are made 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 30 June 2014 the pre-tax NTA would have been reduced by approximately 8.7 cents per share.

All figures in this release are unaudited and approximate. Estimated tax liabilities include a preliminary estimate for a current tax liability of approximately 1 cent per share. The figures are after fees and other charges.

Holdings with market values above A$1m (shown as percentages of total investment assets) as at 30 June 2014 are shown in the table below

Holding	%
Wells Fargo	12.9
Visa	10.6
Lowe's	9.1
Home Depot Inc	8.8
Bank of America	8.2
MasterCard	7.4
HCA Holdings	6.8
Lloyds Banking Group	6.0
US Bancorp	5.6
Wal-Mart	5.4
Bank of New York Mellon	4.7

Holding	%
State Street	3.7
Sainsbury J	3.3
Danone	1.4
Adidas	1.3
Qualcomm	1.3
Unilever	0.9
Sing Tech Engineering	0.6
SIA Engineering	0.5
eBay	0.5
Diageo	0.5
SATS	0.3

The portfolio remains concentrated upon companies where we perceive sustainable competitive advantages and strong ongoing cash generation. There have been few changes in the portfolio in the latest quarter and the MFF business cases remain excellent. We continue to be pleased with cash generation and capital deployment discipline across the portfolio. Parts of the portfolio had capital deployment benefits in the latest six months from continuing low interest rates, very strong debt markets and buybacks being made on comparatively favourable terms.

However, the continuing low interest rates were negative overall in the latest six months given our portfolio composition and currency positions, particularly as calendar year end 2013 market prices reflected expectations for rising rates and stronger economies. MFF's credit bearing financials (Wells, Bank of America, US Bancorp, Lloyds Banking, BNY Mellon and State Street) are penalised by reduced net interest margins due to the low interest rates. Currency movements in the six months were unfavourable for MFF, as the impact of USD weakness and investors chasing AUD bonds yields outweighed investor caution as a result of Australia's deteriorating terms of trade and budget outlooks. Markets will need to adjust when the US Federal Reserve completes its 'taper' and eventually moves towards interest rate normalisation.

We added opportunistically to some portfolio positions where we felt that the opportunity costs were appropriate, although we continue to be cautious about margin and revenue growth assumptions. MFF’s pre-tax investment returns for the financial year (after fees and expenses) were approximately 15%. This trailed many index measures, except for some large cap indices, and particularly reflected the adverse currency movements in the second six months offsetting overall positive stock price appreciation. MFF has benefitted because we did not move the portfolio to the side lines, although we continue to avoid the “hot” tech, bio and other momentum names which rose significantly.

Although we currently continue to believe that valuations for our portfolio companies implied by market prices are satisfactory [refer to the discussions in the monthly NTA releases in recent months] and prefer our portfolio market exposures to the alternatives, we are wary.

Companies, sectors, economies and markets fluctuate significantly and market risks are greater as market prices rise and the longer that artificial official stimulus continues. The market value of the MFF portfolio will fall if general market prices fall, although our continued focus on a small number of advantaged companies might provide some relative benefit, as should the partial hedging benefit from maintaining the “effective short AUD” position.

Whilst we aim to have MFF benefit from market appreciation in the underlying portfolio, we also aim to have sufficient balance sheet strength when market fluctuations provide greater opportunities. There are opportunity costs to the upside and downside in seeking to protect and grow capital, and we cannot be distracted from relevant analysis and data by what indices or other investors may or may not do year to year, particularly during periods of momentum markets.

If the much delayed pick up in the economic recovery in the US (in particular) becomes more meaningful, we likely will get cyclical benefits. Whilst possible, we also are not targeting either, a further market rerating from the return of individual investors, or the “Fed fairy tale” of sustained low interest rates, low inflation and decent employment and economic growth. On the downside, a sustained increase in energy/commodity prices, without revenue and margin benefits for our portfolio companies, would be damaging for MFF’s market values.

Our risk assessments are focussed upon less favourable cases. In many sectors of various markets, margins have continued to hold up despite revenues missing investor expectations and emerging market growth expectations are slowly receding but remain optimistic, overall. We are concerned about the negative impact of competition and margin pressures (and hence prices and values) particularly outside our investment focus areas (at the moment, but disruption is widening rapidly). Mobile computing, data technology and globalisation continue as crucial economic enablers, but are disrupting forces for established companies. In addition, the so-called 'trickle down' benefits of recovery are not aiding less privileged majorities of most economies and political and social disruption is increasingly probable.

As at 30 June 2014 net borrowings were approximately 5.88% of investment assets. MFF held cash balances almost entirely in US Dollars with a small amount in Singapore Dollars and other purchase settlement balances. Borrowings remain in AUD, at about the same level as the half year figures. There were no material changes to currency positions during the month or quarter. We continue to consider MFF’s currency positions and weightings, and will advise material changes via the weekly and monthly ASX releases.

Key currency rates for AUD as at 30 June 2014 were 0.944 (USD), 0.689 (EUR) and 0.552 (GBP), compared with the rates at 30 May 2014 which were 0.931 (USD), 0.682 (EUR) and 0.555 (GBP).

Yours faithfully,

Chris Mackay

Chris Mackay
Portfolio Manager

02 July 2014

Important note