MAGELLAN FLAGSHIP FUND LIMITED

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

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

Geoffrey Stirton
Company Secretary

02 September 2014

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MFF advises that its approximate monthly NTA per share as at 29 August 2014 was $1.501 pre-tax ($1.427 pre-tax as at 30 June 2014) and $1.364 post-tax (tax liabilities are almost entirely deferred liabilities). 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 29 August 2014 the pre-tax NTA would have been reduced by approximately 10.3 cents per share. All figures in this release are unaudited and approximate. All figures are cum the 1 cent per share unfranked dividend payable in November 2014.

Holdings as at 29 August 2014 with market values that represent more than 2% of the portfolio are shown in the table below (shown as percentages of total investment assets).

Holding	%	Holding	%
Wells Fargo	11.7	Lloyds Banking Group PLC	5.8
Visa	10.5	US Bancorp	5.1
Home Depot Inc	9.6	Wal-Mart Stores Inc	5.0
Lowe's	9.3	Bank of New York Mellon Corp	4.6
Bank of America	8.7	State Street Corp	3.6
Mastercard	8.0	Sainsbury J Plc	2.9
HCA Holdings Inc	7.8		

Our assessments of key probabilities relating to MFF's portfolio remained relatively unchanged during August. Our portfolio company valuations remain in satisfactory ranges, albeit our assessments of the margins of safety continue to fall moderately as overall portfolio prices have continued to increase since 30 June (business prospects remain positive for our portfolio whilst base interest rates have fallen). Probabilities of key event risks for markets generally appeared to be relatively unchanged. Positively, the progress of the taper by the US Federal Reserve continued to be much less disruptive than feared 12 months ago. The very liquid 10 year US Treasury interest rate was below 2.4% at month end compared with the already low rate of 3% at the end of calendar 2013. On the other hand, the heightened risk aversion reflected in US and European core bond markets encourages caution and negative feedback loops. Valuation risks continue in many parts of equity markets as many professional investors (and index investors) pay higher and higher prices for equities having either or both perceived safety and growth prospects. High prices in debt and equity markets risk investors' capital and reversal may cause contagion, irrespective of short term price movements which are always unpredictable.

The few company results released during the month reflected our portfolio companies' favourable comparative advantages, although pricing pressure, competition and technological changes impacting margins remain ongoing threats and challenges. We are wary and questioning about these risks for our holdings, and about potential new holdings.

The composition of the holdings above 2% of investment assets was unchanged. There were purchases of about 1% of investment assets amongst this group in the month. We made modest sales amongst smaller holdings based on relative assessments of value/business risks/prospects. The impact of these changes and the purchases in the month are immaterial compared with the medium term business prospects for MFF's larger holdings.

For the short term, ongoing concerns continue that market prices may reflect excessive optimism for growth in less developed countries and prices may also be insufficiently pessimistic for European exposures. Additionally, as many investors are also camping in areas of perceived safety, prices for many global multinationals are not reflecting the value we seek (and hence our exposure to global multinationals remains lower than in previous years). We remain very cautious about short term prospects for emerging/less developed markets as significant positive reforms are required to overcome challenges, and equity market investors remain optimistic (Brazil unexpectedly announced two quarters of negative growth to meet the definition of a recession and surprised pundits described it as a "technical" recession; local equity markets appreciated in the hope of a new Government and US institutional and retail investors continue to invest solidly in emerging market equities). Monitoring whether reforms in China are likely to result in significantly increased private participation in the economy remains very important. Elsewhere, data continues to indicate that the economic recovery in the US is ongoing.

In terms of currencies, probabilities continue to rise for a favourable demand/supply crossover in the next few years if Australian interest rate differentials fall. Medium term data continue to indicate possible reversals of relativities (Australia/US in particular) in key economic measures such as unemployment, GDP growth rates, income, balance of payments, terms of trade and budget deficits, which have favoured Australia for much of the last decade. The rating agencies continued to downgrade Australian states, and have set out the circumstances for a downgrade of the Australian sovereign rating (a downgrade would be expected to trouble bond buyers). MFF also considers that our effective “short” AUD position continues to be a likely partial hedge against equity market weakness in most circumstances other than weakness related to a significant rebound in commodity prices. In the short term, prices for key commodities for Australia were weaker in August whilst currency rates were relatively steady.

Net borrowings were approximately 8.9% of investment assets as at 29 August 2014. Borrowings remain in AUD and cash is predominantly in USD, at about recently disclosed levels. Cash balances at month end from currently unutilised proceeds of sales in Euro and GBP aggregate to about 1% of investment assets.

Key currency rates for AUD as at 29 August 2014 were 0.935 (USD), 0.710 (EUR) and 0.563 (GBP) compared with rates at 31 July 2014 which were 0.930 (USD), 0.695 (EUR) and 0.551 (GBP).

Yours faithfully,

Chris Mackay

Chris Mackay
Portfolio Manager

02 September 2014

Additional information *(per ASX Listing Rules, Chapter 19):*

Pre-tax NTA (after accounting provision for interim dividend)	$1.491
Post-tax NTA (after accounting provision for interim dividend)	$1.354

The approximate pre tax NTA (after accounting provision for final dividend) would have been reduced by approximately 10.1 cents per share if all of the MFF 2017 options had been exercised on Friday, 29 August 2014.

Important note

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