MAGELLAN
FLAGSHIP FUND LIMITED

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

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

Geoffrey Stirton
Company Secretary

02 October 2014

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

MFF advises that its approximate monthly NTA per share as at 30 September 2014 was $1.618 pre-tax ($1.427 pre-tax as at 30 June 2014) and $1.431 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 30 September 2014 the pre-tax NTA would have been reduced by approximately 13.0 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 30 September 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	%
Wells Fargo	11.8
Visa	10.6
Home Depot Inc	9.9
Lowe's	9.5
Bank of America	9.2
Mastercard	8.7
HCA Holdings Inc	7.9

Holding	%
Lloyds Banking Group PLC	5.8
US Bancorp	5.2
Wal-Mart Stores Inc	5.1
Bank of New York Mellon Corp	4.3
State Street Corp	3.1
Sainsbury J Plc	2.4

There were few changes in relation to the larger holdings in September or in the quarter. Business prospects remain positive for almost all of these companies, although various competitive and other pressures continue to emerge and grow (UK retail and government enquiries/penalties/regulations are examples). This group of companies continues to increase longer term values of their businesses, including using strong cash flows for returns to shareholders, to fund incremental growth opportunities and respond to inevitable adversity. Valuations for this group appear to remain in a broadly satisfactory range and individual company valuations, business performances over time and company prospects currently outweigh short term overall market fluctuations.

Risk assessment is a constant factor and our risk factors change as markets move. The solid unrealized gains since 30 June are already in the past, and there should be no complacency that MFF's portfolio risk management/tolerance remain appropriate. In considering current risks and future opportunities, we compare the individual holdings of our portfolio (currently weighted very heavily to liquid securities in competitively advantaged, solid cash earning companies) against cash and alternative investments. Currently we continue to favour the components in our portfolio, although price appreciation has further reduced the relative attractions and increased price/value risks.

Our approach of weighing any new investments against our excellent existing businesses and the relative lack of cash and capacity somewhat reduce our current capacity to make significant errors in terms of new purchases, compared with investors with abundant low earning cash and pressures of time, benchmarks and performance expectations. In other words, MFF's limited excess capacity and limited focus moderately have reduced some purchase risks during recent stages of the market cycles.

We continue to limit our focus (but not our enquiry) as relatively higher return/ lower risk opportunities appear scarce given higher market prices, and some high asset prices will certainly result in limited returns for higher risks. Probabilities in relation to the best current opportunities appear relatively symmetric between risks and possible returns i.e. equity type returns require equity type risks, such as competition and draconian regulatory/government risks.

Inevitably we will have to take action in relation to some of our larger holdings; this will include actions because of our investment errors, because market prices become excessive, or cease reflecting competitive pressures and other business risks and/or management errors, and because future markets present opportunities that are more attractive on a risk adjusted basis. We are not required to maintain any holdings, although relative inaction is most often sensible for MFF's quality focused portfolio whilst valuations remain satisfactory or better.

We took action in the quarter and in September on some of the smaller holdings; in each case for one or more of the reasons mentioned in the earlier paragraph. These actions also modestly contribute to the process of adding capacity for future opportunities for MFF (a closed vehicle without incoming cash flows which must self-fund future purchases).

Broader market prices might remain too optimistic about medium term business challenges in various industries and major geographies (including Europe and much of Asia), and particularly the risks in less developed countries. Amongst the various bubbles, money has continued to flow from global investors into "Emerging Markets", "Defensive Investments" and related indices and funds, and prices reflect this investor demand and a continuation of optimistic growth assumptions.

In recent years, there were many bargains for equity investors, but we feel that now there are few. We increase our interest when companies and sectors are hammered, although we are cautious about the areas where the cracks are now appearing and so called "safe haven" investments appear especially expensive/risky. We are anxious whether we are complacent about how widely the impacts will spread as bubbles deflate and cracks widen, although skepticism about market recoveries and policies remain intellectually attractive and elite market consensus, and there is very little direct broad market participation. As equity prices rise the opportunity cost of cash falls, and risks increase that we have not been ruthless enough in eliminating potential exposures to future areas of dislocation and overestimate time and liquidity when inevitable dislocation occur. Equilibrium is not a natural state for markets and future shakeouts germinate in benign financial conditions.

Absence of broad participation/euphoria and elite skepticism may be moderately positive reverse indicators that equity valuations in our focus areas are not yet excessive; wealthy investors and funds continue to hold sizeable cash buffers (in aggregate investors incur frictional costs and lose money whilst engaging in market timing). Views remain mixed about whether important economies and inflation are accelerating or whether it is deceleration and deflation, and continue to help subdue some of the euphoric impacts of abundant low cost capital.

As reflected in the NTA figures, currency markets moved in MFF's favour in the month in contrast to the generally negative currency results for MFF since inception. Although favourable if sustained, the moves somewhat reduce the possible benefit of the perceived partial hedge from MFF's continuing "effective short" AUD position (refer to previous monthly and other releases for discussion of this and of medium term fundamental considerations).

Net borrowings as a percentage of investment assets reduced slightly in September to approximately 7.9% of investment assets as at 30 September 2014. We reduced the AUD gross borrowing figure from A$98.2 million as at 30 June 2014 to approximately A$90.6 million as at 30 September 2014 (the MFF Board's AUD borrowing limit/risk control remains at A$100 million). Almost all of MFF's outgoings are in AUD (for example, expenses and dividends of approximately A$5 million must be paid by the end of next month) and we periodically repatriate some cash balances and sales proceeds to fund expenses/reduce borrowings in AUD. Cash balances remain predominantly in USD with a small amount of GBP.

Key currency rates for AUD as at 30 September 2014 were 0.875 (USD), 0.693 (EUR) and 0.540 (GBP).compared with rates at 29 August 2014 which were 0.935 (USD), 0.710 (EUR) and 0.563 (GBP).

Yours faithfully,

Chris Mackay
Portfolio Manager

02 October 2014

<u>Additional information</u> <u>*(per ASX Listing Rules, Chapter 19):*</u>

Pre-tax NTA (<u>after</u> accounting provision for interim dividend)	$1.608
Post-tax NTA (<u>after</u> accounting provision for interim dividend)	$1.421

The approximate pre tax NTA (<u>after</u> accounting provision for final dividend) would have been reduced by approximately 12.8 cents per share if all of the MFF 2017 options had been exercised on 30 September 2014.

Important note