



Magellan Flagship Fund Limited  
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***Magellan Flagship Fund Limited ('MFF')  
Net Tangible Assets ('NTA') per share for February 2015.***

*Please find enclosed MFF's monthly NTA per share for February 2015.*

A handwritten signature in blue ink, appearing to read 'G. Stirton', with a long horizontal stroke extending to the right.

***Geoffrey Stirton  
Company Secretary***

*2 March 2015*

**Magellan Flagship Fund Limited ('MFF')**  
**Net Tangible Assets ('NTA') per share for February 2015**

MFF advises that its approximate monthly NTA per share as at 27 February 2015 was \$2.066 pre-tax (cum 1 cent per share, unfranked dividend)<sup>2</sup> (\$1.427 pre-tax as at 30 June 2014) and \$1.76 post-tax. Although tax liabilities are almost entirely deferred liabilities, investors should not ignore the probability of future realisations which may incur significant realised tax liabilities. If MFF makes sales at gains compared with costs (which are considerably lower than current market prices for all of our material shareholdings), deferred tax provisions become realised tax liabilities. Investors should also adjust for the expected dilution from the exercise of the MFF 2017 options (exercise price \$1.05) and the probabilities of additional issuance to position MFF's balance sheet for opportunities which may arise in advance of the October 2017 expiry of the options. If all of the MFF 2017 options had been exercised on 27 February 2015 the pre-tax NTA would have been reduced by approximately 22.9 cents per share (and the approximate post tax figure by approximately 15.8 cents per share). All figures in this release are unaudited and approximate.

Last month we noted that "for the first time in many quarters, the results released by our portfolio companies in January fell short of market expectations, on average". This was not repeated in February with more results from larger holdings being superb, and exceeding elevated market expectations (however the business performances of our smaller positions remained weaker). We have also noted for some time the unsustainability of the good luck benefitting the rate of growth in MFF's monthly numbers, and this continued in February. This continuing positive confluence benefits MFF via gains from the positive momentum (which may continue even past the mid-point of this market cycle), particularly as index and ETF investing combine with gains to repopularise "buy and hold" and, together with incentivised hedge and mutual funds/ETFs, weaken the positive constraining influence of traditional value investors in debt and equity markets. Consistent with past bullish markets, there has been a lack of negative market impact from "wall of worry" issues: including in this period the Greek election aftermath, Chinese and other emerging market slowdowns, the rising USD and margin compression/pricing pressure/competition, including pricing below cost becoming more common. "Muddle through" remains positive for equity markets, as are a number of positive data points from businesses exposed to broad sections of the US economy.

In February, we continued to do almost nothing with the MFF portfolio. We remain concentrated in outstanding businesses, some of which have decent probabilities of medium term earnings growth. We have been pruning our most competitively challenged positions, and adding selectively in recent months when investors focused on short term results are disappointed (a small position in Microsoft was returned after a double digit post results share price fall). We continue to believe that the portfolio's valuations remain in a broad zone of reasonableness but we are constantly assessing, particularly as the portfolio pre-tax investment returns for the financial year to date now exceed 45% (as mentioned above, a clearly unsustainable growth rate). Investments made in severe market downturns are usually far less expensive and hence more profitable, and we will have to better prepare MFF's balance sheet over the later stages of the current bullish market. We also continue to be very reluctant to move too far down the quality curve through this phase, although if momentum similar to 2013 drives the markets, it is highly probable that our portfolio will underperform. Real capital risks are rising, and low quality or expensive are not the best investment strategies for the inevitable end of the bullish market conditions.

Holdings as at 27 February 2015 with market values that represent 1% or more of the portfolio are shown in the table below (shown as percentages of total investment assets):

<b>Holding</b>	<b>%</b>
Visa	13.0
Lowe's	11.8
Wells Fargo	11.3
Home Depot	11.0
MasterCard	10.0
Bank of America	8.5
HCA Holdings	8.0

<b>Holding</b>	<b>%</b>
US Bancorp	5.8
Lloyds Banking Group	5.5
BlackRock	3.8
Bank of New York Mellon	3.3
State Street	2.7
Microsoft	1.5
Schroders	1.5
Qualcomm	1.3

Net borrowings as a percentage of investment assets as at 27 February 2015 were approximately 6.3%. The AUD gross borrowing figure was approximately A\$41.9 million as at 27 February 2015 compared with A\$98.2 million as at 30 June 2014. USD borrowings were under 1% of investment assets and other currency cash/borrowings exposures were well below 1%, as at 27 February 2015. During the month cash holdings were deployed into investments as well as returned to reduce AUD borrowings and to pay expenses.

Key currency rates for AUD as at 27 February 2015 were 0.783 (USD), 0.698 (EUR) and 0.507 (GBP) compared with the rates as at 30 January 2015 which were 0.779 (USD), 0.690 (EUR) and 0.519 (GBP).

Yours faithfully,



Chris Mackay  
Portfolio Manager

02 March 2015

<sup>1</sup> Net tax liabilities, are tax liabilities less tax assets, and are partially in respect of realised gains.

<sup>2</sup> Figures are cum MFF's 1 cent per share unfranked final dividend. The ex dividend date is 29 April 2015.

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

Pre-tax NTA ( <u>after</u> accounting provision for interim dividend)	\$2.056
Post-tax NTA ( <u>after</u> accounting provision for interim dividend)	\$1.75

The approximate pre tax NTA (after accounting provision for final dividend) would have been reduced by approximately 22.7 cents per share if all of the MFF 2017 options had been exercised on Friday, 27 February 2015.

**Important note**

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