MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
ABN 32 121 977 884

Level 7, 1 Castlereagh Street,
Sydney NSW 2000 AUSTRALIA

General: +61 2 8114 1888
Facsimile: +61 2 8114 1800
Website: www.magellangroup.com.au

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

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

Geoffrey Stirton
Company Secretary

4 May 2015

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Net Tangible Assets ('NTA') per share for April 2015

MFF advises that its approximate monthly NTA per share as at 30 April 2015 was $1.962 pre-tax (ex 1 cent per share, unfranked dividend) ($1.427 pre-tax as at 30 June 2014). Estimated current accrued tax provision remains below $0.01 per share[1]. The estimated total accrued tax provision, including estimated tax that may become payable on future realisations, was approximately $0.284 per share at month end.

Figures in this release are not adjusted for MFF's 1:4 pro rata renounceable entitlements offer to MFF shareholders at $1.60 per new share ("entitlements issue") (7 May 2015 scheduled closing date, 13 May 2015 scheduled allotment date), although the per share NTA figures have been reduced as a result of recent MFF 2017 option exercises. If subscriptions had been received for 100% of the entitlements issue on 30 April 2015, the pre-tax NTA would have been reduced by approximately 7.2 cents per share. Additionally, in the theoretical case that all of the remaining MFF 2017 options had been exercised on 30 April 2015, the pre-tax NTA would have been reduced by approximately 17.6 cents per share (and the approximate post tax figure by approximately 12.4 cents per share).

The entitlements issue is expected to add to MFF's excellent financial capacity and investment flexibility. Our retained earnings and deferred tax also continue to be financially material (MFF's 31 December 2014 accounts showed in excess of $320m of retained earnings and deferred taxation (equivalent to almost 90% of contributed capital)).

Holdings as at 30 April 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):

Holding	%
Visa	12.5
Lowe's	10.9
Wells Fargo	11.3
MasterCard	10.3
Home Depot	10.1
HCA Holdings	8.7
Bank of America	8.2

Holding	%
US Bancorp	5.9
Lloyds Banking Group	5.3
BlackRock	4.0
Bank of New York Mellon	3.5
State Street	2.8
Microsoft	2.1
Schroders	1.5
Qualcomm	1.3

The MFF portfolio was again almost entirely unchanged in April. We remain very positive about the businesses and prospects of our large holdings, and management actions at our portfolio companies continue to exceed our expectations. MFF remains most interested in risks and opportunities for businesses which are likely to have multi-year wealth generating advantages, and attractive prices. In recent months our portfolio adjustments have been minimal and have resulted principally from our primary focus on business risks and market risks. Although we own shares in wonderful business which it may make sense to hold for decades, we review risks and opportunities constantly and make some changes to improve MFF's risk or portfolio positioning, and/or for better risk adjusted opportunities. We remain very liquid (well over 95% of the current portfolio could be realised in one or two days without significant market price impact at historic trading levels), do not have redemption or forced capital gains requirements, and hence can fund long or short term investment horizons in wide ranging market conditions.

April was an unusually positive month for the businesses of MFF's largest holdings, and they are not feeling the full forces of slow GDP growth, USD strength and emerging market headwinds. A majority of our holdings reported Q1 results with associated commentary, and almost all noted combinations of advantageous expansion opportunities, market share gains, contained cost pressures, very favourable capital investment/capital return/dividend policies and prospects for sustained lower for longer credit loss provisions in the case of credit providers. However, we remain cautious and are wary about extrapolation given corrosive forces including changing competition, regulation/Government action, cycles and success. Our current portfolio management focus upon risks, particularly business risks and market risks, has helped us be absent as some risks/concerns have started to become clearer. We continue to seek to avoid companies where we feel that competition and other earnings pressures might not be adequately reflected in market prices. We continue to be wary of situations where earnings growth forecasts are not at reasonable or conservative levels. Our current base case is that in almost all industries almost all competitors will "stick at it" buoyed by (inter alia) low interest rates and permissive equity/venture capital markets and continue to innovate, pressure niches and subdue many future returns (evidence the Amazon Chair's Annual Report letter). In contrast, the April announced withdrawals by GE and other financial companies are unusual (moderate) positives that will add longer term value to the scale product ranges of the lowest cost, customer focused competitors with strong balance sheets (the withdrawals may also reduce upward pressure on the velocity of money).

Market prices for our portfolio continue to be in a broad range of reasonableness, and we feel that their prospects for the medium term compare very well with investment alternatives. We have some seriously advantaged companies which have reasonable prospects of profitable growth for many years in their core and contiguous businesses, we have liquid investments and balance sheet strength and can continue to seek inexpensive and/or solid growth and/or lower risk opportunities over coming years. Business specifics and micro economics remain most important for future MFF returns, although future levels of interest rates are key variables (and require margins of safety). Future returns will obviously be less than when equity prices were far lower in recent years.

We expect future opportunities in MFF's two core activities over the next five years or so. We seek to hold interests in quality businesses whilst their prices and prospects are attractive in comparison with foreseeable future alternatives. We also seek to buy securities when they are inexpensive compared with their risks and their prospects, and our strong preference is to buy interests in quality businesses at prices which are low enough to provide some protection against cycles and misjudgments and allow for upside potential. The proceeds from the entitlements issue will increase our resources for acquisition opportunities, and reduce some portfolio management factors when assessing whether to sell down any of our highest quality holdings. Opportunity costs and forced rankings continue to guide portfolio construction and focus.

Over time, markets and economies will always be cyclical, and this creates significant risks and opportunities. Asset market prices regularly diverge from subsequently realised cashflows, particularly when judged with hindsight. In considering whether and why prices and values might diverge, investors may be interested in the implications of the apparent weakening of relationships observed over recent decades between prices paid for future earnings and yields of key interest rate alternatives (such as ten year bonds), as well as the ongoing transfer of responsibilities for retirement savings around the world from Governments, employers and established pension plans to individuals.

Arguably there are multiple cycles operating on asset markets at the moment, with elevated risk aversion and risk taking happening concurrently in and across many portfolios (divergences in correlations ebb and flow). "The market" is an insufficiently nuanced concept to reflect high cash levels and decades low interest rates, combined with speculative buying of so called "blue chip" defensive names and real estate, aggressive buying of low earning emerging markets, biotechs and technology stocks, repopularised "buy and hold" reflecting the higher markets and more prevalent "single stop solution" hedge fund, leveraged buyout, index fund and ETF operators selling multiple varieties of riskier product extensions. During much of April investors chased companies that issued optimistic forecasts, even where they "normalised" away extraordinary amounts of inconvenient/unfavourable facts as being non-recurring despite extreme contrary probabilities. Some of this is disguised by spinoffs, acquisitions and similar transactions and/or multi-billion dollar write downs which pad future earnings periods. It is akin to the pretend and extend that dominates the early working through aftermaths of credit inspired overbuilding booms, or overoptimistic speculation in early stage ventures during periods of inexpensive abundant capital chasing the Next Big Thing which keep dreams alive. Galbraith coined the term bezzle to describe the artificial boost to income/psychic income during the period of optimism pre Great Crash, before the target of a fraud recognises reality. The febezzle or the functional equivalent of the bezzle is the far more pervasive concept and was abundant in April (refer Munger, it is usually months or years before all hope and capital are gone, and in the meantime velocity of money is enhanced in the real economy as well). Combined with the impacts related to Soros' principle of reflexivity, these activities assist in sustaining near term economic activity, but with enhanced and widening risks (including real economy and magnitude of cycle).

Prices continue to be relatively uninteresting for either buying or selling in our main focus areas. Elsewhere, we continue to consider implications from the unwinding of "hot" spaces including misallocation, competition and diminished returns associated with the BRICS and similar concepts which were popularised in recent years. Future interest rate levels, "normalisation" and knock on implications are very important for markets, and the range of probable outcomes is wide. Professional investors remain divided between worrying about rising interest rates and deflation/earnings pressures, and can produce data to support their cases. Some observers can weigh up the popularity/relevance of such punditry via Ben Graham, Bertrand Russell, Brian Cohen's mother, Fred Schwed and reject the false promise of smoothed returns (think Bernie Madoff) particularly when sales driven and yield based. Elsewhere, sustained low interest rates continue to encourage economic activity and cyclically low levels of default/bankruptcy but also heighten competition. It is not simple to find spaces which may be relatively uncrowded, and forced sellers are very scarce. We remain very reluctant to move far down the quality curve or to pay up through these phases; low quality and expensive are not favoured investment categories over time.

Liquidity risks remain important for investors, particularly as they are somewhat disguised in benign markets. In times of duress, liquidity risks are likely to have been heightened by post Crisis regulatory and industry changes. Liquidity, including periodic mispricing, has been beneficial for MFF's investment performance as markets diverge from value and provide opportunities for buying or selling. A majority of MFF shareholders have acquired at least a substantial proportion of their shares at prices below MFF's recent per share asset backing as a result of the substantial portfolio gains compared with subscribed capital. This proportion is likely to increase after exercise of the bonus issue of MFF Options and the entitlements issue.

We continue to aim for our positions in currencies to be a modest net positive over time, whilst recognising that currencies are far less reliably profitable for us than assessing and pricing outstanding companies. We prefer our currency positions to be reflected in MFF's two core business activities (described above), including long term holdings of outstanding business which have their own currency exposures and currency management expertise. We continuously review whether to alter MFF's currency positioning, particularly for the longer term, and in the last twelve months we have been explicit that possible currency moves was a factor in our desire for domestic USD exposure. We cannot simply ignore currency as our shareholders are mostly investors from Australia with a currency that has been very popular (expensive) almost since MFF's inception (incidentally, MFF has been particularly well supported by our longer term NZ shareholders who have well understood and accepted the consistency of this position, even though we have not adjusted the portfolio for separate NZD positioning).

In current market conditions, we reaffirm our solid preference to hold non AUD assets, and generally to prefer USD exposures (and with income producing businesses or assets preferred to cash). Although the factors which have contributed to the recent upward movement in the USD and the downward movement in the AUD are more widely accepted (and hence the price adjustments), we believe that the risks of serious negative outcomes for the Australian economy continue to be underweighted. Credit rating downgrades are foreseeable, and the Governor of the Reserve Bank has spelled out some of the risks and challenges. In the past, booms from commodity extraction and speculative apartment and other property catering to non-residents have been temporary and delay productive adjustments. Factors including multi decade prosperity, income and opportunity inequality, low interest rate unreality and lack of fear are encouraging Governments to borrow heavily to finance recurrent expenditure and so called "infrastructure". Unless the muddle through or stronger scenario prevails, the currency is more likely than not to come under ongoing fundamental pressure, the Keating banana republic hyperbole resurfaces and the AUD is an easy target for speculators. The key risk remains another massive "successful" China stimulus from its currently elevated debt/unproductive investment position.

The case for sustained USD strength appears remains probable, but appears to be more evenly balanced. In current conditions we will continue to concentrate on the companies in our portfolio and accept their currency realities, with cash currently being of secondary importance. At current market prices for our portfolio equities we expect average returns over many years to be multiples of cash, and we have almost total liquidity to sell if individual (or general) market prices or risks become too hot. Our portfolio companies have their own currency positions and strategies, and over time our choices of companies are far more important than current decisions on cash balances/borrowing.

Net borrowings as a percentage of investment assets as at 30 April 2015 were approximately 6.2% and AUD borrowings were approximately A$98.6 million. USD cash was approximately 2.1% and Euro cash was approximately 3.7% of investment assets, as at 30 April 2015. Other currency cash/borrowings exposures remained below 1% as at 30 April 2015. The figures are not adjusted for the proceeds of the entitlements issue (which may raise up to approximately 15% of investment assets), which will alter MFF's net debt/cash levels, and the percentage holdings of individual securities. Subject to the quantum of proceeds from the entitlements issue, we expect to pay down most or all of the AUD borrowings (which we increased in April in anticipation of the AUD denominated entitlements proceeds). Also in anticipation of the entitlements issue proceeds and having regard to its significant decline, we adopted the Euro cash position noted above whilst continuing to seek Euro business assets to complement the portfolio.

Key currency rates for AUD as at 30 April 2015 were 0.789 (USD), 0704 (EUR) and 0.513 (GBP) compared with rates as at 31 March 2015 which were 0.764 (USD), 0.711 (EUR) and 0.515 (GBP).

Yours faithfully,

Chris Mackay

Chris Mackay
Portfolio Manager

04 May 2015

[1] Net tax provisions, are tax liabilities less tax assets, and are partially in respect of realised gains.
All figures are unaudited and approximate.

Important note