MAGELLAN
FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ("MFF")
Monthly Net Tangible Assets ("NTA") per share for September 2009

MFF advises that its approximate monthly NTA per share as at 30 September 2009 was $0.69 excluding net deferred tax assets[1] of $0.10. The monthly change reflects broadly stronger equity markets in the month, appreciation of the AUD and depreciation of the USD and GBP in particular. The AUD appreciated about 4.7% against the USD and 6.7% against the GBP in the month.

September quarter reporting season starts shortly. Although underlying demand remains weak for most products, we expect that many results will be above analysts' median expectations for 3 main reasons. Economic output in most countries for the September quarter was well above earlier forecasts principally as a result of monetary and fiscal stimulus. Financial institutions are taking advantage of (unsustainably) high net interest margins based off very low funding costs, and their inventory of financial securities also appreciated strongly in the quarter. The results for most US based multinational companies have moved during the quarter from a situation where USD appreciation was a major headwind to USD deprecation being a benefit.

Markets have appreciated strongly off their lows with most markets now up calendar year to date (both the Australian and US markets are up by about 15% in local currency terms). Some investment classes appear to have run well ahead of underlying values, and markets generally are far more risky for buyers than they were in March. Strongly rising equity markets since March mean that overall prices are no longer compelling and many appear to anticipating a relatively strong economic recovery. There are risks, as investors seek to take advantage of artificially low interest rates and excess liquidity.

During September, changes to MFF's portfolio were modest. We continue to review whether individual prices in our portfolio approach or exceed our assessment of risk adjusted fair value. Prices for a number of excellent companies with solid outlooks have lagged the broader equity price recovery. We also saw our portfolio companies maintain or increase dividend and buyback activities. This month McDonald's and Yum! Brands increased dividends by 10% and 11% respectively, alongside their buyback activity.

Some business risks are rising even as the financial crisis recedes. Governments and citizens seek scapegoats for the crisis and increased regulation is popular to 'level the playing field'. Further, the pace of technological advances is increasing, as Governments throw stimulus and other resources to 'productive' activity and businesses and consumers embrace new, generally more efficient and attractive, devices and applications.

In this context we continue to adjust by reducing some positions such as MasterCard and Microsoft, which appreciated to more fairly reflect risks and opportunities, whilst increasing Kraft and McDonald's where risks and rewards appear to be more attractively priced.

We also continued to increase our net international currency exposure during the month, as investor optimism for the strength of the recovery ran strongly and the AUD continued to appreciate above levels that allow much margin for setbacks and well above longer-term averages. Although this impacts current NTA, it may give us a meaningful hedge against a reversal in markets generally.

Central banks and politicians have a complex task to wind back the stimulus, whilst avoiding further steepening in yield curves, excessive increases in borrowing rates for productive enterprises and avoiding relapses into severe recessions. This task is further complicated by the relatively integrated global economies with increased trade and capital flows not matched by universal freely floating exchange rates or free portfolio/direct flows, as well as many prices such as official interest rates and key commodities (such as oil in some countries) that are centrally determined rather than market related. As a long time central banker recently noted, politicians regularly asked him to reduce interest rates but he was never asked to raise them. Unfortunately, politicians in power around the world have been 'stimulated' by the short term 'success' of stronger than expected quarterly GDP figures and this increases the likelihood of a future mix of higher taxes, lower growth and higher interest rates.

The unprecedented fiscal and monetary stimulus continues to significantly lift near-term commercial and consumer activity and profits, and has broadly offset consumer and corporate caution. Some of the stimulus funds are inflating asset markets with some desirable consequences (many banks and other financial institutions have acted swiftly to improve asset quality, whilst maintaining attractive net interest margins), as well as some undesirable consequences (speculative asset bubbles and commodity hoarding have re-emerged and investors may have 'capitalised' the stimulus by applying a multiple). The Chinese currency remains tied to the much criticised USD rather than freely floating.

An indicator that 'risk' plays are back on was the 30 September 2009 Dow Jones/WSJ column chastising Johnson & Johnson for its "lazy capital structure" and suggesting that "it could [borrow] more than US $40 billion for acquisitions". By not taking this path, quality companies have survived the previous and current crises and created shareholder wealth whilst serving hundreds of millions of real people.

We believe that risks are growing that 'momentum' plays may reverse, perhaps suddenly, even after periods of considerable success. Index investing strategies may also have more risk at this time than disciplined investing in quality and value. Since March, almost every asset class has risen concurrently and this is not a sustainable ongoing state of affairs. Hence, we continue to focus on attractive valuations for high quality companies, most of which are cash generative business leaders increasing their profitable market shares in major emerging markets as well as in the more developed markets.

More than 95% of MFF's total investment assets by market value continue to be in global multinationals (being entities that generate 50% or more of their revenue and/or have material operations in 15 or more countries outside the domicile of their primary securities exchange), with a majority of the balance being predominantly North American focused. The revenue and earnings split for the multinationals average about 40% USA, 30% Europe and 30% ROW. The emerging markets proportion of underlying revenue and earnings continues to rise. As at 30 September 2009, MFF had net borrowings of approximately 19% of total investment assets, almost all of which is denominated in AUD with smaller amounts of borrowings in Euro.

Key currency rates for AUD as at 30 September 2009 rates which were 0.8826 (USD), 0.6038 (EUR), 0.5518 (GBP) and 0.9158 (CHF) compared with the 31 August 2009 rates which were 0.8431 (USD), 0.5875 (EUR), 0.5173 (GBP) and 0.8910 (CHF).

Leo Quintana
Legal Counsel & Company Secretary
2 October 2009

[1] Deferred tax assets less deferred tax liabilities.
All figures are unaudited