MAGELLAN
FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ("MFF")
Net Tangible Assets ("NTA") per share for September 2011

MFF advises that its monthly NTA per share as at 30 September 2011 was $0.785 excluding net deferred tax assets[1] of $0.075. These figures are unaudited.

MFF benefitted in September and in the Quarter relative to some very weak markets. MFF's NTA rose over the month and the Quarter by between 3-4% pre tax. The recent strength of the AUD reversed partially in September, and this benefits MFF.

We remain positive about the composition of the portfolio and turnover was again modest. The largest holdings shown below changed modestly from 3 months ago. Valuations are attractive for the portfolio companies, in our view, even considering the valuation impacts of the rising USD in September and the impacts of reduced confidence/low to no growth/contraction in most developed economies. Prices of equities in high quality "defensive" holdings have generally fallen less than others.

There were no significant purchases in the month but we are using some of the headroom from select sales in recent months, dividends and recent favourable currency reversals to buy selectively in the very high quality companies we favour, particularly as they fall in price, and to continue the on-market share buyback.

There were few earnings reports in September. A number of the MFF companies provided updates which were positive. Note that these are historical or backward looking and confidence/sentiment weakened further in most economies at the end of the Quarter. The updates contained material which confirmed our confidence that they will continue to gain profitable market share over coming years and decades. A (non random) selection from the updates follows:

1. American Express released its regular (August) monthly credit figures and these continue to improve and are materially better than long term averages. They gave more details on how they are addressing the challenges and opportunities in digital and mobile payments and they said that the growth rates in spending by their cardholders had remained solid in the Quarter through to early September. eBay also outlined its progress in moving its PayPal division into offline payments, as well as multiple increases in mobile payments and further online and geographic penetration.

2. Many investors are concerned about the risks of a hard landing or slowdown in China. Yum! Brands and McDonald's presented optimistic China strategies during September, and they both see considerable opportunities for long term growth. McDonald's noted that China is projected to have 300 train stations each with 20-30 million people throughput and that they are aiming for 5-7 restaurants per station. McDonald's also released its August sales summary and this was the 100th consecutive month of positive global same store sales, although the 3.5% figure was below market expectations. China Mobile released August data which indicated that their net subscribers increased in the month by 5.8 million to 628 million.

3. Yum! and McDonald's announced in September increases in their dividend payments by 14% and 14.8% respectively.

4. Google announced the proposed acquisition of Motorola Mobility and investors are cautious, with concerns about the strategy and price and whether the 550,000 daily activations of mobile devices on Google's Android operating system will decline. Google also materially upgraded its social networking capabilities and reportedly gained some millions of initial users to Google+ in the first month.

The current political and economic concerns are severely impacting financial markets, confidence and the real economy. European governments have not effectively dealt with the sovereign debt and bank recapitalisation issues but must do so if their countries are to maintain the advantages of the Euro. Official figures out of China indicate a moderate slowdown and inflation coming under control but investors are increasingly concerned about risks relating to lending in non official channels and local Government borrowings. Major US companies are operating far more effectively than a dysfunctional Washington preoccupied with the political process. There are serious risks of increased trade and capital flow barriers in addition to protectionist/defensive actions taken by Brazil.

Political risks are rising in most developed countries as economic growth evaporates but debts remain. It is difficult to be confident about the near term political and economic outlook where bad past policy decisions now leave very hard choices.

However, equity prices are attractive and MFF's portfolio is concentrated on global winners selling popular, recurrent products and services. Growth continues from urbanisation, emerging markets consumers, mobile networks and ecommerce. Good news such as reductions in nuclear and terrorist threats is overlooked by most. In Eastern Europe, Latin America, Asia, Turkey, elsewhere in the Middle East and Africa there are many stories of relative freedom, resilience and gains from capitalism and property rights, although modern capitalism includes interconnected volatility. The eventual recovery in the US housing market is delayed but inevitable, as housing supply continues to be far short of new household formation.

The Company's holdings with a market value of A$1 million or greater (which represent about 99% of the portfolio value) as at 30 September 2011 were:

Holding	$million	Holding	$million
American Express	63.2	Procter & Gamble	10.9
Yum! Brands	42.8	US Bancorp	8.9
Nestlé	35.0	Wal-Mart	6.6
eBay	32.9	Mastercard	4.1
Coca-Cola	25.6	Bank of America	2.8
Google	24.8	Tesco	2.3
China Mobile	23.6	ConnectEast	2.2
McDonald's	15.9	Lowe's	2.2
Wells Fargo	15.1	Danone	1.2
Visa	13.5		

For some time we have had negligible investments in mainland European domiciled countries (except for Nestle which is domiciled in Switzerland and has 98% of its revenues from elsewhere) given our concerns about valuations, quality differences and risks/returns. We have now bought a small amount of Danone (a global leader in infant nutrition, water and yoghurt/similar dietary additives) based in France. Our selective interest in less expensive high quality European companies (likely multinationals) doesn't make their political dysfunction palatable or ignore the virtual certainty that these companies (and many of our existing holdings) will incur higher taxation (and eventually inflation) as a cost of the growing fiscal burdens.

About 85% of MFF's total investment assets by market value are 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 the balance being predominantly North American focused and about 6% being China focussed. The revenue and earnings split for the multinationals average almost 40% USA, slightly less than 30% Europe about 1/3 ROW. The emerging markets' proportion of underlying revenue and earnings continues to rise.

As at 30 September 2011, MFF had net borrowings of approximately 18% of total investment assets. Almost all of the borrowings are in AUD with modest amounts in Euro and Sterling. Cash balances from unutilised sales proceeds and dividends continue to be held in a mix of US Dollars, Swiss Francs, Singapore Dollars and Hong Kong Dollars.

Key currency rates for AUD as at 30 September rates which were 0.972 (USD), 0.724 (EUR), 0.624 (GBP) and 0.883 (CHF) compare with the 31 August rates which were 1.098 (USD), 0.764 (EUR), 0.669 (GBP) and 0.866 (CHF).

Yours faithfully,

Chris Mackay
Chief Investment Officer

Leo Quintana
Legal Counsel & Company Secretary

5 October 2011

[1] Deferred tax assets less deferred tax liabilities.