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Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for July 2012

MFF advises that its monthly NTA per share as at 31 July 2012 was $0.932 excluding net deferred tax assets[1] of $0.030. These figures are unaudited.

In July, portfolio transactions were at more modest levels with a small number of purchases and sales, including further selling of two positions where we perceive some risks of heightened competition and margin pressures not reflected in their market prices. We continue to hold substantial cash balances and look for high quality bargains where the business prospects are not recognised by the market or companies are out of favour. In these market conditions, we believe that cash provides valuable investment flexibility for a closed-end LIC such as MFF. The following paragraphs discuss some general risk factors which may contribute to future market volatility and provide lower prices and more investment opportunities for us.

Quarterly corporate results released in the month were marked by lower earnings quality and lower growth rates than in recent quarters although key stock indices have held up, as equity markets expand price multiples for large cap companies. Many companies are becoming more cautious about prospects. In this context, we were cautiously positive about the results for the MFF portfolio companies.

Overall consumer and business confidence weakened, asset price falls have reduced wealth but not nominal debt and private sectors seek to deleverage, in developed economies. In the month, some best in class 'defensive' companies described operating, competitive, margin and currency challenges across many parts of the globe. Spanish consumer confidence and spending declines accelerated and appear to be structural whilst cyclical slowdowns are happening in consumer markets from Brazil and India to China and Australia. Patience may be rewarded as, at this stage 'muddle through' is still possible, as these companies' initial business responses to the challenges appear broadly rational and negative feedback loops are not too widespread.

Governments are incurring substantial deficits via stimulus to offset private sector declines and/or support voters, local governments, banks, jobs and strategic industries. Deficits are made worse by the mathematics of declining revenue bases and increased support payments. China is embarking on another stimulus despite its leaders' concerns about property bubbles, inflation and fixed asset distortions. In July iron ore prices sustained daily falls to be down over 30% year on year and coal prices down almost 25%, despite the new China stimulus and project announcements.

We expect the record monetary stimulus to grow further. Fiscal deficits are also ongoing. Choices are increasingly hard for many Governments. Stimulus works better in traditional recessions rather than 'balance sheet recessions', and from a fiscally responsible starting position. At current high debt levels the benefits of stimulus are partially offset by business nervousness about consequences, some crowding out and distorted allocations, such as penalising prudent savers. However, deflationary negative feedback loops are extremely difficult to break once they take hold and are likely to be exacerbated in the near term if Governments exercise fiscal restraint.

Short term capital moving rapidly to and from jurisdictions, entities and assets adds pressure to official balance sheets and policy responses, and adds to business/financing risks, liquidity requirements and market price volatility.

There are few applicable recent precedents for policies or time frames. Two decades of 'failed' Japanese stimulus may have shielded that economy from worse outcomes absent the stimulus, and Japan's unprecedentedly high Government debt levels continue to be serviced and refinanced, but pressures are rising on internal and external balances and Japan remains unattractive for equity investors.

The long awaited start of the US housing recovery may have commenced, albeit off a very low base. US uncertainty remains widespread particularly as past political and economic decisions, including high aggregate personal debt levels, make future decisions more difficult and more 'political' (ie there are direct losers from fiscal responsibility).

Investors should also closely watch debt and liquidity weaknesses in banks and regional governments in Europe (and elsewhere). Debt can't simply be wished away because it suits an investment case or a re-election timetable. Corporate defaults increase as banks are forced to deleverage, and they decline rollovers. Emerging market corporate and project debt levels are risky including Trust financing of mainland Chinese property developers. Rapid growth in debt has funded unsustainably high aggregate economic growth rates via economic multipliers but companies and economies are stressed when private sector debt growth rates fall or become negative, for example after substantial asset price falls (Spain, Ireland).

Bond market participants remain optimistic that their bond rally will continue. In equities, "safe haven" prices continued rising with markets chasing yields and expanding the multiples they are willing to pay. Momentum is behind the rallies in bonds and prices of those equities that avoid profit warnings, as well as for perceived beneficiaries of further monetary easing. However, caution is warranted as market risks extend well beyond profit warnings; for example emerging market companies in commodity industries such as steel have weak balance sheets, little or no true profitability and are risky, with weak prospects in the absence of a sustained, early global recovery.

We are looking for high quality businesses where the equity prices and business resilience are more probable than not to be able to withstand whatever combination and order of margin pressure, deflation, global overcapacity and normalisation of interest rates/market assessed costs of capital (possibly after money printing inflation) that may occur over the next decade. Although upward economic growth has prevailed (with fluctuations) for much of the period since the 1930s for most market based economies such as the US, many more entities will probably join Spain in the casualty ward this decade, particularly given the magnitude of the increases in overall debt levels and global imbalances. MFF's cash, short AUD position and portfolio of quality equities should give flexibility and some protection whilst searching for additional attractive risk adjusted equity opportunities.

About 46% of MFF's portfolio securities 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 1.5% being China focussed. The revenue and earnings split for the multinationals average almost 40% USA, about 25% Europe and about 1/3 ROW.

As at 31 July 2012, MFF had net cash of approximately 57% of total investment assets. Cash balances are almost entirely held in a mix of US Dollars, Singapore Dollars, Hong Kong Dollars and Swiss Francs. Borrowings remain in AUD and a small amount of Euro. MFF remains effectively "short" the AUD.

Key currency rates for AUD as at 31 July 2012 were 1.052 (USD), 0.854 (EUR), 0.672 (GBP), and 1.027 (CHF) compared with rates as at 29 June 2012 which were 1.025 (USD), 0.808 (EUR), 0.654 (GBP) and 0.970 (CHF).

Yours faithfully,

Chris Mackay
Director

Leo Quintana
Legal Counsel & Company Secretary

2 August 2012

[1] Deferred tax assets less deferred tax liabilities.