MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
ABN 32 121 977 844

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 September 2012

MFF advises that its monthly NTA per share as at 28 September 2012 was $0.972 excluding net deferred tax assets[1] of $0.018. These figures are unaudited. The pre tax NTA rose by about 1.9% percent in the quarter, with MFF's equities performing well but the currency was a moderate headwind with the AUD rising against the USD by about 1.5% over the quarter and detracting from NTA.

The Company's holdings with a market value of A$1 million or greater (which represent about 99.5% of portfolio securities) as at 28 September 2012 were:

Holding	$million	Holding	$million
Wells Fargo	21.8	Sainsbury J	6.4
McDonald's	19.7	Wal-Mart	5.8
US Bancorp	17.8	Danone	5.5
Visa	17.5	Unilever Plc	3.5
HCA Holdings	13.3	Unilever NV	3.4
Bank of America	13.0	American Express	2.1
CME Group	12.3	Singapore Tech Engineering	1.8
Tesco	9.4	Home Depot	1.7
Lowe's	8.3	Google	1.3
Yum! Brands	7.5	SIA Engineering	1.2
MasterCard	6.8		

Each of our 3 core positions (high quality equities, current net cash and effective short AUD) has a reasonable probability of enabling value to be added in future years. Our equity positions are world class and offer quality and value in comparison with equities in general and in comparison with other asset classes. Our sizeable cash position gives us considerable flexibility to acquire more world class equities on attractive terms as stock specific and general market volatility is expected to provide opportunities. We also believe that the effectively short AUD position is more likely than not to provide material value in coming years based upon a combination of factors including growing uncompetitiveness which appear to have moved further from the cyclical to more structural during the quarter. There were no material changes in the currency positioning in the quarter.

During the quarter we made net additions to the equity positions and overall we purchased somewhat less expensive positions without sacrificing much near term growth potential or longer term business quality. Overall cash levels reduced moderately from about 57.5% to approximately 45.9%. We sold or reduced some positions, primarily reflecting a combination of price appreciation and caution about assuming sustained high future growth/margins or positive future regulatory outcomes. Some smaller positions were converted to cash far earlier than expected after solid appreciation. Purchases in the quarter were concentrated in out of favour (and arguably less expensive) quality companies where we have above average confidence about the long term sustainability of their businesses despite near term issues such as growth pressure.

We remain absolutely focussed on high quality, long duration businesses. The investment cases for a number of the best businesses have strengthened during the financial crises. We want to buy and then hold them when their valuations are attractive. Fluctuating markets will give us opportunities, although we do not buy with any expectation of selling in the near term. We have financial strength and investment focus and we look for this in our shareholding companies. These companies generate significant free cashflow which benefits us as long term focussed shareholders, via increased dividends, attractive buybacks and core business investments which enhance their competitive advantages in numerous countries. As we have a longer duration focus than many market participants, near term earnings weakness may continue to provide buying opportunities for the cash we hold.

Broader equity markets are currently benign, but not speculatively inflated despite monetary policy stimulus. There are a range of companies that appear sensibly priced, in the absence of sustained negative shocks, but obviously far fewer low priced high quality companies than in 2008/09. Near term earnings remain very mixed, often with cost controls partially offsetting revenue pressures, and creating some short term market reactions. Macroeconomic issues increase the probability of market volatility and sustained negative shocks over coming years, but officials are determined to try to not allow a repeat of the late 2008 early 2009 market collapses.

The long term outcomes of recent actions preventing broad realisation of losses and 're-sets' are untested, as macroeconomic "margins of safety" of sound fiscal policy, past savings, excellent skills and sound social fabric, including effective social safety nets, are severely compromised. Past bad decisions have created excessive private and public sector debts in many countries, contributed to global overcapacity and to reliance upon artificially stimulated demand for many industries. Deleveraging, or at least slower credit growth, is happening on multiple levels and many businesses are cautious about hiring and investing.

Various major central banks are taking direct action to impact markets (they argue that the markets are themselves distorted or fail in their transmission mechanisms). Central bank critics consider that they are creating and enhancing asset market bubbles, but not sustainable growth. Emerging market Finance Ministers are angry about the impacts on commodity inflation, protectionism and speculative transmission to further inflate their property and other bubbles.

Central bank direct action also reduces pressure upon Governments to live somewhere close to within their means. Unfettered bond markets ultimately discipline profligate governments and other borrowers by increasing their costs of borrowing and limiting access. Debt can only be repaid, defaulted upon, refinanced or reduced by inflation. The harshest critics of the central bank actions argue that sustained low growth will prevent long term debt repayment, except with severe debasement or other disorders, given debt levels, the rates of debt increase, limited productivity and business investment gains, and flaws in the Euro system, amongst other factors. Historical precedents are not positive. Past asset bubbles have ended badly, irrespective of whether the central bank has successfully targeted narrow measures of consumer inflation, and at lower levels of overall debt. Central bank liquidity and low interest rate policies allow almost all governments to borrow cheaply for a time and provide inexpensive finance for many market players who are more exposed when rates eventually rise, even if they stay well below usual levels. Amazingly, some Governments still continue to boast about low borrowing costs and materially increase their (short and medium term) borrowings based upon so called safe haven status.

Investors should continue to monitor regional governments, banks flows and financing and China's slowing growth and policy responses. There is increasing riskiness in smaller markets which rely upon China and its trade partners. China's equity markets have been as weak as the weakest in Europe in recent times. Some upwards volatility and a very narrow focus, allowed us to exit profitably from our holdings in the Chinese telcos listed in HongKong and return to watching China's equities from the sidelines. There are many reasons to keep a close watch on economic China including the range of possible policy driven outcomes, the size and likely growth of China's businesses and markets, and their importance for global multinationals and for macroeconomics.

In terms of currency, our expectation remains that the AUD will trade materially lower for at least part of the next decade. However AUD strength is as likely as not to continue in the near term despite the fall in the terms of trade. Currently there are "non-fundamental" value-based reasons to buy the AUD and AUD bonds (e.g. central bank 'diversification'). The "safe haven" currency argument is not sustained by the data in our view. In the short term, relatively weak current account and budget data for the Australian states and Federal Government may partially reverse, but overall longer term cyclicality is likely to be underestimated by legislators, central bankers and investors. We believe that the USD strengthens if its economy has a sustained recovery, and note Yen strength despite 20 years of fiscal and monetary accommodation, but note this view is far from consensus and is not central to our short AUD view.

About 50% 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 the China focussed holdings have been sold. The revenue and earnings split for the multinationals average almost 40% USA, about 25% Europe and about 1/3 ROW.

As at 28 September 2012, MFF had net cash of approximately 45.9% 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 28 September 2012 were 1.040 (USD), 0.808 (EUR), 0.644 (GBP) and 0.977 (CHF) compared with rates as at 31 August 2012 which were 1.033 (USD), 0.820 (EUR), 0.651 (GBP), and 0.984 (CHF).

Yours faithfully,

Chris Mackay
Director
3 October 2012

Leo Quintana
Legal Counsel & Company Secretary

[1] Deferred tax assets less deferred tax liabilities.