MAGELLAN FLAGSHIP FUND LIMITED

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Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for June 2013

MFF advises that its approximate monthly post-tax NTA per share as at 30 June 2013 was $1.190. For the latest twelve months, MFF's pre tax investment results after fees and costs were about 35%. The currency position was a benefit towards the end of the period.

	Undiluted
Pre-tax NTA	$1.263
Net deferred tax liabilities	($0.073)
Post-tax NTA	$1.190

No adjustments have been made for possible future dilution for the 2017 options. All figures in this release are unaudited. Preliminary calculations for net deferred tax liabilities indicate no current tax liabilities in respect of gains during the 2013 fiscal year. The figures continue to reflect a full write down of China Metal Recycling Holdings Ltd (HK:773). Final audited figures are subject to Board and audit year end processes.

MFF's portfolio valuations appear to be reasonable but not compelling and overall risks of decline are higher than when prices were much lower. Portfolio composition reflects lower Emerging Market exposure, minimal European exposure, higher domestic US exposure and less multinational US exposure (with stock and portfolio decisions considered within the framework of valuations, quality and portfolio mix assessments). Specific US financial holdings are still significant, having regard to valuation, quality, cycle and risk assessments. We believe that the US recovery continues, albeit unevenly, and unemployment continues to improve but remains elevated.

We are cautious about extrapolating recent cyclical/recovery enhanced growth rates into valuations, and reluctant to pay for future growth perceptions. We continue to favour lower prices for current and probable future earnings. Hence we are highly likely to have some value traps, and have again sold some high quality "growth" holdings, as prices rose during recent months.

Momentum prevailed in markets in the latest year. A recent US study indicated that returns in the year to May 2013 were about 92% from share price re-rating, rather than earnings growth. Overall corporate earnings were flat to down for the last twelve months in most markets and the outlook in some markets such as Australia, is again, broadly flat to down (after numerous profit warnings).

We have perceived few compelling buying opportunities in recent months, with the repurchase of Microsoft continuing to be the only recent portfolio addition. We maintain watch lists of companies we are watching in case they fall out of favour and we get the chance to buy, ideally from stressed sellers. We may increase cash levels in advance of future opportunities if we feel that this will give us better flexibility than our holdings, having regard to valuations, portfolio composition and perceived risks. As specific opportunities arise we also weigh them against the existing holdings, portfolio composition and balance sheet capacity.

Expectations should be tempered, particularly after the strong gains since the March 2009 lows, including the acceleration over the last 12 months. General return expectations should be much lower than those

that accompanied the long bond rate reduction from the early 1980s. More typical medium term real returns may be flat to marginally positive, particularly if the tailwinds of the past 3 decades slow or reverse. Some experienced investors consider that more reasonable pre tax returns for markets may be in the 6-7% range. Overall macro considerations are of importance, for company specific and overall portfolio risk management, but particularly if they cause panic and the opportunity to buy quality companies at low prices.

Our processes are focussed on seeking out investments in advantaged companies at low prices. At the beginning of the year we felt that it was better to remain relatively fully invested which has been fortunate in recent months, although we are very uncomfortable in artificial momentum driven markets. Over the longer term, quality stocks generally return better than cash which is generally a wasting asset, and the probabilities of positive returns increase with lower purchase prices and longer durations. In order to find attractive assets at lower prices we must buy unpopular assets and be out of tune with majority thinking from time to time.

Returns since the market bottom in 2009 reflect the recovery of business and particularly investor confidence, underpinned by fiscal and monetary stimulus. Some parts of the business improvements are cyclical, and asset markets remain artificially supported.

Overall favourable conditions which have broadly prevailed since about 1982 may reverse or slow, including the rapid rises of living standards in Emerging Market countries driven by sale of goods and services delivered at lower prices to less protectionist Developed Markets where domestic growth has been fuelled by low interest rates, Government spending including services, health and infrastructure, technology and trade gains. In this period, low interest rates have prevailed; initially because Developed Market inflation reduced via Emerging Market exports, their massive new labour supplies (repressing Developed Market labour power and wage inflation) and capital flows into Developed Market bonds, followed on by ageing demographics, self reinforcing bull market dynamics in bonds, the hollowing out of Developed Market economies and higher technology based manufacturing and services which involve relatively lower employment and more central bank/government policy focussed on the beneficial trickle down effects of property/asset price stimulation. Borrowing to consume became affordable (and necessary to maintain increased living standards) and low rates on fixed income regularly forced investors out of traditional yield assets to chase risk up the price and risk spectra.

More countries are now engaging in "pretend, extend and print" to avoid default/delay reality, and they are trying to offset the declines in living standards that accompany reduced velocity of money. Policy choices continue to get harder in both Developed Markets and Emerging Markets. Widening social unrest and periodic pressures on capital market flows are expected to continue.

Our currency positions are materially unchanged. Some Australian weaknesses are beginning to be borne out by the data and the AUD moved downwards in June. Complacent unpreparedness continues for Australia, and markets continue to underestimate the inevitable multiplied impacts of cyclicality. Risks of an eventual bond market reaction are also now increasing, with Federal and State government budget blowouts (on unrealistically optimistic assumptions again partly fuelled by accelerated (pre crash) European style infrastructure spending), and with manufacturing, service industry and resource project uncompetitiveness offset modestly by a reigniting of the property bubble for employed/elites and foreign investors attracted by lower interest rates, as well as early benefits from the lower currency. A major risk to MFF's currency position is another major stimulus package from China. This does not currently appear likely or logical, as weaknesses from the previous package are now becoming more obvious, but Japan most recently shows that political leaders may be risk taking. The US recovery and recent USD boost have implications for markets. Expect US and Australian unemployment rates to cross over in due course.

We also continue to favour the partial risk hedging aspects for the MFF portfolio of the effective short AUD position. We are currently maintaining the currency positions and will advise promptly if material changes to MFF's currency position are made.

As at 30 June 2013, MFF continued to hold cash balances in a mix of US Dollars, Singapore Dollars and Hong Kong Dollars. Net cash was approximately 1.2% of net assets with borrowings predominantly in AUD, some Euro with a smaller balance in GBP.

Key currency rates for AUD as at 30 June 2013 which were 0.915 (USD), 0.704 (EUR), 0.603 (GBP) and 0.866 (CHF) compared with rates at 31 May 2013 which were 0.959 (USD), 0.740 (EUR), 0.632 (GBP) and 0.920 (CHF).

The Company's holdings above 2% of net invested assets as at 30 June 2013 were:

Holding	**%**
Wells Fargo	11.3
Visa	10.1
Apple	8.3
Tesco	7.5
Microsoft	7.3
Bank of America	7.0
Yum! Brands	6.2
HCA Holdings	5.5
McDonald's	4.8
Wal-Mart	4.8
US Bancorp	4.7
MasterCard	4.6
Lowe's	4.0
Bank of New York Mellon	3.9
State Street Corp	3.3
Sainsbury J	2.6

Yours faithfully,

Chris Mackay
Director

Leo Quintana
Legal Counsel & Company Secretary

2 July 2013