MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
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Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for May 2014

Please find enclosed MFF's monthly NTA per share for May 2014.

Geoffrey Stirton
Company Secretary

2 June 2014

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Net Tangible Assets ('NTA') per share for May 2014

MFF advises that its approximate monthly NTA per share as at 30 May 2014 was $1.442 pre-tax and $1.311 post-tax (after payment of the interim 1 cent per share unfranked dividend in May). Note that no adjustments are made for the expected dilution from the exercise of the MFF 2017 options (exercise price $1.05). If all of the MFF 2017 options had been exercised on 30 May 2014 the pre-tax NTA would have been reduced by approximately 9.0 cents per share.

All figures in this release are unaudited and approximate. Tax liabilities are partially in respect of net gains realised in 2013/14 to date. The figures exclude the performance fee of $2 million that may become payable as at 30 June 2014 (as well as subsequent performance fees), details of which were set out in MFF's interim results released to the ASX on 5 February 2014.

The portfolio is again materially unchanged, with the only changes being modest additions to existing holdings and a small (sub 1%) re-entry into a previously large portfolio position. The portfolio remains concentrated upon companies where we perceive sustainable competitive advantages and strong ongoing cash generation. Business quality, business values and market prices are the crucial variables. Portfolio changes in the past 3 months have increased MFF's exposure to market price fluctuations.

Market prices (generally, and for the portfolio) are higher than they have been in recent years and the percentage gains exceed recent gains in earnings (on average). Factors in this re-rating include the extremely low market prices during the Crisis, sustained low interest rates, and in the case of MFF's portfolio companies, ongoing improvements in business prospects. However, a key aspect of "margin of safety" is materially lower than it has been in recent years (this aspect is the extent to which our perceptions of intrinsic values of the portfolio companies exceed market values). Currently, our perceptions of intrinsic values for the portfolio continue to exceed market values, even prior to deducting tax impacts from sales, but the comparison is closer than it was a few years ago.

In recent months some of the major event risks concerning investors have dissipated (at least temporarily). The main exception is that market concerns about the Chinese economy, property markets and financial sector are becoming more main stream.

Importantly, market interest rates for liquid benchmarks such as US ten year bonds have fallen meaningfully. In recent years, and particularly at the start of this year, many investment professionals were protecting against a dramatic or uncontrolled rate increase associated with the end of Quantitative Easing. US ten year bond rates ended May below 2.5% p.a. compared with 3% p.a. at the end of 2013 and 1-2 year expectations of above 4% p.a., but experienced equity professionals remain cautious about reducing the discount rates they apply to estimates of future cashflows (although performance chasing has necessitated negligible discount rates being applied to concept stocks).

We continue to be cautious about valuations and growth assumptions, although some of the portfolio companies continue to indicate above average earnings per share growth. Cash remains unattractive over the longer term in comparison with quality businesses and MFF continues to have balance sheet strength for opportunities. We remain reluctant to go far down the quality spectrum in this cycle, notwithstanding some price falls in recent months. Ample liquidity is available in most economies and markets of the world. Although economic data remained mixed, and investor fears and negative headlines remain pronounced, we continue to see business progress in our portfolio companies.

We maintained the net borrowing position in the month (net borrowings were approximately 5.89% of the value of MFF's total investment assets as at 30 May 2014). MFF's net borrowings: total investment assets risk limit is 20%, which we continue to regard as an appropriate limit. We continue to maintain MFF's balance sheet strength (and note the periodic receipt of proceeds from early exercise of MFF 2017 options and that MFF's portfolio is concentrated in very liquid investment positions).

As at 30 May 2014 net borrowings were approximately 5.89% of investment assets. Borrowings remain in AUD, at about the same level as the half year figures. MFF held cash balances almost entirely in US Dollars with a small amount in Singapore Dollars. There were no material changes to currency positions during the month. We continue to consider that MFF's currency positions and weightings may offer some benefits in the event of a significant equity market downturn, in addition to longer term more fundamental considerations.

Key currency rates for AUD as at 30 May 2014 were 0.931 (USD), 0.682 (EUR) and 0.555 (GBP), compared with the rates at 30 April 2014 which were 0.927 (USD), 0.668 (EUR) and 0.549 (GBP),

Yours faithfully,

Chris Mackay
Portfolio Manager

2 June 2014