MAGELLAN
FLAGSHIP FUND LIMITED

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

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

Geoffrey Stirton
Company Secretary

1 August 2014

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

MFF advises that its approximate monthly NTA per share as at 31 July 2014 was $1.452 ($1.427 pre-tax as at 30 June 2014) and $1.339 (estimated tax liabilities almost entirely comprise deferred [rather than current] tax liabilities). 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 June 2014 the pre-tax NTA would have been reduced by approximately 9.2 cents per share. All figures in this release are unaudited and approximate.

Holdings as at 31 July 2014 with market values that represent more than 1.3% of the portfolio are shown in the table below (shown as percentages of total investment assets).

Holding	%
Wells Fargo	12.0
Visa	10.7
Lowe's	8.7
Home Depot Inc	8.6
Bank of America	8.4
Mastercard	7.7
HCA Holdings Inc	7.6

Holding	%
Lloyds Banking Group PLC	5.9
US Bancorp	5.2
Wal-Mart Stores Inc	5.1
Bank of New York Mellon Corp	4.7
State Street Corp	3.7
Sainsbury J Plc	3.1

Overall business conditions for MFF's portfolio companies are favourable, and are improving. This is reflected in corporate results announced in July, and other data. Our portfolio changes in the month were again insignificant (the holdings in the table above have remained unchanged since February). Overall the portfolio company results released in July exceeded expectations via a combination of revenue growth, cost discipline and very favourable conditions for shareholder friendly capital allocations from our collection of resilient, cash generative businesses.

Over the medium term, MFF's results depend primarily upon the business results of our portfolio companies rather than the impacts of short term moves in individual markets. It is reasonable to be optimistic about the medium term business prospects for our portfolio companies, although corporate outlook statements in July have tempered expectations, and political and regulatory risks remain elevated.

Despite rises in recent years, equity prices are not euphoric in our focus areas as there remains a lot of intelligent scepticism about risk and recovery, and many investment committees remain concerned to protect their reputations from a repeat of 2008/9. Prevalent optimism likely would reflect peak equity market conditions as optimism and heightened business activity become fully reflected in equity participation and in prices. During July there were some downward moves which might lead to more value opportunities depending upon future trends (a 5% selloff in US small/mid capitalisation indices and late month modest increases in bond market yields and spreads from very low levels). We continue to be cautious about moving far down the quality spectrum as this cycle plays through, and remain wary of the apparent "easy money" which was made in recent years as momentum and enthusiasm acted in combination.

We feel that market prices remain satisfactory for our portfolio, and measures compare very favourably with debt market yields (even with recent movements, ten year major government bonds yield 1-3% pre tax compared with average after tax earnings yields of 5-7% p.a.). A number of our companies are buying back decent amounts of their own shares on terms which yield well above their marginal funding costs, and increase value and earnings per share. There is plenty of head room in these calculations for when debt markets inevitably adjust.

The much delayed pick up in the economic recovery in the US is becoming more meaningful, although it is not universal (broad based income and employment benefits are usually late cycle events). Our exposure to domestic US businesses remains higher (and global multinationals lower) than we had in recent years.

Although IMF, World Bank and other forecasts for less developed countries (formerly called emerging markets) were reduced again in July, we continue to be more cautious than many market participants about near term projections for corporate profit growth from less developed/emerging markets. A global top 5 fast moving consumer goods company said that its recent market volumes were flat in less developed countries. Multinational legal/regulatory/health/food safety/protectionist scares increase as organic growth slows. We remain focussed on valuations/business cases in considering whether to reverse our relatively low exposure to global multinationals. Downturns may emerge slowly and then accelerate, and less developed countries may be more vulnerable/less profitable than commonly perceived, irrespective of BRICs and other marketing acronyms.

Our risk assessments are focussed upon less favourable cases, major unforseen event risks and important individual company/political/regulatory risks, and we remain cautious about overall competition and margins in the medium term. Self evidently, there is far less margin of safety in current market prices than when panic is prevalent and we consider the impacts of the current cycle and stimulus upon medium term valuations. Business attributes including competitive predictability (rather than short term price movements), remain the focus. We have also maintained our currency positions, in part for the potential risk benefits in the event of significant market reversals, as well as for the medium term fundamentals.

Overall supply and demand dynamics for equity and currency markets have been relatively stable in recent months, and this has been reflected in low volatility levels. Going forward, buybacks constrain supply for many of MFF's equity investments, and this is favourable. Demand appears more mixed for our companies, as promoters push new issues and new economy stories, which offer apparently easy gains and compete for attention. Overall equity market demand might rise as "new paradigms" related to mobile/web commerce and the internet of things, big data, advances in biotechnology, 3D printing/manufacturing, energy technology and globalisation/emerging markets continue to inspire entrepreneurs, create wealth and drive large pockets of market enthusiasm. We are exposed if stronger overall economic growth raises commodity prices above the portfolio's pricing power (contrary to our central case analysis). Medium term risks are partially mitigated as our portfolio companies generate growing free cashflows, and overall capital allocation is sensible (with limited pressure to chase sizeable acquisitions or major new projects).

In terms of currencies, probabilities are rising for a favourable demand/supply crossover in the next few years if Australian interest rate differentials fall. Medium term data indicates possible reversals of relativities (Australia/US in particular) in key economic measures such as unemployment, GDP growth rates, income, balance of payments, terms of trade and budget deficits, which have favoured Australia for much of the last decade.

MFF's balance sheet remains strong, and as at 31 July 2014 net borrowings were approximately 9.81% of investment assets (which are almost 100% highly liquid securities). MFF is currently utilising existing USD cash balances for new investments, with an incidental benefit of a slight improvement in current income (as dividends exceed cash interest). MFF can switch from existing portfolio companies if alternatives are more attractive or potentially offer better risk profiles. Borrowings remain in AUD, at about recently disclosed recent levels. The face value of the outstanding MFF 2017 options is well above MFF's net debt levels.

Key currency rates for AUD as at 31 July 2014 were 0.930 (USD), 0.695 (EUR) and 0.551 (GBP) compared with rates at 30 June 2014 which were 0.944 (USD), 0.689 (EUR) and 0.552 (GBP).

Yours faithfully,

Chris Mackay
Portfolio Manager

1 August 2014

Important note
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