

16 March 2015

Dear Optionholder

Renounceable Entitlement Offer – Letter to Optionholders

Magellan Flagship Fund Limited (“MFF” or “Company”) announced to ASX on 16 March 2015 that the Board had resolved to proceed with a pro rata renounceable entitlement issue (“Offer”) to raise up to \$143 million¹. Under the terms of the Offer, all eligible shareholders registered at 7:00pm (Sydney time) on the Record Date, being 7:00pm on Monday, 13 April 2015, will be entitled to receive one (1) new share (“New Shares”) for every four (4) existing shares (“Shares”) held on that date (“Entitlement”). The Offer Price is A\$1.60 per New Share.

This letter is not an offer document but rather an advance notice to holders (“Optionholders”) of the MFF 2017 Options (“Options”).

As an Optionholder, you are not entitled to participate in the Offer with respect to your Options unless you exercise some or all of your Options into shares in the Company which are entered onto the Company’s share register prior to 7.00pm on the Record Date, being Monday, 13 April 2015.

Full details of the Offer are set out in an offer booklet (“Offer Booklet”), copies of which are available on the ASX website (www.asx.com.au) and MFF’s website at <http://www.magellangroup.com.au/mff/> from 16 March 2015. The indicative timetable for the Offer is set out below.

If you wish to participate in the Offer in respect of the shares that would be issued to you on exercise of your Options, you will need to give notice in writing to the Company in accordance with the terms and conditions of issue of those Options. This requires the registered holder of the Option to duly complete the Option Exercise Form and to make payment of the exercise price of \$1.05 in cleared funds. The Option Exercise Form outlines the available payment methods. A copy of the Option Exercise Form is provided with this letter.

Your Option Exercise Form and payment in cleared funds for the number of Options you exercise must be received by the Company no later than 5.00pm on Wednesday, 8 April 2015.

If received after this date, the issue of shares prior to the Record Date cannot be assured. If you have not been entered on the Company’s register on or before 7.00pm (Sydney time) on the Record Date, you will not be able to participate in the Offer.

Alternatively, if you wish to participate in the Offer but do not wish to exercise your Options, as the Offer is “renounceable” you may buy the Entitlements of eligible shareholders, assuming there is a market for those Entitlements, on the Australian Securities Exchange or off-market during the Entitlements trading period (being Thursday, 9 April 2015 to Thursday, 30 April 2015). You should contact your stockbroker for further information should you wish to purchase Entitlements.

You should note that pursuant to the terms of the Options as contained in the options prospectus dated 27 September 2012, the exercise price of any Options which remain unexercised at the conclusion of the Offer will be reduced according to the formula as shown below:

$$NP = OP - \frac{E [P - (S + D)]}{(N + 1)}$$

Where:

NP = the new Exercise Price of the Option;

OP = the old Exercise Price of the Option;

E = the number of Shares into which one Option is exercisable;

¹ If all Options are exercised prior to the Record Date, the maximum amount that could be raised under the Offer will be approximately \$185 million. The \$185 million does not include the additional amount of approximately \$109 million that would be received by the Company as a result of the Options being exercised.

- P** = the average market price per Share (weighted by reference to volume) recorded on ASX during the 5 trading days ending on the day before the ex rights date or ex entitlements date (excluding special crossings and overnight sales);
- S** = the subscription price for Share to be issued under the pro rata Issue;
- D** = the amount of any dividend or distribution due but not yet paid on the existing Shares (except those securities to be issued under the pro rata Issue);
- N** = the number of existing Shares with rights or entitlements that must be held to receive a right to one new security under the pro rata Issue.

Please note that this letter is not an offer or an invitation to acquire securities or to participate in the Offer. This letter is to inform you of the Offer. You are not required to do anything in response to this letter. Before making a decision to exercise your Options, purchase Entitlements, or to participate in the Offer, you are encouraged to read the Offer Document in full and if necessary, consult your accountant, stockbroker, lawyer or other professional adviser.

Taylor Collison Limited and Bell Potter Securities Limited are Joint Lead Managers to the Offer. The Offer is not underwritten.

If you have any queries in relation to the Entitlement Offer, please contact the MFF Shareholder Information Line on 1800 074 453 or Boardroom Pty Ltd on 1300 737 760 (within Australia) or +61 2 9290 9600 (outside Australia).

Yours faithfully,



Richard Warburton AO LVO

Chairman

Indicative Timetable

Announcement of Offer and lodgement of Offer Document with ASX	Monday, 16 March 2015
Last day for Optionholders to exercise their Options and participate in the Offer	Wednesday, 8 April 2015
Entitlement trading commences on ASX	Thursday, 9 April 2015
Record Date for eligibility for the Offer	7.00pm, Monday, 13 April 2015
Offer Document despatched to Shareholders	Thursday, 16 April 2015
Entitlement trading on ASX ends	Thursday, 30 April 2015
New Shares under the Offer commence trading on ASX on a deferred settlement basis	Friday, 1 May 2015
Interim dividend record date	Friday, 1 May 2015
Closing Date of the Offer	5.00pm, Thursday, 7 May 2015
Allotment of New Shares and dispatch of holding statements	Wednesday, 13 May 2015
New Shares commence trading on a normal settlement basis	Thursday, 14 May 2015
Interim dividend paid and shares issued pursuant to the MFF Dividend Reinvestment Plan	Friday, 15 May 2015

**These dates are indicative only and are subject to change.*