MAGELLAN
FLAGSHIP FUND LIMITED

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ASX Limited
ASX Market Announcements Office
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Magellan Flagship Fund Limited
2015 Annual General Meeting

In accordance with ASX Listing Rule 3.13.3, please find attached a copy of the Chairman's Address and the Managing Director/Portfolio Manager's Comments.

Yours faithfully,

Geoffrey Stirton
Company Secretary

Chairman's Address
2015 Annual General Meeting
Thursday, 29 October 2015

MFF recorded a net profit after tax of $187.1 million for 2014/15. The 2014/15 result principally reflects very significant appreciation in the market value of MFF's investments as well as foreign exchange gains during the year.

Your Board was pleased with the portfolio's investment returns for the year. Importantly, we also consider that MFF's high risk standards and investment processes were maintained.

The portfolio has appreciated moderately since year end in the fluctuating market conditions (approximately 7% pre-tax based upon our figures released this week).

Quality businesses, valuation and risk controls continue to be key metrics for MFF's portfolio management. MFF's primary focus is to seek out investments in advantaged companies at attractive prices. In the higher markets in recent years we have maintained investment positions whilst prices remained at least satisfactory. Your Board and management have also overlaid risk controls including borrowing and position size limits.

Capital allocation and capital management are important for your Board. The 2017 MFF options were issued for no cash outlay to shareholders in late 2012 on a 1:3 basis. During the year MFF also conducted a successful 1:4 pro rata renounceable rights issue, which together with some early exercises of the MFF Options, increased capital by approximately $152 million during the year. Your Directors seek to ensure that shareholders have equal opportunity to participate, or to realise market value for their entitlements or bonus options.

Shareholders benefitted from the share buybacks we conducted in recent years at prices well below recent prices. It did not make sense to buy back shares in the past 12 months and so no shares were bought under the ongoing buyback authorisation.

In terms of dividends, the Directors have declared a dividend of 1 cent per share, to be paid on 12 November 2015. This dividend is fully franked. Your company has modest franking credits and hence we cannot forecast whether future dividends will be fully franked.

As MFF's gains are mostly unrealised, MFF had a substantial deferred tax position of approximately $118.4 million as at 30 June 2015 whilst current Australian tax liabilities for the year were approximately $1.3 million. Approximately $1.4 million of dividend withholding was paid to overseas jurisdictions during the year.

The Directors' preference is for a regular 6 monthly dividend at 1 cent per share, subject to corporate, legal and regulatory considerations. The Dividend Reinvestment Plan remains in operation with a zero discount to the applicable market price. Many shareholders have told us that they welcome the regular cash dividends, even if they are unfranked.

MFF continues to achieve satisfactory returns on the funds that are retained and your Board continues to be pleased with Mr Mackay's focus as Portfolio Manager.

MFF provides a very high level of transparency so that investors can make informed decisions about their investments. In addition to the Annual and half yearly reports, we release detailed figures each week, as well as extensive monthly commentaries. In addition to commentary these details include pre and post tax figures, details of adjustments for exercise of the MFF options and updates in relation to the portfolio holdings.

I now invite Chris Mackay to make some remarks and we look forward to your questions.

Richard Warburton AO LVO
Chairman

Comments from Chris Mackay
Managing Director and Portfolio Manager
At the Magellan Flagship Fund Limited Annual General Meeting
Thursday, 29 October 2015

MFF has invested in a portfolio of extremely high quality companies which have sustainable advantages; those advantages have improved in recent years and they should produce strong cashflows for many years.

Although market prices are much higher than they were a few years ago, we remain broadly comfortable with our portfolio valuations. Our portfolio liquidity and balance sheet strength mean that we might be able to take advantage of material changes in market opportunities, such as price declines.

Importantly, we are not under any pressure to change from our existing holdings and only need to move to better opportunities or for risk management. Despite much analysis, we have been disinclined to chase the recent "value" opportunities apparently being thrown up, particularly in less developed markets, and in commodity/energy related activities or where historically good businesses are subject to significant margin pressure from increased competition and technological disruption. Other investors are showing far more appetite and there appears to be plenty of money chasing deals and faster opportunities.

Markets and economies are cyclical, and our results will in part be determined by how we react to inevitable market fluctuations. In recent years a key focus has been upon what can go wrong; particularly with the business cases of our investments.

We operate in a technologically enabled world of magnificent opportunity also characterized by significant overcapacity, global competition, abundant low priced money and bubbles in the so called BRICS and emerging markets, amongst others. The portfolio has been built around some sensible past buying decisions, and selling where we perceived that business cases were becoming more challenged than perceived by other investors. Since at least 2012 our concerns had been hardening, and we found few places to invest where prices compared sensibly with business risks.

In the context of likely much lower overall investor returns, we feel that some of our companies are likely to continue to demonstrate at least moderate growth for at least the medium term. This may allow for some scarcity value, but we are not counting upon it. Any view on whether our portfolio prices are broadly satisfactory in the current market environment requires regular comparison with alternatives. When purchasers of short term Government securities accept zero or negative interest rates, and 10 year US Government Bonds yield approximately 2% (and hence buyers and traders in that market can only return 2% nominal , less costs, in aggregate for the next decade) it is ridiculous to expect sustainably high investment returns in other areas.

The largest investments (above A $3m) as at 16 October 2015 are shown on the screen at the front of the room (as a percentage of investment assets).

Holding	%
Visa	12.9
Home Depot	10.5
Lowe's	10.5
MasterCard	10.3
Wells Fargo	10.0
Bank of America	8.6
HCA Holdings	7.2
US Bancorp	5.7
Lloyds Banking Group	5.3

Holding	%
BlackRock	4.1
Bank of New York Mellon	3.0
McGraw Hill Financial	2.7
State Street	2.2
Microsoft	2.0
JP Morgan Chase	1.7
Schroders	1.2
Qualcomm	1.0
Fraport	0.4
ST Engineering	0.3

Wal-Mart was our major sale during the year. Otherwise, the portfolio was broadly unchanged. WMT's troubles including a multi-billion dollar downgrade in early October came in the same year that three of its most recent predecessors as the largest retailer in the world were in bankruptcy or flirted with it. Size is rarely sufficient protection.

The proportion invested in global multinationals again remains lower than in previous years as they remain vulnerable to market price reversals due to lower growth rates and increasing local and regional competition and regulation. Credit based financials remain somewhat out of favour with investors and continue to be prominent in the portfolio.

Although we will not dismiss a genuine "deep value" opportunity, we continue to look primarily for high cash returns on capital, pricing power and improving competitive positions. Our core mandate is to buy quality companies when they are out of favour (and hopefully relatively inexpensive) and to hold them whilst valuations and risk assessments remain favourable, subject to overall opportunity cost assessments in relation to the portfolio.

Whilst we are delighted with the excellent recent business performances and prospects of almost all of our major holdings, it is completely unreasonable to expect continuing portfolio price appreciation well above economic growth rates, and periodic market price declines are inevitable; when market prices rise ahead of business improvements, margins of safety decline. We prefer to find ugly and out of favour quality rather than pay up for trendy and ephemeral. We must wait for occasional advantages from the longer duration of our investment horizon with time favoured higher quality businesses.

We have found very few new opportunities to buy in recent years and none that we have regarded as compelling. Diversifying widely for its own sake would have cost us tens of millions of market value last year, and more in the latest fluctuations. MFF continues with significant portfolio concentration risks which we weigh against our focus upon rising business risks which continue to rise with the Internet 2.0 and 3.0 (including digital, cloud and smart device capacity) unleashing almost unlimited competitive capacity and stripping pricing power, even from "safe haven" businesses.

We hope to be prepared for buying opportunities which are most attractive during market downdrafts, despite the considerable discomfort at the time. It is inevitable that from time to time we will have to sell some of our larger holdings in order to build capacity for future opportunities. Our low portfolio turnover has been an outcome rather than a target, and it may sensibly improve our risk/reward tradeoff to significantly widen the portfolio nearer the bottom of the market cycle. Later in the meeting, we can discuss our buying and selling parameters, as well as more details about specific holdings and the portfolio changes, if shareholders wish.

As part of our portfolio and market risk management, we have concentrated in securities with high levels of liquidity, in the generally higher priced markets in recent years. Although we are concentrated in securities that we feel will be more valuable in 5 and 10 years, there will be periods of market declines and declines for individual securities. Irrespective of how positive are our current views of the short term economic outlook, preparation is required for extended downward pressures which might be far more severe than can be perceived during the upturn. We recently considered a quality international consumer staple company which appeared to remain expensive compared to its outlook even though it was 1/10th of its 2011 IPO price; dropping 90% of value doesn't prevent us losing half again if it falls by 95%.

Our assets comprise international equities, and we have not hedged the currency exposures. As mentioned over a number of years, we believe that this profile offers some benefits given our perception of the medium term fundamental dynamics around the AUD. As mentioned in the Annual Report we have felt this to continue to be the case, even at 30th June rates. Of course, this AUD currency position may add to risks, for example when China spent trillions on restarting their economy coming out of the Crisis and the AUD rose strongly along with commodity prices.

Objectively, it was difficult not to achieve sizeable gains in the strongly rising equity markets post Crisis, and also not to outperform in the latest year or so as our portfolio excluded the areas most impacted. Making it even harder for our shareholders to make objective assessments, most risk management processes were not rewarded whereas we benefitted materially from our currency position which had important risk management aspects discussed extensively in previous years.

We had cleaned out the most marginal and relatively expensive holdings from the portfolio. Our primary risk management tools include our focus on business quality and value, and we seek some risk management benefits from "forced rankings", from portfolio sales, from managing cash/debt levels and from our currency positions. We have again been willing to buy into out of favour situations (which are cheaper) with acceptable business risks and pricing, and to ignore much volatility in market prices in the last few months. Investments in equities require sufficient potential returns given their ranking below fixed and variable business costs such as wages and rent, and below debt securities. Control positions and whole business acquisitions remain competitive and expensive.

I thank my fellow Directors who continue to provide very insightful judgement, counsel and leadership. MFF shareholders are well served by them.

I will hand back to the Chairman and we would be happy to address questions.

Chris Mackay
Managing Director and Portfolio Manager