MAGELLAN
FLAGSHIP FUND LIMITED

Magellan Flagship Fund Limited
ABN 32 121 977 884

Level 7, 1 Castlereagh Street,
Sydney NSW 2000 AUSTRALIA

General: +61 2 8114 1888
Facsimile: +61 2 8114 1800
Website: www.magellangroup.com.au

Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for October 2015.

Please find enclosed MFF's monthly NTA per share for October 2015.

Geoffrey Stirton
Company Secretary

3 November 2015

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Net Tangible Assets ('NTA') per share for October 2015

MFF advises that its approximate monthly NTA per share as at 30 October 2015 was $2.147 pre-tax ($1.998 pre-tax as at 30 June 2015) and $1.844 after providing for tax[1] (mostly deferred). If all of the remaining MFF 2017 options had been exercised by 30 October 2015, the pre-tax NTA would have been reduced by approximately 16.8 cents per share (and the approximate post tax figure by approximately 12.4 cents per share). All figures are ex the 1 cent per share fully franked dividend payable on 12 November 2015.

There were numerous quarterly reports and corporate updates during October. There were few movements in our portfolio in the latest month and, as we were already working with dampened growth expectations, most salient factors remain materially unchanged from the explanations detailed in previous monthly reports and at the AGM.

More generally, strength in large company profit margins has been a constant since the Crisis, but quarterly numbers and outlook statements are evidencing margin pressures across many industries and geographies. Abundant currency and energy/commodity price impacts and EM market slowdowns were universally expected, but pressures related to labour availability and related costs and competition were more widespread, impactful and concerning than had been implied by either market consensus or previous commentary from managements. Although our portfolio appears to remain relatively better positioned, we do not see reasons to raise our cautious expectations. Specific portfolio impacts include the requirement to add more months to our underestimation of the duration of meaningful margin pressure from suppressed net interest margins (and damaged confidence, penalties and regulation) for our extensive holdings of credit based financials. We continue to expect increasing use of cash balances and of borrowing facilities; specifically by US corporates and households but eventually also by small and medium enterprises, despite headwinds. Many factors have subdued these recoveries, and we continue to consider possible implications and scenarios for our holdings and portfolio construction.

Consensus investor sentiment continues to move towards deflation, or at least disinflation, in most markets. Causes, contributory factors and correlations are being assessed as consensus for many decades has been that freely available abundant money from central bank stimulus is inflationary. In multi variable systems such as modern global economies it appears that deflationary factors such as significant overcapacity in major commoditised tradeable sectors which are now resulting in dramatic downward price resetting, and deflationary/recessionary eventual removal of some excess capacity, can co-exist with asset price and other inflationary forces responding to the monetary stimulus.

The implications of sustained monetary stimulus at scale targeted at perceived deficient aggregate demand, in circumstances of floating exchange rates and elevated and rising debt levels, are very uneven, and fluctuate over time as sectors, geographies, markets, sentiment and cycles are impacted differently and themselves impact/react. Whether or not aggressive monetary action is coincident, correlated, or has a causal connection with deflationary forces, effective central bank action and communication is difficult, and downward interest rate pressures continue to predominate (consistent with the socialisation, incentives and other considerations of committees).

The probability of policy errors, and possible implications of inevitable errors by us and other investors, continue to be heightened, particularly as expected returns from traditional safer investment options are inadequate to meet retirement/other obligations. Political risks and challenges are rising from elevated levels, although recent trade deals and some international co-operation may be modest positives. Lack of confidence in political elites in most countries adds to deflationary forces and continues to damage confidence, as subjects attempt to increase savings/reduce investment and spending to pay increasing charges and taxes and bear the impacts of new regulation, "protection", administration and funding for favoured initiatives. Political honeymoons have shortened since the Audacity of Hope of the first Obama presidency, and further damage broad trust and confidence when translated from the casually thrown around tax, spend and regulate unfavoured industry whims of political/bureaucratic/advantaged elite in capital cities into real world impacts faced by families and businesses. Hopefully Canada will be a positive exception, and these factors prove to be transitory or cyclical.

Net debt as a percentage of investment assets was approximately 0.3% at 30 October 2015 and all cash/borrowing currency exposures were below 1% of investment assets as at 30 October 2015.

Key currency rates for AUD as at 30 October 2015 were 0.713 (USD), 0.646 (EUR) and 0.462 (GBP) compared with rates as at 31 August 2015 which were 0.702 (USD), 0.629 (EUR) and 0.464 (GBP).

Yours faithfully,

Chris Mackay
Portfolio Manager

3 November 2015

[1] Net tax provisions, are tax liabilities less tax assets, and are partially in respect of realised gains.
All figures are unaudited and approximate.

Important note
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