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 April 2016.

Please find enclosed MFF's monthly NTA per share for April 2016.

Geoffrey Stirton
Company Secretary

3 May 2016

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Net Tangible Assets ('NTA') per share for April 2016

MFF advises that its approximate monthly NTA per share as at 29 April 2016 was $1.983 pre-tax, ($1.998 pre-tax as at 30 June 2015) and $1.739 after providing for tax[1] (mostly deferred). If all of the remaining MFF 2017 options had been exercised by 29 April 2016, the pre-tax NTA would have been reduced by approximately 14.0 cents per share (and the approximate post tax figure by approximately 10.5 cents per share). Figures are ex the fully franked dividend of 1 cent per share payable in May 2016[2].

Although MFF's equities rose somewhat, MFF's April NTA was negatively impacted by the broad USD weakness. Our portfolio continues to be focused upon companies with sustained advantages, positive medium term outlooks and market prices which appear likely to be at least satisfactory in most circumstances. MFF did little buying during the month and had modest sales. We continue to avoid predictions of short term market movements and maintain our significant balance sheet and portfolio construction strengths, with moderate external commitments and liquidity and portfolio flexibility. Although our Quality/Value focus has benefitted MFF in recent years, we are very cautious about return expectations given higher market prices and constrained overall growth rates. We struggle to find a range of attractive core holdings and also have not found scale opportunities in deep value or stronger growth areas at attractive risk adjusted prices.

Economic data and corporate updates were plentiful in April. Contradictory short term market reactions (month on month oil prices rose about 20% and some investors sought inflation protection, but main stream bond rates changed little and high yield bonds rallied) impacted everyone searching for consistent themes regarding the impacts (on business cycles and elsewhere) of globalisation, competition, technological changes, disruption, overcapacity, central banks and Governments. The general absence of short sellers supported prices in the month. Many corporate earnings and outlook statements were poor relative to 12 months ago and recent quarters, including many credit based financials but some of these share prices gained in the short term, perhaps being less bad than some expected. Although the market prices of our credit based financials rose in the month, this sizeable area for MFF has been a drag, and near term business headwinds are numerous.

Sustained low interest rates are continuing to distort asset markets, as almost all investors reach for returns and lower hurdle rates, and in some cases assume optimistic future growth rates. Direct and indirect results of these policies also continue to bring forward and change the direction of business investment and consumption in many respects but also force many to increase savings rates, encourage corporate management to prioritise cost cutting/productivity and capital management over growth investments. Such measures reduce further the velocity of money (reducing the effectiveness of monetary policy to stimulate overall activity) and reported GDP benefits, and contribute to record high profit shares, income inequality and social disquiet/insecurity including as the proportion of temporary and part time employment rises.

Dispiriting is a word being heard more regularly in relation to political activity, although some of MFF's portfolio companies have been subject to so much capricious and misdirected bureaucracy, regulation and user pays charges/taxation that they are becoming better at maintaining better corporate resilience. However, adverse impacts upon market liquidity and the reliability of clearing prices are likely to persist.

As noted in recent months we consider that our negative medium term view for the AUD is supported by data, although near term activity in China and domestically is being boosted, and USD weakness continues. In time we expect that market focus will return to the impacts of the increasingly probable first few AAA downgrades. Repeated off balance sheet structures might disguise and delay but ultimately exacerbate weaker fiscal controls, as has happened in Europe. Obviously AUD, USD and other currency sentiment will continue to

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fluctuate, and may again be adverse for MFF's NTA. We continue to be cautious about all currencies and prefer the earnings power of advantaged businesses at satisfactory valuations.

Net debt as a percentage of investment assets was approximately 9.7% at 29 April 2016. AUD net debt was approximately 9.0%. Other cash/borrowing currency exposures were below 1% of investment assets as at 29 April 2016. Key currency rates for AUD as at 29 April 2016 were 0.763 (USD), 0.666 (EUR) and 0.521 (GBP) compared with rates for the previous month which were 0.769 (USD), 0.675 (EUR) and 0.535 (GBP).

Yours faithfully,

Chris Mackay

Chris Mackay
Portfolio Manager

3 May 2016

[1] Net tax liabilities are tax liabilities less tax assets, and are partially in respect of realised gains.
[2] All figures are unaudited and approximate. On 29 April 2016 MFF ordinary shares commenced trading ex 1 cent per share fully franked dividend payable in May.

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