Magellan Flagship Fund Limited
ABN 32 121 977 884

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Magellan Flagship Fund Limited ('MFF')
Net Tangible Assets ('NTA') per share for May 2016.

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

Geoffrey Stirton
Company Secretary

2 June 2016

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

MFF advises that its approximate monthly NTA per share as at 31 May 2016 was $2.115 pre-tax, ($1.998 pre-tax as at 30 June 2015) and $1.823 after providing for tax[1] (mostly deferred). If all of the remaining MFF 2017 options had been exercised by 31 May 2016, the pre-tax NTA would have been reduced by approximately 15.7 cents per share (and the approximate post tax figure by approximately 11.6 cents per share). Figures in this release are adjusted for MFF's dividend payment in May 2016, NTA per share reductions from share issuance (DRP, option exercises) and expenses including overseas withholding and domestic tax payments (which reduce pre-tax and post-tax NTAs) and after providing approximately 0.45 cents per share (pre-tax) for the contingent June 2016 expense accrual.

Portfolio changes were minimal in the month. The portfolio prices appeared to remain broadly satisfactory (primarily because of some continuing excellent business performances), but conditions for sensible new investments have remained difficult for us. Whilst continuing to avoid predictions of short term market movements, we are very cautious about return expectations given higher market prices, and constrained overall growth rates. We continue to 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.

Although MFF has benefitted from its recent focus upon businesses with perceived sustainable advantages at satisfactory prices, portfolio prices are much higher and business risks are ongoing. For example, regulatory and political actions against credit based financials are unremitting, and the favourable credit cycle will turn. It is reasonable to expect that larger portfolio changes will be necessary over the next few years, and mistakes are inevitable despite our significant balance sheet and portfolio construction strengths, with moderate external commitments and liquidity and portfolio flexibility.

Market participants continue with the difficult search for consistent themes regarding the impacts (on business cycles and elsewhere) of globalisation, competition, technological changes, disruption, overcapacity, central banks and Governments. Dispiriting is a term which understates most objective assessments of political and budget activity in this month.

Sustained low interest rates continue 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. 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 persist.

Our negative medium term view for the AUD was supported by data released in the month, including ongoing Current Account Deficits exceeding $80 billion, the rise in net foreign debt accelerating past $1 trillion via borrowing for consumption, housing and governments, whilst near term activity in China and domestically is being boosted (brought forward). Although the possibility of AAA downgrades is supported by reasonable analysis, we expect that it remains a surprise for many observers and participants (including heavy foreign borrowers in the finance industry) and budget repair likely requires and/or causes recessionary conditions, and hence if/when this occurs it will be deserved, and may impact borrowing and currency markets in ways that downgrades of larger

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economies did not. Proposed retirement savings changes also increase the relative attractiveness of investment in larger offshore markets and those with lower likely medium term taxation imposts and political risks. Repeated off balance sheet structures also 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 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 9.2% at 31 May 2016. AUD net debt was approximately 8.6%. Other cash/borrowing currency exposures were below 1% of investment assets as at 31 May 2016. Key currency rates for AUD as at 31 May 2016 were 0.724 (USD), 0.651 (EUR) and 0.498 (GBP) compared with rates for the previous month which were 0.763 (USD), 0.666 (EUR) and 0.521 (GBP).

Holdings as at 31 May 2016 with market values of 1% or more of the portfolio are shown in the table below (shown as percentages of investment assets).

Holding	%
Visa	11.8
Lowe's	10.3
Home Depot	10.0
MasterCard	9.4
Wells Fargo	8.8
Bank of America	7.4
HCA Holdings	7.4
US Bancorp	5.3
Lloyds Banking Group	4.5

Holding	%
CVS	4.1
BlackRock	4.0
S&P Global	3.6
JP Morgan Chase	3.4
Bank of New York Mellon	2.6
Microsoft	2.0
State Street	1.6
Schroders	1.0

Yours faithfully,

Chris Mackay

Chris Mackay
Portfolio Manager

2 June 2016

[1] Net tax liabilities are tax liabilities less tax assets, and are partially in respect of realised gains.

All figures are unaudited and approximate.