

HYPERION FLAGSHIP INVESTMENTS LIMITED

JUNE 2012 UPDATE

SHAREHOLDERS' QUARTERLY REPORT

OBJECTIVE

Long-term capital growth and income

STRATEGY

High-conviction portfolio of quality Australian listed equities from a research driven, bottom-up investment philosophy

LISTED

December 2000

COUNTRIES WHERE LISTED

Australian Securities Exchange

ASX CODE

HIP

RATINGS

- Independent Investment Research – Recommended¹

DIRECTORS

Henry R Smerdon AM
Chairman

Dr Emmanuel (Manny) C Pohl
Managing Director

Patrick Corrigan AM

Dominic M McGann

Sophie A Mitchell

COMPANY DETAILS

Hyperion Flagship Investments Limited, ABN 99 080 135 913
Level 12, Corporate Centre One
Cnr Bundall Road & Slatyer Avenue
Bundall QLD 4217
Australia

1300 HYPERION 1300 497 374
Tel: (+61 7 3020 3718)
Fax: +61 7 5574 1457
Email: flagship@hyperion.com.au
www.hyperionfi.com.au

OVERVIEW

Hyperion Flagship Investments Limited's underlying portfolio outperformed its benchmark during the quarter. It returned -3.5% versus the All Ordinaries Index return of -6.4%. In comparison, the share price of the company was down -5.2% during the quarter.

UNDERLYING PORTFOLIO PERFORMANCE (as at 30 June 2012)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	10.34	-3.54	-4.90	6.49	-2.58
UBS Bank Bill Index	-	1.05	4.70	4.52	5.27
S&P/ASX All Ordinaries	3.05	-6.43	-11.25	1.56	-8.10

[^] Source: Hyperion Asset Management

INVESTMENT ACTIVITY

During the June quarter we removed JB Hi-Fi from the portfolio, due to its level of maturity and structural changes within the industry. The balance of the portfolio's investments remained unchanged with only a slight reduction to our holding in BHP Billiton.

The largest contributions to active performance in the June quarter came from the portfolio's investments in Navitas (+22%), Carsales.com (+8%), Cochlear (+6%) and Woolworths (+3%).

The largest detractors from active performance were JB Hi-Fi (-19%), Rio Tinto (-14%), SEEK (-10%) and WorleyParsons (-12%).

OUTLOOK

The short-term financial metrics that the companies in the portfolio produced during the February reporting season were solid and positive despite several macro related headwinds including a high Australian dollar, the low level of consumer confidence and increased equity market volatility. The difficult macro conditions that our companies have faced in recent years will normalize in the long-term and provide a one off boost to earnings growth at some stage in the future. In the meantime, the organic sales, earnings and dividend growth that the portfolio has been producing should continue to drive valuations higher.

The 5 year total return outlook for the portfolio continues to look attractive both relative to the likely returns from the overall domestic equity market and in an absolute return sense.

PORTFOLIO CHARACTERISTICS (as at 30 June 2012)

NAV (tax on realised gains only) – total	\$31,839,975
NAV (tax on realised gains only) – per share	130.2 cents
Concentration of Top 20 Holdings	92.97%
Stocks in the underlying portfolio	23



FUND MANAGER

Hyperion Asset Management
Limited, ABN 80 080 135 897
Level 22
307 Queen Street
Brisbane QLD 4000
Australia

GPO Box 1205
Brisbane QLD 4001
Australia

Tel: 1300 497 374
Fax: +61 7 3020 3701
Email: flagship@hyperion.com.au
www.hyperion.com.au

RECENT AWARDS

Hyperion Asset Management

- ☉ Morningstar
Fund Manager of the Year 2012
– Australian Equities (Small Cap)
- ☉ Money Management / Lonsec
Fund Manager of the Year 2010
– Australian Equities (Small Cap)
- ☉ The Australian Fund Manager
Awards 2010
– Australian Equities Winner

INVESTMENT PHILOSOPHY

- ☉ Investments should outperform
the risk-free rate
- ☉ The price one pays determines
the ultimate long-term return
- ☉ High quality growth companies
outperform over the longer term

INVESTMENT PROCESS

INITIAL SCREENING PROCESS

- ROE
- Revenue Growth
- Interest Cover
- IPOs
- Broker Ideas
- Internal Ideas

FUNDAMENTAL ANALYSIS

- Understanding the Business Model
- Sustainable Competitive Advantage
- Organic Growth Opportunities
- Assessing Management
- Assessing the Operating Environment

PORTFOLIO WEIGHTING

- 5 Year Risk Adjusted Total Return
- Top Down Cash Analysis

HIGH CONVICTION PORTFOLIO OF COMPANIES

This process is the basis for all our
Australian equities investment decisions.

SECTOR BREAKDOWN (as at 30 June 2012)

Financials	28.46%
Consumer Discretionary	18.10%
Materials	11.76%
Information Technology	10.14%
Industrials	9.16%
Consumer Staples	7.27%
Energy	6.62%
Health Care	6.03%
Cash and Equivalent	2.47%

TOP 5 STOCK HOLDINGS (as at 30 June 2012)

Commonwealth Bank of Australia	7.51%
Woolworths	7.27%
SEEK	6.71%
Cochlear	6.03%
BHP Billiton	6.01%

PORTFOLIO VALUATION

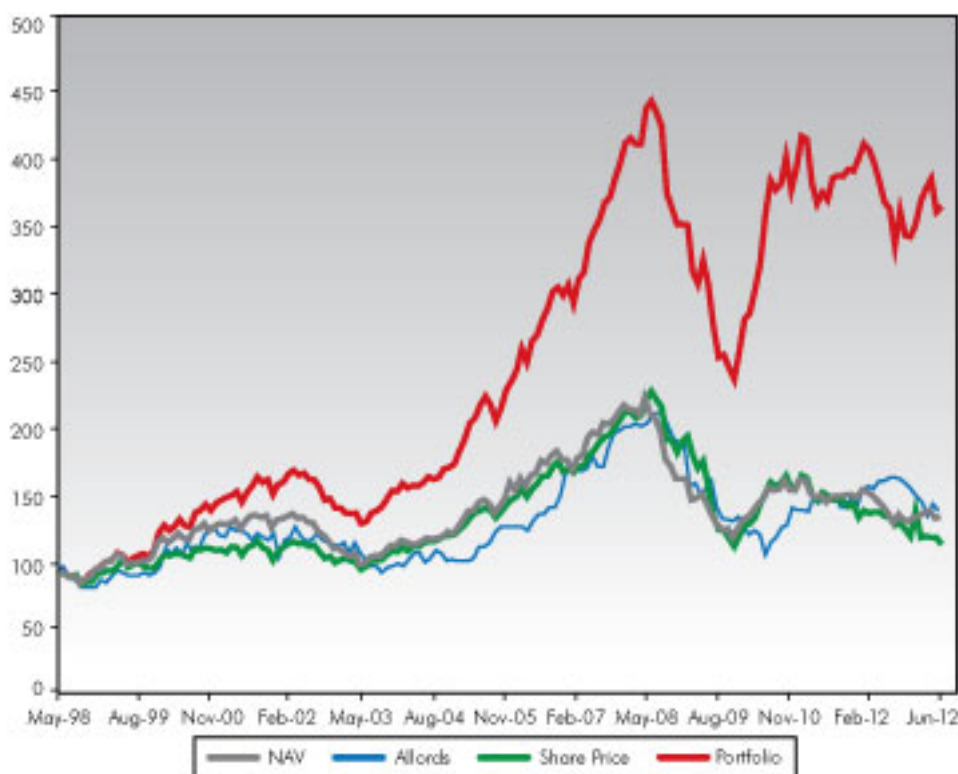
Price/Earnings Ratio	16.00
Beta	1.00
HIP DIVIDEND YIELD	6.59%

RISK

Tracking Error	4.70
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SHARE PRICE (as at 30 June 2012)

(after adjusting for the rights issue)



STRUCTURE AND TERMS

Legal Domicile	Australian Securities Exchange (ASX) Listed Investment Company (LIC)
Fees	Management fee – Nil (2010/2011) Performance fee 15% of the annual outperformance over the UBS Bank Bill Index
MER	0.0%
Reporting and Correspondence	Monthly Net Asset Value prices on www.asx.com.au and www.hyperionfi.com.au , quarterly reports, half-yearly and annual reports
Dividend Information	AUD 0.0425 at 9 September 2011 AUD 0.03 at 10 May 2012
Auditor	BDO Audit (QLD) Pty Ltd
Registry	Computershare Investor Services Pty Limited
Share price and NAV	www.hyperionfi.com.au

¹ This opinion is provided by Independent Investment Research and must be read together with whole report including the disclaimer and relevant legal notices which can be found at www.independentresearch.com.au