

HYPERION FLAGSHIP INVESTMENTS LIMITED

SEPTEMBER 2011 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 & CEO

Patrick Corrigan AM

Dominic M McGann

Sophie A Mitchell

COMPANY DETAILS

Hyperion Flagship Investments
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Welcome to your new look Quarterly Report. We have made some changes to improve the format and data you will receive each quarter in order to help keep you more abreast of what is happening with your investment.

OVERVIEW

Hyperion Flagship Investment Limited's (ASX: HIP) portfolio marginally outperformed its benchmark, the All Ordinaries Index, by 0.11% during the quarter. Over the same period HIP's share price declined 5%, leaving it to trade at a slight premium to Net Asset Value (NAV). News flow has been relatively light across HIP's underlying portfolio of companies with share price movements dominated by short-term sentiment, driven largely by the uncertainty surrounding the Euro Zone and United States, rather than fundamental financial results released by those companies in August. While the share prices reflect shareholders paying less for the companies' future earnings, the underlying metrics that we look at as an investor still remain sound.

At a portfolio level, the biggest contributors to active performance during the quarter included Carsales.com (+3.35%), REA Group (-0.9%) and Platinum Asset Management (-3.35%). The biggest detractors from active performance during the quarter included Cochlear (-34.53%), Macquarie Group (-26.82%) and IRESS Market Technology (-20.90%).

UNDERLYING PORTFOLIO PERFORMANCE (as at 30 September 2011)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio ^A	10.26	-12.55	-13.11	3.17	1.23
UBS Bank Bill Index	-	1.24	5.02	4.54	5.56
S&P/ASX All Ordinaries	3.10	-12.66	-12.22	-4.21	-4.46

^A Source: Hyperion Asset Management

INVESTMENT ACTIVITY

During September, Cochlear announced a product recall. Cochlear found that there was an increasing incidence of the generation 5 implants ceasing to function (less than 1% of all implanted generation 5 devices). In the face of the product recall, the Hyperion Asset Management's Investment Team reviewed and amended its Cochlear modeling. The focus of the changes stemmed from estimated market share reductions and the costs associated with the recall. As a result the terminal valuation (our calculated value of Cochlear's expected cash flow beyond five years) was reduced and the internal rate of return (IRR) of the investment has increased due to the large reduction in Cochlear's share price.

During the quarter, Domino's Pizza Enterprises was added to the portfolio. The value proposition of Domino's has increased significantly over the past few years. Value for money and convenience has been the driving force of the company's returns in the face of increasing food inflation and consumer cost pressures. Domino's has continued to develop its store network and technology in order to drive improvements in its customer value proposition domestically. Domino's also has exposure to the European market, where it has been active for five years. The European operations appear to be on the cusp of material earnings growth and the company is only 25% through its store roll-out program. The upside to Europe comes not only from the store roll-out, but also the ability to translate the company's operational knowledge gained in the domestic market to Europe.

The weighting given to Platinum Asset Management was reduced during the quarter. The trimming of the position within the portfolio was a result of a reduced forecast terminal valuation.

OUTLOOK

The recent reporting season was solid with the overall portfolio generating strong revenue, earnings per share (EPS) and dividends per share (DPS) growth of 15%, 21% and 14% respectively. The fundamental metrics were strong, both in absolute growth terms and relative to the overall stock market. Moreover, the EPS and DPS growth outlook remains attractive, with double digit growth forecast over the next five years. The strong historical EPS and DPS growth has been negated by a significant decline in the Price/Earnings (P/E) ratio for the portfolio that now sits below 13 times. The historical average trailing P/E ratio for the portfolio is around 19 times. The forward dividend yield is approximately 6% and the forecast 5-year IRR for the portfolio is currently around 25%, compared with an historical average forecast IRR of 16%. All the fundamental metrics indicate that the portfolio is substantially undervalued at current price levels.




FUND MANAGER

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RECENT AWARDS

Hyperion Asset Management
 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.

PORTFOLIO CHARACTERISTICS (as at 30 September 2011)

Pre Tax NAV - total	\$31,185,644
Pre Tax NAV – per share	126.2 cents
Concentration of Top 20 Holdings	90.93%
Stocks in the underlying portfolio	25

SECTOR BREAKDOWN (as at 30 September 2011)

Financials	30.24%
Consumer Discretionary	18.39%
Materials	12.90%
Information Technology	9.65%
Industrials	8.55%
Energy	7.22%
Consumer Staples	7.03%
Health Care	4.43%
Cash and Equivalent	1.59%

TOP 5 STOCK HOLDINGS (as at 30 September 2011)

Commonwealth Bank of Australia	7.57%
Woolworths	7.03%
RIO Tinto	6.55%
BHP Billiton	6.35%
SEEK	5.87%

VALUATION

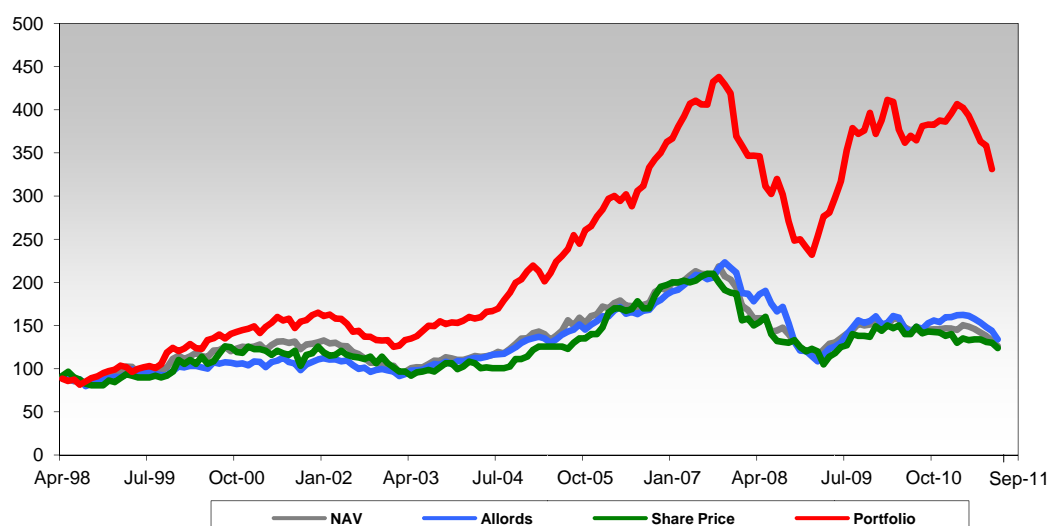
Price/Earnings Ratio	15.79
Price Book Ratio	4.80

RISK

Tracking Error	5.50
Beta	1.03

SHARE PRICE (as at 30 September 2011)

(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	AUD 0.0425 at 9 September 2011	AUD 0.0425 at 11 March 2011
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