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25 October 2017

ASX Limited  
ASX Market Announcements Office  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

**MFF Capital Investments Limited  
2017 Annual General Meeting**

In accordance with ASX Listing Rule 3.13.3, please find attached a copy of the Chairman's Address and the Managing Director/Portfolio Manager's Comments.

Yours faithfully,

**Geoffrey Stirton  
Company Secretary**

## **Important Notice**

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## **Chairman's Address**

### **MFF Capital Investments Limited 2017 Annual General Meeting**

### **Wednesday, 25 October 2017**

## **Introduction Portfolio and Risks**

MFF's portfolio appreciated solidly in the strong markets of 2016/17 and this is reflected in the financial results which we will detail later.

We will also detail how our attention is focused upon risk controls in these higher markets.

Your Board is also focused upon how MFF's strong investment returns best translate into strong returns for shareholders. This is always a priority but is timely given the final exercise date for the MFF Options is next week.

Your Board remains very pleased with the composition of the portfolio and we consider MFF's risk standards and investment processes continue to be well maintained. Your Board also remains pleased with Mr Mackay's focus as Portfolio Manager.

Your Board continues to caution against elevated investor expectations. Risks associated with the sustained low interest rates and higher asset prices increased in the twelve months.

In addition to portfolio reviews, your Board regularly reviews MFF's risk controls, which include borrowing and position size limits.

Mr Mackay will shortly provide some details on the financial results, the portfolio, market risks and other risks.

### Dividends

The Directors have declared a fully franked dividend of 1 cent per share, to be paid in November 2017. In the Annual Report, your Board also announced our intention to increase the dividend, starting from the first dividend of 2018, to a regular six monthly dividend of 1.5 cents per share.

In the Annual Report and at previous shareholder meetings we have discussed the balance of considerations in setting dividend policy. These include MFF's continuing strong investment returns on our retained capital and recent increases in current tax payable (which increases franking credits).

Since we released the Annual Report, your Board has continued to review the dividend policy, as equity markets have been strong and MFF has made sales in the financial year to date of about 10% of our portfolio. These sales are expected to generate additional franking credits for future dividends.

Thus the Board today has decided to announce its intention that the regular six monthly dividend be 1.5 cents per share for the first dividend of 2018, and then a minimum of 1.5 cents per share with the goal of lifting it over time to 2.5 cents per share for each six months.

This dividend policy is subject to corporate, legal and regulatory considerations, and we intend to maintain the Dividend Reinvestment Plan (at zero discount to the applicable market price).

### Capital Structure

A bonus issue of options was undertaken in 2012 on a 1:3 basis to shareholders. The last date for exercise of the bonus options is 31 October 2017. More than five sixths of the options have been exercised to date. The Options are well in the money, so option holders are encouraged to act, as set out in the letter from the Company Secretary.

MFF has a very strong balance sheet, liquid investments, debt markets remain favourable and equity markets have risen in recent years. We do not currently have any plans to raise additional new capital or otherwise alter MFF's overall capital structure. Capital structure can be reviewed promptly if circumstances change, for example if a general fall in markets leads to far more attractive investment opportunities.

Your Board favours the possible benefits of greater scale but only if this is in shareholders overall interests. Your Board seeks to ensure that shareholders have equal opportunity to participate in entitlements or bonus option issues, and to realise market value for their entitlements and options.

#### Service Arrangements

During the year MFF extended the service arrangements provided by Magellan Asset Management, and the first six months of the revised arrangements are reflected in MFF's latest results.

#### On-market Share Buy-back

Shareholders benefitted from the share buybacks we conducted in recent years at prices well below recent prices. It did not make sense to buy back shares in the past 12 months and so no shares were bought under the ongoing buyback authorisation.

MFF provides regular, very high levels of transparency about MFF, our portfolio, decisions made, prospects and risks, in addition to detailed statutory information so that investors can make informed decisions about their investments. We release detailed figures each week including pre and post-tax figures, details of adjustments for exercise of the MFF options, updates in relation to the portfolio holdings, as well as extensive monthly commentaries.

We welcome the questions we have received during the year and those specifically for the meeting. We will seek to address many in the formal comments and in Q+A, as well as questions from the floor and the phones.

Last year a shareholder asked whether MFF non-executive directors take part of their fees in shares to align with shareholders. In the case of MFF the alignment is very strong: all the Directors have large shareholdings (multiples of their fees) that they have held for the long term and all have increased during their time on the Board. All Directors have exercised all of their Options. These shares have all been paid for from our own resources on the same terms as other shareholders, and the Company has not incurred any outlay on Board or Executive bonuses or share or option plans.

I now invite Chris Mackay to make some remarks and we look forward to your questions.

**Richard Warburton AO LVO**  
**Chairman**

**Comments from Chris Mackay  
Managing Director and Portfolio Manager  
MFF Capital Investments Limited 2017 Annual General Meeting  
Wednesday, 25 October 2017**

## Introduction

Our investment processes have two core components. First is the hunt for low prices (Value). Second is Quality; finding companies with advantaged businesses, ideally with high probabilities of achieving above average profitable growth.

Last year we discussed positive and negative impacts of Momentum in markets. Momentum remains a crucial factor in current market prices. Empirical studies and investor track records demonstrate that, when momentum exists, it continues on average. Currently this remains the case, and Momentum helps move prices higher for most asset classes.

We expect the next few years to require Adaptation, as market disciplines periodically impose objective acceptance of prevailing realities (rather than forecasts, hopes or fears). As markets advance, Adaptation requires greater focus on risk controls, patience, focus, knowing limitations, understanding why and what has worked, and discipline, which have not been necessary for successful asset ownership in recent years. Adaptation is somewhat out of step with current rising market Momentum, but partly offsets overconfidence, when narratives supplant valuation.

## Financial Results

MFF recorded a net profit of \$158.8 million for the year ended 30 June 2017 after allowing for full tax on realized and unrealized gains. The results reflect positive movements in the market values of our investments and currency movements were a moderate negative for the year.

MFF uses 'mark to market' accounting for both investments and foreign exchange. Thus, MFF's profit and loss starts each new financial year at zero, based off the market values at the end of the previous financial year. Hence significant fluctuations in reported year to year results are inevitable.

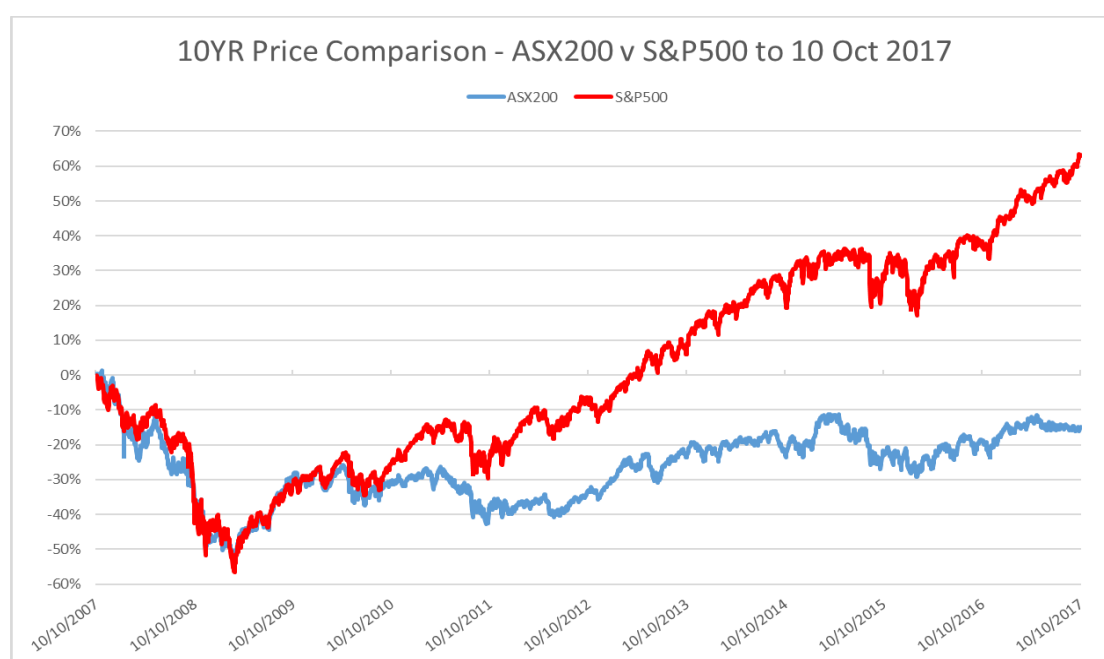
MFF's investment results over time are reflected in our strong balance sheet metrics. As at 30 June 2017 the \$953.1 million Total Equity comprised Retained Profits of \$409.2 million and Contributed Equity of \$543.9 million. Investments at market value were \$1.2 billion and Borrowings \$71.1 million. MFF has substantial deferred tax liabilities (approximately \$164.3 million as at 30 June 2017) reflecting over \$500 million of net unrealized gains compared with the cost of our investments. In October we advised the ASX that net Borrowings

and the provisions for unsettled trades at 30 June, have been reduced by over \$100 million and MFF is now in a modest net cash position.

Current tax liabilities at 30 June were \$6.7 million, or about 1.5c per share. This was a substantial increase on the previous year. We expect a further tax increase next year given recent sales. Whilst tax payments detract from the NTA numbers, current and future franking credits are key factors in the Board's review of dividend policy.

### Current Markets

Although our analysis is 'bottom up', industry and company by industry and company, Base Effects are always important. This year we are showing 10 year graphs of the S+P 500 index (the leading US equity index) as well the S+P/ASX 200 (the leading Australian equity index). Most obviously, the US graph has continued its rise over the latest 12 months. Note also that various world markets have been stronger than the US in the year.



Objectively, it was difficult not to achieve sizeable gains in the strongly rising equity markets post Crisis, and also for MFF not to outperform in most years as our portfolio excluded the areas most impacted by increases in domestic and international competition, overcapacity and technological disruption. In considering the post Crisis period also note that most risk management processes from excellent experienced investors were not rewarded, whereas we benefitted materially from our currency position, particularly in 2014/15.

The statistics of rising markets mean that some randomness rather than sensible processes are rewarded for periods, particularly prior to cyclical turning points.

If our processes are sensible, MFF is able to acquire interests in high quality businesses at prices well below their underlying values, particularly during downward moves. Markets as a whole and for individual securities fluctuate well beyond what might objectively be rational economically. As value investors we require market prices for equities to be 'wrong' from time to time, and to either buy or sell accordingly.

We again note difficulties relating to the risk goal of seeking to avoid permanent capital loss. The more elevated are market prices, the lower the probabilities of meeting this objective, and contrary promises deserve caution. Higher markets also mean that rates of future gains based off existing unrealized gains will be lower than in the recent past (and there will be price falls when market volatility returns).

Turning to the present. Strong cyclical business expansions are being enjoyed by businesses generally, in most geographies around the world, and in particular in some important industries (including large technology, property in China and elsewhere, Government projects and services). This is reflected in, and reflective of, strong markets for equities, businesses and properties. Just as more forecasts are again being made that potential is unlimited, cyclical 'over earning' is again increasing.

During recent years we have been largely invested, with moderate borrowings, in a portfolio focused on business advantaged, liquid securities. In past market cycles, these business characteristics have been relatively favoured in later stages and in pullbacks. We continue to feel that the likely returns from the portfolio compare favourably with cash, and that the medium to longer term return probabilities compare sensibly with current alternatives (having regard to risks/opportunity costs). However, calculations are far more marginal than at lower prices, and our risk processes need to deal with the likelihood of being wrong. When cycles turn we must adapt again, accept fluctuations, and aim to benefit from them over time.

We are asked regularly shareholder questions along the lines of the media/other experts who say the market must crash so what are you doing about it? The reality is that market prices fluctuate and we must not fool ourselves otherwise. There have been few downward fluctuations in the last 12 months in equities and for many years in more illiquid asset classes. These conditions add to risk. Our focus on risk controls, prices, business and fundamentals is less risky and more repeatable over time than anticipating emotional short term market movements, although there is a lot of important analysis of past cycles, and the market crash issue is important. Analysis guides towards objective assessment of prevailing conditions, and adaptation, and away from narrative and extrapolation. There is no causal relationship between the incidence and accuracy of expert predictions or headlines, and most lack even basic correlations away from turning points. Whenever predictions are

taken seriously, incentives and motivations are considered as well as rigor of the processes.

The graphs indicate that rises in large capitalization indices were more likely than falls across the period. Being invested has made sense in this period as it has done in most periods. Investor worries have been overcome one by one. However, a majority of investors did not benefit from market level gains in this period, perhaps as investors fear losses particularly whilst previous traumatic losses are in memory. The graphs also invite questions of asset allocation. Investors could easily have sat in cash for this period and their capital would likely have been secure, but the cumulative after tax returns would likely have been insufficient for investment objectives. Cash availability becomes more valuable late cycle.

Valuations matter and they remain our #1 protection. In this regard we are more worried than previously and must ignore others' confident forecasts. Investors are now far more confident, including some very big players. Traditional value investors have had a very difficult time in these markets and some have closed down. We are also more concerned about interest rate risks over the medium term than we have been for many years. That many experts have changed their minds from interest rate panic to being less concerned is notable, but doesn't make one view or another correct. Overall, we continue to manage these risks by seeking considerable headroom for unfavourable interest rate movements.

Warnings should be louder for momentum investing and the growing popularity of index investing, ETFs which have momentum underpinnings, and some other investment vehicles springing up. More people required to provide for their own retirements, who have been risk averse, and their advisers are being lured by the pyrrhic victory of lower costs, the psychic illusion of 'not making a mistake' as everyone is doing it, and buying index funds, usually with the stated goal of being a long term investor. It is now a far more expensive time in which to be a long term investor, and to have Fear of Missing Out.

Going forward, if asset prices continue to rise in the short term, as is customary towards the latter stages of most bullish markets, most businesses and investors will feel good about the gains they are seeing, and there will likely be more economic multiplier effects and scope to block out memories of previous losses. However more confident, index and yield chasing investors mean higher prices, more risks and lower medium to longer term aggregate returns, even though momentum is as likely as not to keep prices rising for a period.

Whilst we bought equities in most downturns in the period covered by the graphs, buy on dips will not always be sensible. We are well away from the exceptional potential returns coming out of the Crisis, when businesses were materially under earning and market prices added further discounts.



On the screen we are showing all of our investments as at 30 September 2017 (as percentages of investment assets).

<b>Holding</b>	<b>%</b>	<b>Holding</b>	<b>%</b>
Visa	12.9	Microsoft	2.3
MasterCard	11.0	S&P Global	2.2
Home Depot	10.4	United Overseas Bank	1.2
Bank of America	9.9	DBS Group	1.2
Lowe's	9.1	Overseas – Chinese Banking	1.1
Wells Fargo	7.0	Blackrock	1.0
JP Morgan Chase	4.6	CapitaLand	0.9
US Bancorp	4.6	Qualcomm	0.7
HCA Healthcare	4.4	Bank of New York Mellon	0.5
Alphabet	4.0	Schroders	0.5
CVS Health	3.9	Singapore Technologies Engineering	0.3
Lloyds Banking Group	3.3	SATS	0.2
Facebook	2.6	SIA Engineering	0.2

A summary of all of our purchases and sales is contained in the notes to the Accounts. We favour companies with sustainable economic advantages, which can reinvest their capital at high rates of return, the lowest cost players in markets with medium term growth potential, which give upside business potential and reasonable probabilities of downside protection.

MFF's primary focus in seeking out investments in these advantaged companies at attractive prices has been much harder in the higher markets in recent years, and we have been patient with both buying and selling. We have found very few new opportunities to buy and none that we have regarded as compelling. We have mostly kept the benefits of holding our businesses whilst valuations and risk assessments remain favourable, subject to overall opportunity cost assessments in relation to the portfolio. Prices for our formerly out of favour credit based financials rose in the 12 months, as did their current and prospective earnings profiles.

Overall, our major holdings have maintained their excellent recent business performances, cashflows and solid prospects, despite various disappointments (eg cross selling in banking, higher contract labour costs in healthcare, legal disputes for a patented technology supplier, and legislative headwinds and potentially increased competition in healthcare).

Sensible capital allocations, including dividend and share buyback policies, remain important for our portfolio although markets have been permissive regarding the billions being spent on venture capital by technology leaders. Dividends received by MFF last year of \$21 million were up 21%, but will not

grow as quickly in the future, and must be seen in the context of unrealized gains of over \$500 million at year end.

Investments in equities require sufficient potential returns given their ranking below fixed and variable business costs such as wages and rent, and below debt securities. A majority of all businesses have declined in value over the medium to longer term, and this is logical given the nature of market capitalism. Probabilities of favourable outcomes may rise if objective focus is price disciplined, and upon a group of likely business winners over the medium term. Our transactions have included some short term 'deeper value' opportunities, and despite very modest gains, we are even more cautious about this category now. Buying lower quality securities late in a market cycle does not reliably create value and certainly not in aggregate; many investors making lots of money are less focused on risks.

More professional investors are increasing their valuations by adjusting downwards their estimates of discount rates and adjusting upwards their forecasts of cashflows from those equities. Possible future benefits of tax cuts and repatriation holidays, and deregulation have added to the upward momentum. Hence, cash is coming off the sidelines, and borrowing to invest in assets is again increasing. However an increased number of industries and economies generally are 'overearning' as cycles continue and multipliers operate despite rampant overcapacity. The earlier US graph showed pretty much straight line up; expect divergences across businesses and industries to increase.

MFF's high proportion invested in domestically focused US companies has helped in recent years, but this will likely reduce in future years. . China's continuing domestic growth and One Belt One Road initiatives are irreversibly transforming the post WW2 geopolitical world order. MFF adjusts exposures and portfolio construction having regard to market prices, business characteristics and risks rather than diversifying widely for its own sake, which costs shareholders

As part of our portfolio and market risk management, we have concentrated in securities with high levels of liquidity and previously cleaned out more marginal businesses and illiquid holdings. The low portfolio turnover in recent years was an outcome rather than a target, and our risk/reward tradeoff is likely to improve with increased sales into rising markets. We have not progressed any possibility to acquire a substantial interest in a cash generating business on sensible terms, given market prices and our focus on liquidity.

MFF's opportunity cost is high when selling high quality existing investments which we expect to be more valuable in 5 and 10 years, thereby incurring tax on accrued gains, in order to buy replacement investments. However periodic extended downward pressures are usually far more severe than can be

perceived during the upturn. 'Dry powder' will again be valuable in investment processes.

Prices are assessed in comparison with current and future alternatives. Purchasers of short term Government securities accept near zero interest rates, and 10 year US Government Bonds yield approximately 2.35% (up from 1.8% last year) and hence buyers and traders in that market can only return 2.35% p.a. nominal, less costs, in aggregate for the next decade. Probabilities remain positive that US 10 year rates will increase to 3 or 4% or higher, with important implications for financial stability as well as markets.

Our assets comprise international equities, and we have not hedged the currency exposures. We continue to believe that this profile might offer some benefits given our perception of the medium term fundamental dynamics around the AUD. Possible risk mitigation also remains an important consideration as currency movements are a primary transmission mechanism for risk adjustments in the world economy. Of course, this AUD currency position may add to MFF's risks; for example China has again undertaken a major stimulus in their economy and the AUD has risen in Calendar 2016 and 2017.

I thank my fellow Directors who continue to provide very insightful judgement, counsel and leadership. Their future input might well become even more important given current market levels!! The Board also join me in thanking the team at MAM who look after us with their professional skills, positive attitudes and kindness.

I will hand back to the Chairman and we would be happy to address the written and other questions.

**Chris Mackay**  
**Managing Director and Portfolio Manager**