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MFF Capital Investments Limited ('MFF')
Net Tangible Assets ('NTA') per share for March 2020

Please find enclosed MFF's monthly NTA per share for March 2020.

Authorised by
Marcia Venegas | Company Secretary
1 April 2020

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MFF advises that its approximate monthly NTA per share as at 31 March 2020 was $2.971 pre-tax ($3.225 as at 30 June 2019), and $2.481 after providing for tax[1]. The 20c per share fully franked special dividend was paid last month and the figures are cum dividend for the interim ordinary dividend which will be paid in accordance with the usual schedule (ex-dividend April 2020, payable May 2020). Tax instalments ($7.1m) paid during the month also reduced pre tax NTA figures. We continue to caution against excessive focus on pre tax figures. In recent years equity price increases ran ahead of excellent business performances by our portfolio companies and we made many sales. Whether sales are for that reason, or for the additional reasons included in this release, our profitable sales incur tax. During March our weekly NTA releases have included details about cash levels.

Equity markets fell significantly during March and are now below where they started the financial year and calendar year. Portfolio market values fell, and this is reflected in the NTA figures. Our main tasks in March were to act objectively in relation to deteriorating current realities and realistic 6-12 month outlooks, and to prepare for longer term future opportunities. We are market price sensitive when transacting and when weighing alternatives, whilst business reality is our analytical guide. Although market prices usually reflect business reality over longer periods and are often excellent early warning indicators and mirrors on events, they are regularly more capricious over shorter periods. MFF has the financial resources to ride out economic and market downturns, and if our processes and analysis are successful, to benefit over time from the fluctuations. MFF has financial and analytical capacity to make longer term investments in fluctuating large liquid markets, without being a forced seller or buyer.

The challenges in current business conditions are unprecedented in the majority services economy social media era with its multiple stresses, where most demand is not stored when immediate consumption is lost. It is not currently foreseeable when Government and societal constraints will be relaxed to commence allowing relative normalcy for demand and businesses(beyond outer bounds of 12 months or so by which time damage would have multiplied) without extensive second wave infections. MFF has materially increased its cash reserves, to over 25% of assets, partly to protect capital against extended bad case outcomes. Our actions also reflect the view that the long bull market and cheap money recovery from the GFC are over. We are patiently ready to move over time to deploy cash and our extensive balance sheet capacity, ideally towards well priced opportunities in long term advantaged businesses. Additional detail in this release includes the full portfolio, comments on our investment framework, and some specific factors currently important for our portfolio management. These include impacts in the overlapping but separate categories of markets/ prices, business/economic and pandemic effects.

MFF has focussed upon advantaged, profitable businesses and this continues. We continued to build balance sheet cash and liquidity in March. In the February NTA release we detailed our significant selling this financial year (approximately $256.2m) and we sold approximately $399.3m in March. March purchases were negligible ($1.8m) and our entitlements to dividends from portfolio companies during the month were approximately $3.4m [all figures approximate and rounded].

What were caution and risks a month ago are now horror at what is now a rapidly spreading and globally tragic pandemic. Regarding the economic implications (including incidence, severity and duration), we are negative but remain uncomfortable forecasting firmly in relation to primary and derivative (supply chain, counterparty, psychological, behavioural, political, central bank, fiscal etc) likely impacts or plausible estimate ranges. Most of these factors deteriorated markedly in the month, and formerly best-case forecasters are now warning of severe recessions at best. In March officially reported cases outside China increased from about 6,780 to over 750,000 and business shutdowns and travel/movement restrictions went from relatively minor, largely localised to widespread globally.

Our base case does not match the optimism of some politicians that the virus will be controlled quickly and/or with minimal economic and social implications from the pandemic or from the actions taken in response. Major economies have enacted dramatic economic and social shutdowns, businesses have shut and record increases in unemployment have followed, albeit from record low levels in the US February figures released early March (usually unemployment is a lagging indicator). Each month increases the damage to social/economic fabrics, changes behaviours and lengthens the time to reasonable recoveries. Also, deferred tech and other capital expenditure, reduced/removed dividends and buybacks, and short term cost cutting increasingly become medium/longer term measures with second order impacts.

Even in early virus countries where containment, testing, tracing and similar have been relatively effective, ongoing cases are occurring as travellers return and community infection continues. Scientists hope that asymptomatic and recovered patients in these countries do not spread the virus to create secondary waves. In countries which reacted later and had less testing, the historical precedent is that early optimism may have cost many lives and caused greater economic pain in previous pandemics. Sweden has commenced an alternative path away from widespread shutdowns and Brazil has its own course. Possible optimism, extrapolating from pandemics in the last decade, early reactions in Singapore/our investee companies there, has passed in health systems now fighting for survival. As economies falter Governments might reduce business shutdowns and restrictions on general movements(whilst continuing quarantining on age/perceived risk bases) but this likely will be met community resistance given implications for new infection rates and duration. Wealthier nation testing and tracing is improving and is necessary for possible partial reopenings.

Highly skilled and rapid work is being done on treatments and prophylactics (measures/medicines to prevent infection), but approval and widespread availability appears to be months away, even in wealthy countries. Although likely very beneficial, these are not vaccines, appear relatively expensive to produce and distribute, and populations in over 150 poorer countries are already infected. Similar skilled and focussed work is happening rapidly on vaccines, with best case estimates of at least 12 months for availability at meaningful scale even in wealthy countries. So called 'herd immunity' is also being discussed given the devastating economic and social implications of the shutting down economies.

Governments are enacting significant relief packages with aims including to keep important industries available for when the worst of the virus has passed and/or medical solutions are found. MFF's portfolio is an indirect beneficiary of fiscal and monetary support. However we are monitoring/acting where we are concerned that portfolio companies will likely bear meaningful shares of the economic duress. Our portfolio comprises large profitable companies so they bear more costs in tougher times, although early on it is not all as bad for some as in previous crises. During the GFC, regulators failed for long months to repeal a then new accounting rule requiring banks to mark to market even long term assets as panic selling and hedge funds drove down prices, which quickly denuded capital. Fortunately this time regulators have deferred a potentially catastrophic new requirement for banks to recognise up front economically estimated life of loan losses, again denuding capital if they lend, or denying necessary loans. However, even very early in this crisis, political leaders have started requiring/requesting banks to subsidise community operating losses and forbear community capital losses, and large banks and other businesses have voluntarily increased their wage, other employment and healthcare costs for frontline workers and some are agreeing to maintain employment.

Our recent portfolio actions aim to protect meaningful amounts of capital from more substantial erosion, whilst keeping balance sheet strength and liquidity to maintain most of our holdings in small numbers of advantaged businesses, as well as considerable flexibility for future investments. Our approach requires combinations of analysis, patience and focus, and this again accelerated some portfolio actions in March. Whilst we do not predict short or medium term share price movements we are price sensitive. We concentrate on medium to longer term present value comparisons of business probabilities and market prices,(at any time future share price declines might be substantial even for very advantaged companies whose share prices should rise over the very long term albeit in an uneven unpredictable manner). We expect ultimately that our advantaged companies will prosper as medical science will allow lives, communities, businesses and markets to resume activities closer to what was normal. Market prices and our assessments of future profitable growth prospects are keys to future investments.

Although MFF has benefitted over time from previous market drops, and from business and market gains that accrued to companies we own, downsides leap in falling economies and markets, as equities rank at the bottom of capital structures. Stressed economies pressure previously supportable weaknesses and Governments increase their propensity to act capriciously and to shift burdens and blame. Operating leverage, and capital light structures, such as franchises, may reverse under pressure. Moves to online, digital and similar business trends have continued/accelerated in the pandemic, further damaging previously successful business models. Companies and countries that were pressured pre pandemic/oil price collapse are very vulnerable.

Opportunity cost has again increased markedly from being very low. When MFF declared the special dividend we argued that we did not want to invest our shareholder money 'in ever more marginal opportunities' (see January NTA release). Cash has now become far more valuable as our prospects have risen for finding opportunities that might be valuable and meaningful over the next five years or so. In recent market downturns in the bull market we had 'bought the dip'. In recession bear markets that is not usually a winning strategy unless the recession and market downturn are short lived. This time, the rapidity of the extended market downturn was a new low, as was the absence of any rebound extending beyond one day (until late March). In recent years we have focussed on larger, broadly based, profitable businesses benefitting from economic multipliers whilst seeking to avoid even good quality niche businesses and 'narrow verticals'. We continue to focus on large profitable and liquid companies. We accelerated our substantial reductions of our 'market plus' and bank financials positions.

We believe political risks and uncertainty also elevated further in March, and opinion polls supporting incumbents are viewed cautiously. Central banks reduced interest rates further, committed to massive traditional bond and other asset purchases and provided huge liquidity for stressed markets. Some experienced financial market experts have argued that the flooding central bank liquidity and other relief measures will allow for rapid normalisation of economies, rapid future asset price growth and a significant fall in the USD as dollar hoarding ceases and emerging market economies recover quickly. We are waiting, as the alternate view is that the deep sustained cuts to real economies (people businesses communities health and far more)will not recover quickly even with flooded cheap money, and emerging markets lack the business, government health and other infrastructure and are more dependent upon tourism/simple manufacturing and are unlikely to recover as quickly or strongly as richer more diverse economies.

We are also considering medium and longer term implications of the pandemic, the stimulus, government intervention and the other global and local factors on investment, inflation, markets etc. We expect that some important implications will be very different to short term implications, and ongoing portfolio flexibility will be required. For example, material differences between short and longer term currency and interest rate implications/projections are plausible central cases. Also, the much criticised US Government GFC bank (and other industry) investment packages returned significant profits for future Government expenditures, whereas financial returns to taxpayers/Government are not expected for the trillions of [currently more popular] support packages announced globally this time around.

During the month, company after company reported closures, reduced revenues and business stress. Although the pressures appear less for those of MFF's holdings that have reported, the immediate falls in business have grown week by week. Although only one portfolio company has now cut dividends, many, including US bank financials, have halted significant share buyback programmes and the ECB (and now UK) have requested dividend suspension for their regulated banks. The oil price collapse adds to and spreads business pressures and investment caution. Venture capital failures are at early stages of being more widespread with multiplied impacts. Immediate incentives encourage unlisted asset holders, particularly fee earners, not to mark to anything like true market values, and to be optimistic. Financial sector collapses are minor to date, in part because interventions are more standard after the GFC and European banking crises, and widespread collapses largely are lagging indicators in non financial led crises.

Large US companies drew down hundreds of billions of dollars from credit lines in just one week to provide them liquidity, reduce pressure and this gives some flexibility compared with smaller competitors/acquisition targets fighting for survival. We favour companies with the capital and resources to invest successfully and capture market shares in the eventual recovery, ideally with quality disciplined capital allocation.

Corporate beneficiaries in the ultimate recovery are likely different to relatively better performing businesses and share prices during the most extensive parts of the shutdowns/pandemic, and at least somewhat different to winners in the prior boom, as globalisation may retreat, for example. A small number of companies might return to their previously positive trajectories after the worst of the pandemic passes, but for most companies (and countries) this may be years or more away. Going forward, portfolio purchase prices for advantaged businesses are crucial for investment success in risky, lower future return markets; patience and selectivity, even as the number of apparently favoured opportunities increases.

Increased inventories and sustained increases in onshoring of supply chains by large wealthy countries are expected, as are restrictions on border movements(with extent and durations obviously unknown). Funding of Government sector increases must be watched(tax increases and/or borrowing from the future and/or asset recycling)and political pressures will increase from unemployment of median households in wealthy economies(large scale infrastructure projects may be more probable, in addition to national supply chain measures). The extent and shape of large scale privatisations, including widespread community ownership and employee representation in company management, may become relevant variables jurisdiction to jurisdiction. Policy influences of populist, ESG green and socialist movements are shaping Government responses to these crises and even larger roles are foreseeable in the aftermath, but with fewer profitable enterprises to fund the policies and employ in the future. Our political pessimism has increased from an elevated base, outside of a tiny number of jurisdictions where low taxes, sensible priorities and regulations might be sustainable.

Post GFC China was a driving force for renewed global economic activity and may play that role again. Irrespective of overall economic model revisions, Chinese enterprises will compete even more aggressively for global manufacturing, although returns may not accrue for local or particularly inwards investors. Investors are watching foreign direct investment, as well as portfolio flows (whether or not restricted by possible successors to the Rubio bill) regardless of whether or not the first stage free trade agreement/arrangements are more meaningful than they originally appeared. In recent years China's growth rates stalled given increased scale, and as it moved unevenly on transparency and business reforms with increasing state control, directing companies to act, related deals lacking focus on outside shareholder governance and returns, as well as outwards capital restrictions as domestic debts rose. China experts are not confidently expecting large scale Chinese business governance freedoms and reforms, state and provincial privatisations or community empowerment. International professional investors (non index) in state owned enterprises have had decades to dampen early optimism by promoters of the no influence related party semi private model. Domestic trust issues are vital for modern economies (and in trade; recent faulty Covid test kits and treatment 'solutions').

History predicts that increased nationalism, further breakdown of multinational body efficacy, and corrupt/capricious government "discretionary allocations" will set back globalisation and disproportionately hamper emerging economies. Internal pressures might cause Chinese leadership to continue an apparent move away from increased openness as the virus spread globally, although recently increased restrictions on foreign entry and movement may be temporary support to avoid renewed waves of infection and for stepped up digital monitoring tracking and tracing.

Realism about unlimited unknown time frames remain part of the Stockdale paradox. The considerable discussions on whether the downturn is V,U or even L shaped might have been more on point if the virus was contained to very few countries without widespread shutdowns. Early treatment drugs may be expensive, intravenous over many days delivery, and likely will be rationed and not the 'solution' in poorer regions or even in overwhelmed rich city health systems (despite the optimistic desire to be time frame positive).

All holdings as at 31 March 2020 are shown in the table that follows (shown as a percentage of investment assets and net cash). Net cash is now the largest position. Liabilities/contingent liabilities comprise tax and other operating costs. MFF does not have an upper limit on permitted cash levels, which some years ago were briefly over 50% until replacement purchases were found. Cash is for the opportunities it allows, not for tiny interest rates. Net cash levels measured in AUD fluctuate with currency movements, as cash is predominantly not in AUD (see final paragraph below). The AUD strengthened into month end.

Holding	**%**	**Holding**	**%**
Visa	18.6	United Overseas Bank	1.7
MasterCard	17.2	Oversea - Chinese Banking	1.4
Home Depot	10.7	US Bancorp	1.4
Lowe's	3.3	Kraft Heinz	0.5
HCA Healthcare	3.0	Alphabet	0.4
CVS Health	2.9	Schroders	0.4
Wells Fargo	2.5	Morgan Stanley	0.1
JP Morgan Chase	2.5	Bank of America	0.1
Lloyds Banking Group	2.1	SATS	*
DBS Group	1.9	Facebook	*
Microsoft	1.8	* *less than 0.1%*	

The three largest holdings are attractive businesses with durable advantages expected to be sustained after vaccines are available for the pandemic, but their earnings will be impacted in the mean time. At this stage we do not perceive high probabilities of core long term business risk to them from the pandemic or from raised probabilities of further Government or regulatory damage. We expect their excellent cash generation and capital allocations to continue. We do not wish to sell, pay hundreds of millions of tax that would become due and attempt to buy back, even though their share prices may well fall further. In time we hope to expand the number of core extremely attractive businesses, buying on decent terms. Opportunities for unpopular attractive but cyclical businesses with unrecognised growth (which helped us in the bull market) might be quite some time away, in terms of market and business cycles.

Net cash (this month including short term receivables) shown as a percentage of investment assets and net cash, was approximately 27.7% as at 31 March 2020. AUD net cash was 2.9% (taxes, other expenses and dividends are paid in AUD), USD net cash 23.8%, SGD net cash 0.7% and other currency borrowing/cash exposures were below 0.3% of investment assets as at 31 March 2020 (all approximate). Key currency rates for AUD as at 31 March 2020 were 0.612 (USD), 0.558 (EUR) and 0.494 (GBP) compared with rates for the previous month which were 0.645 (USD), 0.587 (EUR) and 0.505 (GBP).

Yours faithfully,

Chris Mackay
Portfolio Manager

1 April 2020

[1] Net tax liabilities are current tax liabilities and deferred tax liabilities, less tax assets.

All figures are unaudited and approximate.