CAPITAL INVESTMENTS LIMITED

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MFF Capital Investments Limited ("MFF")
Net Tangible Assets ("NTA") per share

Please find enclosed MFF's monthly NTA per share for February 2021.

Authorised by
Marcia Venegas | Company Secretary

1 March 2021

MFF Capital Investments Limited ('MFF')
Net Tangible Assets ('NTA') per share for February 2021

MFF advises that its approximate monthly NTA per share as at 26 February 2021 was $2.839 pre-tax (cum 3.0 cent per share fully franked interim dividend) ($2.809 as at 30 June 2020), and $2.498 after providing for tax[1]. Monthly portfolio changes were moderately higher than for most months with approximately 1.7% of portfolio value for sales and approximately 7% for purchases. The full portfolio is shown below.

MFF remains characterised by portfolio and process continuity and we caution against reading much into the portfolio changes. The portfolio is concentrated in portfolio companies which are advantaged, extremely profitable cashflow generators, with very solid post pandemic prospects and current resilience, even if pandemic impacts extend for far longer than currently expected by many. The changes in the month increase modestly the proportion of advantaged companies at sensible prices. Overall results in the longer term most depend upon the longer term business performances of MFF's portfolio companies.

Aggregate movements for major equity market country/region indices in the month were modest (approximately 1% for the benchmark US S+P 500 Index, for example). Movements during the month (and month on month in some cases) were somewhat more pronounced for individual sectors and companies, and in bond and currency markets. Markets provide satisfactory opportunities from time to time for MFF to buy interests in high quality but less popular or less understood companies funded from capital resources and/or sales of less attractively priced/riskier holdings.

Markets' multiyear love of narratives continued and 'reopening trades' rose, as did numerous loss making and speculative companies, including some early stage 'pure play' digital companies, but profitable omnichannel companies, growing off traditional analogue businesses lost support, and advantaged profitable large capitalisation technology companies have had 6 months of 'net sideways'. As the month ended some portfolio prices became somewhat more interesting, although our future return expectations and hurdle rates currently remain low, and we retain a primary focus on seeking to avoid major permanent losses of capital. Capricious political and regulatory interventions continue to occur and should be expected, although the new US administration started better than feared. Rent seekers have quickly captured the narrative to support massively increased government funding for transitions to new energy, manufacturing resilience and infrastructure.

Longer dated bond market prices fell materially as market players required increases in the tiny interest rates they offered, and momentum, extrapolation, fear and modest leveraged/hedge fund unwinding followed. Previous equity markets would not have been concerned about US Government 10-year bond rates crossing 1.5% p.a. and finishing at about 1.4% p.a., but not all professional investor equity valuation/DCF models had margins of safety well above the record low interest rates of 2020. Modest return of bond market price discovery despite central bank control was not anticipated universally. Asset allocation rebalancing out of equities into fixed interest is a feature of such market price falls. Systemic implications were not apparent as corporate credit spreads and debt markets remained solid with high yield popular.

Our previously noted reductions in hurdle rates and optimistic future rates of return, to about 6% p.a. for developed world equities, did not require adjustment for the bond movements to date. Duration arbitrage may again be helpful as many professional investors focus on up to the next 3 years, whereas the maths of asset valuations (rather than momentum and other factors in price fluctuations) require probabilities for solid business prospects for far longer periods.

Ongoing near term extrapolation may also continue in bond, equity and other markets, as year on year inflation figures for the next 6 months or so lap the start of lockdowns associated with the pandemic, and may compete for investor attention with possible realisation that economic effects of the pandemic and associated restrictions may last longer than current consensus expectations. On the other hand, broadly measured corporate margins and returns on capital continue to very strong as productivity improvements, and customer satisfaction measures, have been accelerated by cloud and other technology and in response to pandemic revenue pressures.

Global overcapacity/insufficient aggregate demand and low velocity of money may extend after cyclical boosts from stimulus and from 'catchup' pandemic deferred capital and infrastructure expenditures and consumption (particularly services).

Our portfolio structure allows for wide bounds of economic outcomes, rather than requiring specific near term and macro forecasts which change regularly (for example, last month the US administration was aiming for at least 70 million first dose vaccinations by 31 March but is now aiming much higher, the US rates of cases have fallen but scientists are more explicit about the virus becoming seasonal/annual and ‘not disappearing’ even as vaccines reduce transmissibility and are reprogrammed to address numerous variants). The speculative fervour in parts of the equity markets continues to be assessed for more systemic implications when the unwinds occur.

Holdings as at 26 February 2021 are shown in the table that follows (shown as a percentage of investment assets).

	%		**%**
Visa	16.3	Morgan Stanley	1.6
MasterCard	16.2	Mitsui & Co	1.4
Amazon	9.8	Sumitomo Corp	1.3
Home Depot	8.0	Asahi Group	1.3
Facebook	5.4	Lloyds Banking Group	1.2
CVS Health	3.4	US Bancorp	1.2
Bank of America	3.4	Allianz	1.1
Microsoft	2.7	DBS Group	0.8
Prosus	2.4	Lowe's	0.7
Berkshire Hathaway Class B	2.2	United Overseas Bank	0.5
CK Hutchison	2.0	Marubeni	0.5
Mitsubishi	2.0	Oversea - Chinese Banking	0.5
Alphabet	1.9	Ritchie Bros Auctioneers	0.5
Intercontinental Exchange	1.8	Schroders	0.5
Itochu	1.8	HCA Healthcare	0.3
L'Oreal	1.8	United Health Group	0.1
Procter & Gamble	1.7	PM Capital Global Opportunities Fund	0.1
Flutter Entertainment	1.7	Magellan High Conviction Trust	0.1
JP Morgan Chase	1.6		

Net debt shown as a percentage of investment assets, was approximately 1.1% as at 26 February 2021. AUD net cash was 0.7% (taxes, other expenses and dividends are paid in AUD whilst proceeds of MFF Options (ASX ticker: MFFOA) exercises are received in AUD), USD net debt 0.9% and EUR net debt 0.7%. Yen borrowings/cash and other currency borrowing/cash exposures were below 1% of investment assets as at 26 February 2021 (all approximate). Key currency rates for AUD as at 26 February 2021 were 0.774 (USD), 0.638 (EUR) and 1.029 (GBP) compared with rates for the previous month which were 0.767 (USD), 0.632 (EUR) and 1.018 (GBP).

Yours faithfully

Chris Mackay

Chris Mackay
Portfolio Manager

1 March 2021

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

All figures are unaudited and approximate.
Figures are not adjusted for unexercised MFF Options (MFFOA).