

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

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

Authorised by  
***Marcia Venegas / Company Secretary***

4 January 2022

## **MFF Capital Investments Limited ('MFF') Net Tangible Assets ('NTA') per share for December 2021**

MFF advises that its approximate monthly NTA per share as at 31 December 2021 was \$3.464 pre-tax (\$3.279 as at 30 June 2021), and \$2.948 after providing for tax<sup>1</sup> (\$2.805 as at 30 June 2021). Cash levels and the other figures were again reduced by the monthly tax payment (approximately \$1.8 million paid in December).

December was another month of modest portfolio changes, particularly in MFF's primary focus areas. Purchases were approximately 0.5% and sales approximately 3% of investment assets. MFF's major holdings remain extremely profitable and extremely advantaged despite December being another month when COVID virus transmission and restrictive regulations dominated headlines and disrupted lives businesses and activity around the world. Profitability and revenue for MFF holdings continue to be impacted, most obviously by severe non-permanent curtailment of cross border travel. In the context of modest equity market choppiness in calendar 2021, market prices for a few portfolio holdings advanced somewhat ahead of improvements in underlying business fundamentals, whereas market prices for the three largest portfolio holdings were subdued and lagged into year end.

Over the years MFF has invested most of its assets in very high-quality companies with prospects for sustained profitable cash flow generation and competitively advantaged growth. The business performances of these core investments, and our retention of these holdings over years, have underpinned MFF's financial results. At the recent AGM we also again noted that, in addition to this core, we buy quality companies which may be more cyclical or may not have the same excellent probabilities for sustained profitable growth, where we perceive their market prices and other risk factors to be favourable, for example as contrarian investments where markets may be overweighting short term adverse sentiment or other headwinds. Turnover in this category is higher than for the core holdings. Since 30 June 2021 MFF reduced the number of holdings from 39 to 31 (30 companies) at the cost of monthly tax payments and did not buy any new holdings.

Our processes remain focussed around comparisons between price and value, assessments of sustainability of profitable competitive advantages, and margins of safety in considering future growth rates and interest rates. MFF's balance sheet is strong, has been strengthened since 30 June, and the portfolio remains invested in very liquid holdings, in case attractive opportunities emerge from market price volatility. We prefer long term core advantaged businesses, but many have been solidly priced. The portfolio changes in December are not reflective of great opportunity or risk, and little should be read into them or that the number of portfolio holdings has fallen back to previous levels. Activity post 30 June, which continued in the latest month, included some realisations of smaller holdings in companies that we had picked up at lower market prices, even though they had lower prospects for sustained profitable growth than our focus businesses. Overall, profits from these realisations have exceeded expectations when purchased, and time periods for holding have been considerably shorter.

Manias, momentum, FOMO, speculations and bubbles have continued in the latest six months, without multiplied negative economic impacts yet, despite some modest unwinding in some categories. A few participants moved worries from value traps to growth traps, where market prices collapse for companies following embedded excessive growth rate assumptions combined with tiny discount rates to rocket propel the maths of market prices. Post 1999/2000, as assumptions and narratives moved down to optimistic, then realistic and eventually conservative, many inflated market prices failed to recover, and activity was impacted in multiple sectors of economies as direct spending fell and wealth effects reversed. Aggressive speculation continued or even accelerated in the December 2021 quarter in various asset classes as professional investors joined the earlier adopters in chasing gains and the narrative spinners promoted new markets, technologies, emerging markets/other non-US, extrapolations, SPACs, ETFs and Options, and explanations why revenues brought forward or deferred were positive for individual stories. Losses have commenced in some areas of speculation. Founders and some professionals were sellers. We are wary of second and third order effects of unwinds of new current speculative manias, and preparation will be tested when realities force unwinds.

Although the virus variants took headlines in December, decarbonisation movements continue to accelerate with urgency. Many are scaling, disrupting and attracting huge private capital and Government/taxpayer/increased debt burden funding, whilst public companies fire sale carbon assets to meet expectations. Concurrently with naive optimism from handout/subsidy recipients and markets about medium and longer term impacts of increased Government debt burdens, pessimism grew about more obvious immediate damage from bureaucracy, regulations and increased Government ineptitude, damaging successful major employers in finance, technology, travel and many other industries (only mandate limits for the capricious hapless inept CDC and others prevent them from shutting more businesses and employers).

Actual rising interest rates (and discount rates for professional valuations) were not headwinds for equities or other asset prices, and not yet for narratives. Over the six months from 30 June 2021, the overall move in the yield on the benchmark US 10-year Treasury bond was modest (from approximately 1.47% to approximately 1.51%).

Cresting reversals (rather than sharp collapses) of previous later stage bull markets are consistent with gradual interest rate moves, changing narratives and ongoing economic growth and consumption as late cycle wealth effects convert on a deferred but accelerating basis to new businesses, consumption, and investment. Technical factors supporting markets typically only change over time as they are sustained by narratives and investment sales teams. Currently these include the return to record levels of corporate buybacks at ever higher prices, sustained business and market successes of technology winners, the constant allure of growth in emerging markets and the attractiveness of one year returns of mean reverting market price winners such as energy companies after sustained underinvestment in replacement fields given weak demand and prices, decarbonisation and regulations [encouraging narrative sales teams separate from the still prevalent new energy growth and disruption investment pitches].

All holdings in the portfolio as at 31 December 2021 are shown in the table that follows (shown as percentages of investment assets plus net cash/receivables).

	%		%
Visa	14.2	Alphabet Class A	1.8
MasterCard	13.9	Allianz	1.6
Amazon	9.8	JP Morgan Chase	1.5
Home Depot	9.3	Lloyds Banking Group	1.5
Alphabet Class C	6.7	United Overseas Bank	1.0
Meta Platforms	6.3	DBS Group	1.0
Microsoft	4.5	Lowe's	0.9
CVS Health	4.5	Oversea - Chinese Banking	0.8
Bank of America	3.8	US Bancorp	0.8
Prosus	2.7	HCA Healthcare	0.5
Asahi Group	2.3	Ritchie Bros Auctioneers	0.5
CK Hutchison	2.1	Sonic Healthcare	0.5
Flutter Entertainment	2.1	Schroders	0.4
Intercontinental Exchange	2.0	L'Oreal	0.2
Morgan Stanley	1.8	United Health Group	0.1
		Procter & Gamble	*
		* less than 0.1%	

Net cash shown as a percentage of investment assets, was approximately 0.1% as at 31 December 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), and other currency borrowing/cash/net receivables exposures were below 1% of investment assets as at 31 December 2021 (all approximate). Key currency rates for AUD as at 31 December 2021 were 0.727 (USD), 0.639 (EUR) and 0.537 (GBP) compared with rates for the previous month which were 0.717 (USD), 0.634 (EUR) and 0.542 (GBP).

Yours faithfully



Chris Mackay  
Portfolio Manager

4 January 2022

<sup>1</sup> 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).

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