

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

Please find enclosed MFF's monthly NTA per share for April 2022.

Authorised by  
**Marcia Venegas / Company Secretary**

2 May 2022

## **MFF Capital Investments Limited ('MFF') Net Tangible Assets ('NTA') per share for April 2022**

MFF advises that its approximate monthly NTA per share as at 29 April 2022 was \$2.972 pre-tax (\$3.279 as at 30 June 2021), and \$2.593 after providing for tax<sup>1</sup> (\$2.805 as at 30 June 2021). Figures are ex the 3.5 cents per share fully franked interim dividend payable on 13 May 2022 (3.0 cents per share fully franked for the comparable period last year).

MFF portfolio continuity continued in April. MFF remains concentrated in advantaged businesses with high probabilities for continuing profitable growth well beyond current inflation, interest rate, stagflation, geopolitical, pandemic, economic and other challenges. Market gyrations in April broadened and amplified to the downside, and provided decent conditions for MFF to add modestly (approximately 4.5% of portfolio value) to core advantaged holdings many of which, ideally, will be held for decades. Our best purchase opportunities have been when markets were falling and panic was around, for many reasons which seemed valid at the time, but in market terms often represented material wealth transfers from the pressured and impatient, to others including deeply researched, objective, patient, longer term investors.

MFF retains excellent balance sheet strength, and the portfolio is concentrated in very liquid securities (multiples of daily trading compared with our holding sizes), which assists MFF in opportunity cost comparisons with portfolio component after tax market values. MFF has capacity as well as focus to increase our exposure to outstanding investments, ideally on attractive terms, if recent market volatility continues to improve potential purchase prices. MFF continues to benefit from considerable net unrealised portfolio gains compared with cost, but any sale proceeds for reinvestment are after tax. Improvements in portfolio quality, and future prospective returns, are reasonable goals in market downturns. Whilst we are confident that portfolio holdings, including the relatively modest recent purchases, will be more valuable businesses over the years, market timing is not an objective; we hope for the best possible portfolio of advantaged businesses for the medium to longer term, based upon opportunity costs and other portfolio construction factors.

During the month, many market participants and others became more concerned about a range of near term factors including risks and slowdowns for economies, particularly but not limited to those outside of the United States. Overall geographic, business quality and other MFF portfolio positioning remains appropriate in our view. We choose to focus on long term advantaged businesses and will not repeat the portfolio positioning comments included in reports for previous months.

Equity market action in April included increased selling, even in securities of major advantaged businesses. Negative sentiment and momentum broadened to include some previously perceived safe havens (including some MFF holdings), and some traders chased returns from beneficiaries of supply chain shortages in energy and elsewhere. The US Federal Reserve succeeded in dampening some animal spirits and speculation by encouraging extrapolation of expected interest rate rises into severe reductions in aggregate demand. The current market mantra is that this more impacts long duration businesses, rather than those enjoying current advantages from supply chain shocks relating to China's Covid policies, the Russia Ukraine war, broader geopolitical and Covid related issues. Such market sentiment changes materially; very recently, for example, the post March 2020 market positively rerated so called Covid beneficiaries including many second tier companies, until the aggressive reversal. For MFF, market sentiment changes may provide opportunities (generally from alternative perspectives).

Market reaction to quarterly results released in April reflected and reinforced adverse sentiment and geopolitical, supply chain, inflation and other economic concerns. Our focus remained on sustainably advantaged, profitably growing companies, chosen for financial and business strength and resilience to deal with adversity, which is inevitable. Whilst some portfolio companies are benefitting from rising interest rates, advantaged pricing power to address inflation risks and from the so-called reopening happening with considerable pent up demand, this is mostly noise, similar but the opposite side of the market's perceived adverse short term effects. We remain positive about the business positions of the portfolio companies. Overall, we are also more positive about capital allocation by the portfolio companies. A number of portfolio companies had materially dialled up capital expenditures, Research & Development and other operating expenditures and, having built excess capacity (including to deal with Covid labour impacts and supply chain disruptions) are able to reduce these expenditures. Underlying demand for MFF portfolio company goods and services has remained excellent, gross margins largely intact, with effective progress likely on various short term labour and supply chain issues.

Past periods of inflation resulted in borrowing being economically rational for many, and most current (and projected) interest rates are well below inflation in major jurisdictions. In addition to other funding options for potential opportunities over time, MFF retains a majority of its unutilised 20% borrowing capacity, which has been very valuable for purchases in past market downturns. Current and foreseeable interest costs are low by any historical standards. Even if interest rate rises proceed in 2022, which markets expect, possible MFF interest costs are small in comparison with portfolio market values. Our planning scenarios include allowing for few exercises of the 81.9 million outstanding MFF Options (ASX code MFFOA \$2.60 each exercise price) prior to their expiry date 31 October 2022, given recent market price movements and their 6 month period to expiry. The number of unexercised MFFOA remains comparable to rolling 12 month total MFF share trading for each of the most recent 2 years.

MFF continues to have structural advantages allowing focus upon rolling 3-to-5-year periods without needing to meet popular opinions, as investors panic or otherwise act contrary to their own longer-term interests. If future stages of interest rate rises and bubble unwinds continue, we may be choosing between a larger number of more attractive opportunities than were available for many years. Inevitably such opportunities will include out of favour businesses, and investor unpopularity or short term focus may allow margins of safety in purchase price and in business quality. Lower market prices arise from market fears, but lower prices increase margins of safety compared with purchase prices, allow for higher future returns off the lower base (crucial if market overall future returns are lower than historic returns) and, along with active deep research, are central to seeking to avoid major permanent losses of capital.

All holdings in the portfolio as at 29 April 2022 are shown in the table that follows (shown as percentages of investment assets).

	%		%
MasterCard	15.1	Flutter Entertainment	1.7
Visa	14.9	JP Morgan Chase	1.6
Amazon	9.4	Lloyds Banking Group	1.5
Home Depot	7.2	United Overseas Bank	1.3
Alphabet Class C	7.0	DBS Group	1.1
Microsoft	5.8	American Express	1.1
Meta Platforms	4.3	Oversea - Chinese Banking	1.0
Alphabet Class A	4.1	Lowe's	0.8
Bank of America	3.8	Ritchie Bros Auctioneers	0.6
CVS Health	3.7	HCA Healthcare	0.5
CK Hutchison	2.6	Schroders	0.5
Asahi Group	2.5	Chipotle Mexican Grill	0.5
Morgan Stanley	1.9	US Bancorp	0.5
Allianz	1.8	Sonic Healthcare	0.3
Intercontinental Exchange	1.8	United Health Group	0.1
Prosus	1.8	L'Oreal	0.1

Last month's discussion of currency positioning will not be repeated. In past commodity cycles the AUD currency had risen much higher, and that may still happen (although this is primarily a supply shortage, rather than excess demand, cycle). However, the last month has highlighted the damage and dangers of economically irrational promises and policies untethered from spending constraints, with an overriding philosophy that Government can and should run debt funded feel good programmes without consideration of future revenue bases, strategic risks or costs/disincentives for productive businesses and their employees, which inevitably shoulder tax burdens. After Covid stressed Australia's co-operative Federal system, there is far more appetite for Government intervention, for regulation and for direct Government payments and subsidies to address setbacks or challenges. There is little evident support for fiscal restraint and reduced community support for business and entrepreneurship. In contrast to Australian State and Federal parties bidding up expenditure and intervention programmes, other major economies (even including Europe), have at least some constraints on fiscal programmes, amidst their own strategic, energy, labour and other policy errors. Hence medium to longer term AUD economic risks are rising, as high mineral prices may reverse, after windfalls are converted into hundreds of billions of unfunded future outlays including massive permanent programs. Previously, financialisation and Government debt build up compared with narrowing tax bases have been less problematical for Australia, particularly given sustained mineral windfalls. Repeatedly throughout history this can reverse quickly, including during/after pandemics and wars, and recent events around the world show strains well beyond so called emerging markets, well into previously very advanced economies including in Europe, even before debt repayments and bond market disciplines re-emerge.

Net debt shown as a percentage of investment assets, was approximately 8.6% as at 29 April 2022. 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 7.7% and other currency borrowing/cash exposures were below 1% of investment assets as at 29 April 2022 (all approximate). Key currency rates for AUD as at 29 April 2022 were 0.711 (USD), 0.674 (EUR) and 0.566 (GBP) compared with rates for the previous month which were 0.751 (USD), 0.675 (EUR) and 0.570 (GBP).

Yours faithfully

A handwritten signature in black ink that reads 'Chris Mackay' in a cursive script.

Chris Mackay  
Portfolio Manager

2 May 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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