

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

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

Authorised by
Marcia Venegas / Company Secretary

1 July 2022

MFF Capital Investments Limited ('MFF') Net Tangible Assets ('NTA') per share for June 2022

MFF advises that its approximate monthly NTA per share as at 30 June 2022 was \$2.745 pre-tax (\$3.279 as at 30 June 2021), and \$2.438 after providing for tax¹ (\$2.805 as at 30 June 2021).

MFF's primary activity in June was purchasing shares in companies we regard as excellent on terms we regard as favourable. We are more positive than we have been for many years about potential future returns over multi year periods, as mark to market declines continued in June. However, trends in markets typically persist and often move well away from underlying business values (short term market prices are driven by sentiment more than longer term business values). Investor surveys today would indicate expectations for prices to continue declining. Of course, prices mostly coalesce with business values over very long periods.

This divergence between price and value is the essence for successful value investors, whether they apply a quality overlay (MFF's main approach) or use other value approaches. Whilst markets are focussed on the next earnings, or a possible "recession", successful quality/value investors focus on sustainable business advantages. They also appreciate simple maths including 1. the vast majority of a quality company's value accrues from cashflows to be generated after the end of the next [inevitable] recession cycle; 2. very high gross margin businesses are less impacted by input cost inflation; 3. the purchase each decade or so when they become available, or even a very few materially under-priced high quality, sustainably advantaged, rare, profitably growing companies changes an investor family's prosperity; and 4. provided subsequent market noise remains filtered and unnecessary realisations of sustainably advantaged compounding businesses are avoided, deferred taxes on unrealised gains do not become current.

In recent years MFF's choices were difficult, with high quality companies being highly priced, and lower quality companies also pricy (for example bolstered by rampant speculation in the aftermath of the initial phase of Covid). We are now choosing between opportunities that we regard as attractive for the medium term and beyond, with opportunity cost assessments replacing lack of opportunities. We expect to continue to purchase shares in companies we regard as excellent if prices remain favourable.

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. Updates for our portfolio companies in June were more upbeat than for markets generally, as cyclicalities are becoming present (even in advantaged pockets such as digital advertising). Our US bank companies passed extremely onerous stress tests and have far larger capital buffers than in previous economic slowdowns. Market gyrations broadened further in June with some more amplification to the downside and provided decent conditions for MFF to add purchases of 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.

Risks and uncertainty continue to drive institutional investors forced to take shorter and shorter time frames by factors including agency risks. In June context for the so-called institutional imperative included central banks led by the US Federal Reserve raising interest rates and rate rise rhetoric and inflation rates remaining elevated. However, companies are retrenching and cutting short term forecasts, debt markets are beginning to display distress and failures, as money supply and consumer sentiment readings have been collapsing. Negative investor sentiment is contagious, momentum is negative and short sellers are encouraged by six months of success. We are not seeking to time markets and have been buyers in recent months as markets have been falling, in contrast with persistent sales in the second half of 2021 (MFF's 31 December 2021 half yearly Statement of Cashflows disclosed cash received from sales of securities of \$243.7million).

Few holders of financial assets are sanguine about price falls (including because of loss aversion per Kahneman and Tversky). In this downturn, institutions, and many other investors (including wealthy investors) have moved rapidly to limit "uncertainty" (conflated with risk) despite lower prices and despite the considerable length of time markets have had to absorb most of the recent risk issues, some of which are fading). Most sellers in a downturn start with tradeable markets; hence US margin debt has been on a down trend this quarter. Some are forced sellers and many more also suffer from agency risk. In market downturns many aspiring long term investors become (to their detriment in aggregate) short term analysts of fluctuating economic data and fluctuating sentiment, attempting to "find the bottom", avoid the recession, bet on the current crop of relatively strong market performers or whatever. We have duration advantages compared with consensus and choose to focus on long term advantaged businesses where we have confidence about higher business values. In future weeks, months, years and decades current factors causing consensus uncertainty will have passed (outside of China Covid zero policies, most analysts no longer list Covid as a top ranking factor). In markets, collective wisdom and "expert opinion" inevitably change materially (sometimes very rapidly). Overall, they are reactive to changes in market prices. In contrast, outside of markets, collective wisdom often helpfully improves high quality analysis and decision making

Value based investment is successful over time, provided proper processes and objective disciplines are applied regularly and where active investment analysis is conducted independently of movements in market prices. Fluctuations in market prices are far wider than changes in underlying values of the businesses represented by the shares or other securities, even for the largest and most widely analysed companies in the world. Sadly, during the month, many economists and market participants were forced to act upon tortuous, logically inconsistent worries about overheating/inflation with excessive interest rates, and imminent recession.

The product of all such views arguably may be manifested in the US 10 year bond rate (the benchmark or risk free rate). This rate rose very slightly month end on month end, and finished at approximately 3.0% p.a. Market prices for the MFF equity portfolio are more attractive than this rate, which equates to a pre tax multiple of over 30 times without any growth. MFF's portfolio of quality businesses is also at lower risk for inflation than the bonds, and has much lower business risk than most assets, as MFF's structure allows the quality, profitable, growing portfolio to be held for duration, and with scope for the portfolio to be enhanced over time based on absolute and relative valuations/opportunity costs, subject to tax being paid on realised gains. Although we are not in the business of forecasting interest rates, beyond understanding input factors within broad parameters, it is apparent that some of the recent hyperbolic fears are being corrected/reversed, for example by inventory gluts needing to be reversed, supply meeting higher prices in commodity and other markets, capitalistic competition and countervailing forces (see Tesco pushing back on Heinz as a public example). Coherent arguments have commenced in pockets for 1. deflationary conditions to return (for example, renewed impacts of very low velocity of money given wealth concentrations and inability of technology and other entrepreneurs to realise their business value given misguided antitrust actions and closed refinancing markets); and 2. sustained profitable business growth again becoming scarce. Material market changes would result if either or both become consensus, or even if/when meaningful immigration recommences.

Market reaction to central bank, political and corporate updates and short term profit/recession warnings often 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. Some portfolio companies are benefiting from rising interest rates, have advantaged pricing power to address inflation risks and from the so-called reopening happening with considerable pent up demand, and we remain positive about the business positions of the portfolio companies. Overall, we are very positive about capital allocation by the portfolio companies (lower prices mean better priced buybacks for the majority of our portfolio companies buying back their shares). 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 progress being made on various short term labour and supply chain issues. We await with interest portfolio and other company results over the next decade and updates on dealing with the issues of the day, as well as opportunities.

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. (i.e. swap to the highest quality/lowest priced opportunities even if that means selling some existing holdings to improve the overall portfolio). MFF has capacity as well as focus to continue 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. Each market downturn is unique, and this downturn has encouraged our focus on quality businesses in adding to the portfolio, as prices for quality have become more favourable for purchases and we are currently less focussed on "defensives" or so-called traditional value plays. We are confident that portfolio holdings, including 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. We expect that the aftermath of this downturn will be favourable for MFF as have the aftermaths of previous downturns, in each case, over time.

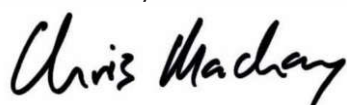
All holdings in the portfolio as at 30 June 2022 are shown in the table that follows (shown as percentages of investment assets).

	%		%
Visa	13.9	JP Morgan Chase	1.5
MasterCard	13.1	Allianz	1.5
Amazon	9.8	Intercontinental Exchange	1.5
Alphabet Class C	6.9	Lloyds Banking Group	1.3
Home Depot	6.6	United Overseas Bank	1.0
Microsoft	6.3	Chipotle Mexican Grill	0.9
Alphabet Class A	5.2	DBS Group	0.9
American Express	3.8	Oversea - Chinese Banking	0.9
Bank of America	3.7	Lowe's	0.7
CVS Health	3.6	HCA Healthcare	0.7
Meta Platforms	3.6	Ritchie Bros Auctioneers	0.6
CK Hutchison	2.5	Schroders	0.4
Prosus	2.4	US Bancorp	0.4
Asahi Group	2.2	Sonic Healthcare	0.3
Flutter Entertainment	1.9	United Health Group	0.1
Morgan Stanley	1.8	L'Oreal	0.1

Recent discussions of currency positioning will not be repeated as the key principles remain broadly unchanged. Similarly, the key points discussed regarding MFF's funding remain broadly unchanged, including 1. borrowing amidst inflationary conditions; and 2. foreseeable after tax interest costs are not an impediment to sensible borrowing by MFF for long term quality businesses given MFF's sensible borrowing limits, even assuming further material interest rate increases.

Net debt shown as a percentage of investment assets, was approximately 18.7% as at 30 June 2022. AUD net cash was 1.7% (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 17.9% and other currency borrowing/cash exposures were below 1% of investment assets as at 30 June 2022 (all approximate). Key currency rates for AUD as at 30 June 2022 were 0.688 (USD), 0.658 (EUR) and 0.566 (GBP) compared with rates for the previous month which were 0.717 (USD), 0.670 (EUR) and 0.569 (GBP).

Yours faithfully



Chris Mackay
Portfolio Manager

1 July 2022

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).

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