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 August 2022.

Authorised by
Marcia Venegas | Company Secretary

1 September 2022

MFF Capital Investments Limited (‘MFF’)
Net Tangible Assets (‘NTA’) per share for August 2022

MFF advises that its approximate monthly NTA per share as at 31 August 2022 was $2.928 pre-tax ($2.744 as at 30 June 2022), and $2.567 after providing for tax[1] ($2.438 as at 30 June 2022). August figures are cum dividend for the increased fully franked final dividend of 4.0 cents per ordinary share, which will be paid on 4 November 2022. Accompanying the results announcement, MFF Directors also reiterated their intention to increase the rate of the six-monthly dividend from the current rate of 4.0 cents per ordinary share to 4.5 cents per ordinary share for the 2023 interim dividend and to 5.0 cents per ordinary share thereafter, subject to corporate, legal and regulatory considerations, with continued operation of the DRP (at zero discount).

MFF’s primary activity in August was holding shares in companies we regard as excellent on terms we regard as favourable (the full portfolio is shown below). In the month, changes to the portfolio were minor (as percentages of investment asset values), with buying slightly over 1%, sales approximately 0.4% and MFF became entitled to dividends of approximately 0.2%. Overall equity markets gyrated moderately in August, starting with two weeks of catch-up buying chasing the rebound from June lows, before falling as uncertainty, risk and noise again combined. Index funds, the plethora of ETFs, and algorithmic trading, contribute to the price movements which periodically provide opportunities for longer term analytical, value-based investors. MFF has benefited in past downturns.

MFF remains concentrated in advantaged businesses with high probabilities for continuing profitable growth, at portfolio market prices that we regard as attractive. Our focus is on considering the business positions of the portfolio companies, including company and portfolio risks, and comparing the assessments with their market prices and with other opportunities, in each case with a medium-term outlook. We have considerable flexibility to target and retain relatively rare combinations of companies with high probabilities of sustained quality and value, which over time can provide a combination of capital protection and compounding benefits.

Portfolio company updates released during the month were very encouraging. Context included inflation, interest rate rises, supply shocks, demand shifts as COVID becomes endemic and increasing cutbacks/recession probabilities. The best companies appear to be benefiting for the medium term, as profitable opportunities continue to emerge, and competitors choose to withdraw or are forced to retrench. In some cases, businesses exhibit sustained pricing power to offset inflation and/or accelerate technology and other productivity tools to maintain high profit margins if sales volumes fall back. Some portfolio companies increase key revenue lines with inflation and/or with increased interest rates, without commensurate increases in variable costs. Although the updates were mostly in the context of second calendar quarter results, time and again positive strategic positioning for the medium term was featured.

During the month global central bankers met and the US central bank reaffirmed (1) its commitment to fight inflation via interest rate rises and quantitative tightening and (2) its commitment to be “data driven” although many of the speakers added verbiage inconsistent with the emergence of data to jawbone markets. Thus, many market participants increased the probabilities assigned to (1) greater and more sustained increases in the Federal Reserve’s Funds Rate and (2) thus, the probabilities of this “policy error” causing a prolonged deeper US recession than previously forecast, with varying but significant risks for other economies. With the Japanese central bank as an outlier (easing not tightening) and the others well behind, the US dollar continued its material appreciation against other currencies, to multi year highs.

Even as the central bankers spoke, much of the economic data weakened again in August including substantial commodity price retracement. Outside of the post peak COVID reopening of travel, and demand for services, and the demands for major Government energy transition and infrastructure projects, many companies are scaling back hiring and other activities. Demand for technology engineers is now below supply, as start-ups lose access to funding compounded by anti-business administrative and regulatory regimes. US housing starts and sales, and other interest rate sensitive activities have already slowed materially. Demographic factors depressing the velocity of money continue and are likely enhanced, as older people have most asserts and money, and rational fears cause many to reduce rather than bring forward spending, to protect capital for the uncertain future. Inventory gluts for almost all major US retailers is inconsistent with dramatic pull forward of purchases to beat inflation. Already some uncertainties including how far official US interest rates will rise, for what duration and what the comparisons will be with interest rates in other jurisdictions, are impacting confidence and activities, and hence holding back some consumer and business activities. Other uncertainties/risks remain at increasingly elevated levels, without obvious prospects of material reductions. These include anti-business Government agencies and policies in many jurisdictions, escalation of Government regulations and interventions (with raised public support in the contexts of COVID and energy transition/climate change) and opportunities for unions and Governments to prioritise wage and benefit increases to offset some inflation, and reduce inequalities. Also, USD increases against major currencies continued during the month and increased the double digit calendar year to date increases against the Yen, British Pound and Euro. Eventually currencies impact meaningfully.

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Nevertheless, it is possible but not probable that the US Federal Reserve is sufficiently out of touch to cause a recession resembling the global financial crisis but far more likely they do not even cause as much damage as during the early 1990s recession. Inflation expectations (survey data, thus changeable) appear reasonably anchored. Arguably the US 10 year bond rate (the benchmark or risk free rate) also remains reasonably anchored even as it rose month end on month end from slightly below 2.7% p.a. to approximately 3.2% p.a. at August end. Such moves remain well within margins of safety for value based longer term equity investors (business results including compounding of reinvestment are far more important over time for investors focussed on quality profitable growth) and whether these gyrations mean much more than short term fluctuations in inflationary concerns in the context of the month's commentary, will become clearer in the future. Of course, even if the Federal Reserve "overshoots" and/or retains interest rates that are too high for too long, and monetary conditions that are too tight, the damage caused by a repeat of Lehman type decisions would not be protected by arguments that they lack the power to act or that they cannot foresee the damage. In previous decades, reversals of US central bank interest rate decisions have been customary.

At month end the US was tightening technology access for Chinese companies and state-owned enterprises. Geopolitical tensions continue and economic pressures add to pressures within and across jurisdictions. Previous explanations for our geographic exposures are broadly unchanged and will not be repeated. Economic resilience in Latin America and growth in India has remained robust, perhaps surprising given the other factors including US interest rate and currency increases.

All holdings in the portfolio as at 31 August 2022 are shown in the table that follows (shown as percentages of investment assets).

	%		%
Visa	13.0	Intercontinental Exchange	1.5
MasterCard	12.5	JP Morgan Chase	1.4
Amazon	11.0	Allianz	1.3
Home Depot	6.5	Lloyds Banking Group	1.2
Alphabet Class C	6.4	United Overseas Bank	1.0
Microsoft	5.9	HCA Healthcare	1.0
American Express	5.3	DBS Group	0.9
Alphabet Class A	5.0	Oversea - Chinese Banking	0.9
Bank of America	3.9	Lowe's	0.7
Meta Platforms	3.5	Chipotle Mexican Grill	0.7
CVS Health	3.5	Ritchie Bros Auctioneers	0.6
CK Hutchison	2.3	Schroders	0.4
Flutter Entertainment	2.3	US Bancorp	0.4
Prosus	2.2	Sonic Healthcare	0.3
Asahi Group	2.1	United Health Group	0.1
Morgan Stanley	2.1	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 19.4% as at 31 August 2022. AUD net cash was 2.1% (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 17.6% and Euro, GBP and Yen borrowings were each approximately 1% of investment assets as at 31 August 2022 (all approximate). Key currency rates for AUD as at 31 August 2022 were 0.686 (USD), 0.682 (EUR) and 0.589 (GBP) compared with rates for the previous month which were 0.698 (USD), 0.684 (EUR) and 0.573 (GBP).

Yours faithfully

Chris Mackay

Chris Mackay
Portfolio Manager

1 September 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).