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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 October 2022.

*Authorised by*
***Marcia Venegas | Company Secretary***

1 November 2022

MFF CAPITAL INVESTMENTS LIMITED

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

MFF advises that its approximate monthly NTA per share as at 31 October 2022 was $2.851 pre-tax ($2.744 as at 30 June 2022), and $2.502 after providing for tax[1] ($2.438 as at 30 June 2022). October figures are ex dividend for the increased fully franked final dividend of 4.0 cents per ordinary share, which will be paid on 4 November 2022.

For another month MFF's primary activity remained holding shares in companies we regard as excellent on terms we regard as favourable (the full portfolio is shown below). In the month, total changes to the portfolio were minor, at approximately 1% of investment assets. MFF remains concentrated in advantaged businesses with high probabilities for continuing profitable growth, at portfolio market prices that we regard as attractive. Our portfolio companies are adaptable and advantaged whether interest rates remain at current levels or rise higher as forecast, and whether inflation remains elevated or falls as input price are falling (pricing power, ad valorem billing, cash generation, low inventory and capital requirements, amongst other portfolio features).

Many portfolio companies gave quarterly updates during the month, with resilience and market share gains being recurrent themes, particularly for direct-to-consumer portfolio activities, including consumer banking and card networks. However, the now elongated and sizeable interest rate and inflation cycles are causing significant downturns in business-to-business activities, across many fronts and was notably negative for the portfolio including most digital advertising except Amazon, and for computer software and cloud computing. Businesses react and cut costs and push back on price increases, whereas even mediocre consumer companies have put through initial price rises (these may be competed away in coming months, as supply chains continue to correct and as grocers, wholesalers and other businesses react).

Short term market reactions were capricious, with low double digit share price rises in the month for financials and other portfolio holdings offset by some further sizeable falls post results for technology leaders. Price losers reflected fears about the depth of the downturn, [usual] downturn doubts about whether and when recovery would arrive, combined with pronounced concerns about insufficient action in cutting costs as demand cycles weaken, and continuation of currently unprofitable expansion activities. US Dollar translation and cost impacts exacerbated concerns and reduced positive profit results for US based multinationals.

Overall, the portfolio businesses benefit directly from increased funding charges, but indirect impacts were negative for technology businesses (as businesses reduce/eliminate ancillary and other unprofitable activities that were funded previously (Fintech and crypto, for example) noticeably reducing demand for services for MFF's portfolio companies (lower online advertising, software, speculative and cloud demand). Whilst many companies were cutting back, almost all portfolio companies continued to target core and adjacent market opportunities, including for possible longer-term post COVID reopening customers, irrespective of shorter term investor focus. Whilst many older people are protecting capital and feeding into very negative market sentiment readings, the quarterlies confirm that younger demographics in reopened regions are spending their (lower per capita) funds on travel, events, and experiences, as services rebound post pandemic.

Debt and equity markets were further disrupted in October, with adverse reaction to European problems (including UK and Swiss), and most liquid markets reflect sentiment that remained adverse. Hence, forced selling and price dislocation continued. Further monetary policy action is expected in November with the US Federal Reserve again expected to make a sizeable interest rate increase, notwithstanding the US mid-term elections the following week. Few lessons have been learned from the UK populist fiscal debacle, with Governments around the world parading price caps, protectionist measures, anti-business regulatory and legislative interventions for favoured constituencies, as well as so-called "super profit" windfall taxes at the same time as continuing/increasing inflationary fiscal stimulus. Even if some outcomes of some elections curtail some of the worst anti-growth, anti-business excesses, the US lame duck session and radicalized regulatory agencies in the US, UK, Europe and around the world are empowered. Political risks continue to rise for successful profitable companies and almost certainly will damage for longer, well after the inflation pressures move to disinflation and deflation. The CCP outcomes during the month were another major dampener, with market selloffs reflecting rational base cases for worsening over the 5-year term.

It remains possible that the US Federal Reserve is sufficiently out of touch to cause a recession resembling the global financial crisis (with increased probability this month given the continuing strident rhetoric despite easing concurrent data and the lags between policies and impact), although it remains 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, input markets continued to roll over and downward pressures on business activity outside the US increase. The very strong US dollar reduces imported inflation for the US, but inflation is higher than otherwise elsewhere as many trade prices are USD denominated or tied. 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 approximately 3.7% p.a. to approximately 4.05% p.a.

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, will become clearer in the future. Of course, even if the Federal Reserve "overshoots" on quantitative tightening and/or retains interest rates that are too high for too long, and overall monetary conditions that are too tight, the damage caused by a repeat of Lehman type decisions should be avoided. In previous decades, reversals of US central bank interest rate decisions have been customary.

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

| | **%** | | **%** |
|---|---|---|---|
| Visa | 14.6 | JP Morgan Chase | 1.7 |
| MasterCard | 13.7 | Prosus | 1.7 |
| Amazon | 9.6 | Intercontinental Exchange | 1.5 |
| Home Depot | 7.2 | Allianz | 1.4 |
| Alphabet Class C | 6.0 | Lloyds Banking Group | 1.3 |
| Microsoft | 5.7 | HCA Healthcare | 1.2 |
| American Express | 5.6 | United Overseas Bank | 1.1 |
| Alphabet Class A | 4.7 | DBS Group | 1.0 |
| Bank of America | 4.5 | Oversea - Chinese Banking | 0.9 |
| CVS Health | 3.7 | Lowe's | 0.8 |
| Flutter Entertainment | 2.6 | Ritchie Bros Auctioneers | 0.6 |
| Meta Platforms | 2.2 | US Bancorp | 0.4 |
| Morgan Stanley | 2.2 | Schroders | 0.4 |
| CK Hutchison | 1.9 | United Health Group | 0.1 |
| Asahi Group | 1.9 | L'Oreal | 0.1 |

Net debt shown as a percentage of investment assets, was approximately 20.2% as at 31 October 2022. AUD net cash was 2.7% (taxes, other expenses and dividends are paid in AUD), USD debt 15.7% and Euro, GBP, HKD and Yen borrowings total approximately 7.3% of investment assets as at 31 October 2022 (all approximate). Key currency rates for AUD as at 31 October 2022 were 0.639 (USD), 0.647 (EUR) and 0.555 (GBP) compared with rates for the previous month which were 0.643 (USD), 0.656 (EUR) and 0.576 (GBP).

Yours faithfully

Chris Mackay
Portfolio Manager

1 November 2022

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

All figures are unaudited and approximate.