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 December 2022.

Authorised by
Marcia Venegas | Company Secretary

4 January 2023

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

MFF advises that its approximate monthly NTA per share as at 30 December 2022 was $2.730 pre-tax ($2.744 as at 30 June 2022), and $2.441 after providing for tax[1] ($2.438 as at 30 June 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). Although portfolio activity was increased in December compared with recent months, the main portfolio characteristics remain Quality, Value and Continuity. Current and recent portfolio activity releases some funds to reduce borrowings, to pay tax and dividends, to make modest purchases, and to have flexibility for more in the future. The MFF Options expired at the end of October and thus ceased to be a possible capital source.

Our portfolio companies are excellent and became better value in December, as did numerous other portfolio companies we have under review. In recent years US equity markets (in particular) were characterised by elevated stock prices, momentum trading success, and other indicators/risks of bubble conditions. In contrast, after significant falls during calendar 2022 many US equity prices fell further in December, as momentum turned very negative, combined with tax loss selling, with many fears including the Federal Reserve's intransigence and broadening recession fears after months of concerns. Of course, the market obsesses every day over marginal changes in prices and other factors (the behavioural psychology causes negative reinforcement in down markets). The equity price falls in December eroded much of the mark to market/net income gains MFF had been accruing in the 2022/23 financial year to date.

Lower market prices increase opportunities for equity investors including MFF, but lower asset prices also reflect (and increase) risks. Over the years, lower market prices, particularly associated with recessions provide opportunities to improve the Value/Quality mix of the portfolio, and to increase the probabilities of favourable outcomes. Lower prices mean higher future returns, except to allow for reflexivity and similar concepts (market price changes causing business economic changes in response). However, many investors are uncomfortable around falling prices, and invite more doubts, whereas they on average are happier buying rising prices (hence momentum programs).

Unlike most professional investors, MFF is not constrained from ignoring time periods which extend beyond their short-term measurement periods. We are also permitted to avoid investment fads (BRICS concept is no longer fashionable) or avoid investing in inferior companies with stock price momentum/apparently attractive valuation metrics. MFF also has a focussed portfolio and focussed opportunity targets, which allow for its objective assessment of factors including business returns on capital, secular growth prospects, cyclicality, risks, margin opportunities and pressures, capital management and the possible catalysts for earnings/risks/intrinsic valuation changes. A current example is the very material earnings benefits accruing to eight of the bank holding companies in the portfolio (the largest category by number) from increases in interest rates on their loan books and on Government bonds. We are permitted to seek companies which might achieve multiples as shareholder returns over time (quality of business and low prices), as well as under-priced high probability opportunities with less likely multiyear secular growth.

Our base case as 2022 evolved was to seek to take advantage of the negative investor sentiment, and invest more in quality companies, particularly some with longer term secular free cash flow growth prospects. By Q4 calendar 2022 risks increased of the Federal Reserve causing a recession and ancillary damage, and markets became weaker and more stressed for liquidity (quantitative tightening has caused money supply growth to become negative, according to expert measurements and definitions; many borrowing rollovers are accruing/scheduled in 2023 and shortly beyond; the flood of venture capital and large tech company venture funding has diminished markedly, with many competitors failing; strains in derivative markets have included the UK pension forced selling of billions of long term assets to meet short term obligations when price movements repeated those of 1994 and moved outside boundaries; and strains in currency markets have begun in some countries with USD reserves pressured by the sustained strength of the USD in 2022). It is also customary to worry about declines in innovation, particularly as economic headwinds are confronted including the sharp moves towards socialism/populism and increased Government regulation that is anti-business and anti-growth (December saw more damaging law suits and interventions attacking success and innovation, and in many cases damaging the hoped for beneficiaries). For an earlier example see Flywheels by Tom Alberg, the Amazon angel investor and long-time Director, including the Seattle example where a direct tax on a "per head" basis against successful tech employment was only defeated when construction labor unions saw tech construction work leaving the city. In December, Washington also passed trillions more unfunded spending and redistribution to favoured groups, not far from where the Federal Reserve deliberates on how to prevent inflation becoming systemic.

Many pressures in economies have been building for some years, and may or may not trigger crises this time, or later. MFF's largely fully invested state reflected very satisfactory equity market prices for the Quality we sought and expectations that inflation pressures would ease (as is occurring) without other factors becoming global systemic disasters for markets. Whilst risks have increased month by month, including COVID and other risks out of China, a Federal Reserve induced major recession appears to be such an obvious preventable error that should be avoided, but many market participants cannot take the risk to short-term performance figures. Our portfolio companies have had plenty of selling pressure recently, well beyond being very liquid sources of capital, as current markets anticipate strong headwinds in online advertising, cloud and other technology spending and in pressures upon housing and other consumer spending over time. We remain positive about quality corporate USA, including about nascent reports of immigration recommencement (which should eventually help ease some of the Fed's concerns about services inflation). If China makes the unlikely decision to revert to the Deng policies, the rest of the world would also be transformed (consider Lulu Chen's recent book on Tencent, harnessing entrepreneurs at unprecedented breadth and scale, and its reversal).

Arguably the US 10 year bond rate (the benchmark or risk free rate) also remains reasonably anchored and it rose month end on month end from approximately 3.6 - 3.7% p.a. to approximately 3.87% 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 30 December 2022 are shown in the table that follows (shown as percentages of investment assets).

	%		%
MasterCard	13.7	Asahi Group	2.1
Visa	13.7	JP Morgan Chase	1.9
Amazon	8.1	Intercontinental Exchange	1.6
Home Depot	7.7	Lloyds Banking Group	1.4
Microsoft	5.9	Allianz	1.4
Alphabet Class C	5.7	HCA Healthcare	1.3
American Express	5.7	United Overseas Bank	1.3
Alphabet Class A	4.5	DBS Group	1.1
Bank of America	4.2	Oversea - Chinese Banking	1.0
CVS Health	3.1	Lowe's	0.8
Meta Platforms	2.8	Ritchie Bros Auctioneers	0.5
Flutter Entertainment	2.5	Schroders	0.4
CK Hutchison	2.4	US Bancorp	0.4
Prosus	2.3	United Health Group	0.1
Morgan Stanley	2.2	L'Oreal	0.1

Net debt shown as a percentage of investment assets, was approximately 19.3% as at 30 December 2022 (not adjusted for receivables of approximately 0.7%). AUD net cash was 2.0% (taxes, other expenses and dividends are paid in AUD), USD debt 12.0% and Euro, GBP, HKD and Yen borrowings total approximately 9.3% of investment assets as at 30 December 2022 (all approximate). Key currency rates for AUD as at 30 December 2022 were 0.678 (USD), 0.635 (EUR) and 0.564 (GBP) compared with rates for the previous month which were 0.670 (USD), 0.650 (EUR) and 0.562 (GBP).

Yours faithfully

Chris Mackay

Chris Mackay
Portfolio Manager

4 January 2023

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

All figures are unaudited and approximate.