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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 January 2023.

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

1 February 2023

## MFF Capital Investments Limited ('MFF')
## Net Tangible Assets ('NTA') per share for January 2023

MFF advises that its approximate monthly NTA per share as at 31 January 2023 was $2.946 pre-tax ($2.744 as at 30 June 2022), and $2.592 after providing for tax[1] ($2.438 as at 30 June 2022).

Page 8 of MFF's half yearly report released this week noted that in recent years MFF has paid $222.1 million of cash taxes and declared $291.7 million of dividends. Obviously, taxes and dividends reduce pre-tax NTA. For MFF the amounts are significant in comparison with the $709.2 million of MFF's aggregated net profit after tax over that period (refer to page 8 of MFF's half yearly report).

Taxes and dividends were again relevant in January. Unfortunately, during the month, MFF was required by the ATO to re-join monthly taxpayers. MFF will deduct promptly the required tax payments from NTA calculations and indicates that a preliminary estimate of MFF's required tax payment for February may be in the range of 2-4 cents per share. More positively, Directors again increased MFF's fully franked dividend for the latest half year; to 4.5 cents per share. Directors also stated their intention to increase the rate per share of the six monthly fully franked dividend at each of the next 3 results, to 5 cents, 5.5 cents and then 6 cents per share respectively, subject in each case, to corporate, legal and regulatory considerations, with continued operation of the DRP (at zero discount) (see the MFF half yearly report for details). MFF Directors also announced an on-market buyback of 30 million MFF shares.

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 increased further in January compared with recent months, the main portfolio characteristics remain Quality, Value and Continuity. Current and recent portfolio activity, which in January included sales of almost 5% of the portfolio (by value), releases some funds to reduce borrowings, to pay tax and dividends, to make modest purchases, to have flexibility for more in the future, and for liquidity for the on-market buyback. The MFF half yearly report includes full portfolio details, including portfolio movements in the period, and extensive discussions of recent and current activity, business, and market conditions.

Our portfolio companies are excellent, and quarterly results released in December include considerable support for their business cases. Overall equity market prices rose from the widespread pessimism of December. In contrast, many companies are showing signs of margin pressures, including for reasons discussed in previous months. Business planning remains difficult with material demand shifts (reopening post COVID for example), supply chain disruptions (variants, labour shortages with immigration disruptions for example) and distortions in annualising figures (COVID variants 12 months ago, as well as commodity price shocks, ebbs, and flows, for example). Cautionary factors have not abated, including policy error risks from the Federal Reserve and other central banks. The anti-business anti-growth actions of politicians, regulators, bureaucrats and others continued to gain dangerous momentum in January.

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).

Arguably the US 10 year bond rate (the benchmark or risk free rate) also remains reasonably anchored and it decreased month end on month end from approximately 3.87% p.a. to approximately 3.51% 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 January 2023 are shown in the table that follows (shown as percentages of investment assets).

| | % | | % |
|---|---|---|---|
| MasterCard | 13.1 | JP Morgan Chase | 1.8 |
| Visa | 12.6 | Prosus | 1.8 |
| Amazon | 9.4 | Intercontinental Exchange | 1.6 |
| Home Depot | 7.6 | Lloyds Banking Group | 1.6 |
| American Express | 6.5 | HCA Healthcare | 1.3 |
| Alphabet Class C | 6.1 | United Overseas Bank | 1.2 |
| Microsoft | 5.8 | DBS Group | 1.1 |
| Alphabet Class A | 4.9 | Oversea - Chinese Banking | 1.0 |
| Bank of America | 4.2 | Lowe's | 0.8 |
| Meta Platforms | 3.3 | Ritchie Bros Auctioneers | 0.5 |
| CVS Health | 2.8 | US Bancorp | 0.4 |
| Flutter Entertainment | 2.6 | Schroders | 0.4 |
| Morgan Stanley | 2.4 | Allianz | 0.3 |
| CK Hutchison | 2.4 | United Health Group | 0.1 |
| Asahi Group | 2.1 | L'Oreal | 0.1 |

We continued to move some liquidity to AUD. Most MFF expenses, taxes, dividends, and buybacks are paid in AUD, and we regarded this as prudent matching. In addition, the AUD has been rising in the short term with China's COVID policy reversal being an important factor. Notwithstanding these changes, we remain very cautious about all currencies, and retain our negative views on the AUD over extended periods. Australia in January saw disproportionate anti-business, anti- growth activity and sentiment from politicians, state governments, regulators and in voter sentiment. Australia's inflationary vulnerability is higher than many countries, including because the centralised wage and benefit fixing system (which has operated for decades) is no longer offset by fiscal and other policy conservatism at Federal or State levels. The Senate is not the policy/spending constraint it was for parts of the last century, and states decided in COVID that central taxation gives repeated scope to pressure the Federal Government for funding with the support of voters. High corporate and personal taxation takes, inflated uncompetitively by bracket creeps, and automatic excise and toll increases, are headwinds which help embed inflation, and are no longer as benign as they might have been when imposed by Treasury during the long period of imported consumer products deflation/disinflation. Centralisation and red tape increases are inevitable from politicians boasting about the broad-spectrum of legislative changes passed, along with growing unfunded commitments, and the impacts upon businesses, employers and entrepreneurs are rarely reversed. Australian businesses realistically do not have the opportunities that US businesses are exercising, to move from high tax, anti-business states to the business and population growth states with alternative policies.

Net debt shown as a percentage of investment assets, was approximately 13.4% as at 31 January 2023. AUD net cash was 3.8% (taxes, other expenses and dividends are paid in AUD), USD debt 7.7% and Euro, GBP, HKD and Yen borrowings total approximately 9.4% of investment assets as at 31 January 2023 (all approximate). Key currency rates for AUD as at 31 January 2023 were 0.705 (USD), 0.649 (EUR) and 0.572 (GBP) compared with rates for the previous month which were 0.678 (USD), 0.635 (EUR) and 0.564 (GBP).

Yours faithfully

Chris Mackay

Chris Mackay
Portfolio Manager

1 February 2023

[1] Net tax liabilities are current tax liabilities and deferred tax liabilities, less tax assets.
All figures are unaudited and approximate.