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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 2023.

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

1 November 2023

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

MFF advises that its approximate monthly NTA per share as at 31 October 2023 was \$3.330 pre-tax (\$3.398 as at 30 June 2023), and \$2.870 after providing for tax<sup>1</sup> (\$2.912 as at 30 June 2023). The figures are ex the increased fully franked final dividend of 5 cents per share payable this week. The pre-tax figures for October are after paying \$7.1 million in tax in the month.

In October MFF had value-based purchases in existing holdings of approximately 2% of portfolio value and no sales. Market sentiment turned more adverse in the month, more prices became more attractive and broad equity indices declined for the 3<sup>rd</sup> consecutive month. MFF's primary feature remains its combination of shareholding interests in extraordinary businesses with sustainable competitive advantages and above average sustainable growth rates, acquired on satisfactory terms. MFF is a long-term holder of advantaged businesses with moderate recycling of investments (mostly related to market prices and risk management and for funding alternative opportunities). MFF had sales of approximately \$234 million in the first 6 months of calendar 2023 followed by approximately \$88.1 million in the first 3 months of this financial year (totalling approximately 13-14% of investment assets).

In the month, many of MFF's portfolio companies reported September Quarter results and updates. Overall, they were of high quality with USD billions of earnings after tax and a few double-digit revenue and earnings growth rates. Competitive positions appeared to be intact and strengthened in some cases. Time favours our Quality and Value portfolio, but patience is again likely to be rewarded as risk factors are widespread (see below).

Most other updates and concurrent economic data showed widening economic cracks, early signs of deflation and much disinflation. Equity traders typically reacted negatively to the updates and to risks associated with outlook statements. Traders also became more fearful as US longer term market interest rates rose, in part because of difficulties for US Treasury when issuing long dated bonds in weakening markets (after a decade of not issuing into record low long rates), in part because of the Federal Reserve's ongoing permissiveness allowing speaker after speaker to warn against inflation despite faulty data, some falls and lags, only a few years after keeping short term interest rates so low, and in part because hedge funds were able to profit from derivative based momentum trades benefiting from rising long term rates which caused many players to take action in the previously deeply liquid physical rate markets [exacerbated by capital requirements preventing major banks from playing their market making liquidity roles as in past decades]. Hence the US 10-year bond yields (commonly regarded as a key "risk free" benchmark useful for asset valuations) closed month end at approximately 4.93% p.a. rising from approximately 4.6% p.a. in the month (and 4.1% p.a. two months ago). The US (and other Government) deficits and multiple trillion-dollar funding requirements were also in focus with crowding out and upward interest rate pressures creating "professional risks" for purchasers of longer dated bonds. This all caused equity investors to adjust their asset priced models by increasing their "base" discount rates and for many to also argue that "equity risks premia" were now too low, and hence asset prices (including for equities) should be lower.

For MFF, interest rate levels remain below our hurdles for investments, and we are concentrated in companies that earn multiples of these levels on their capital, and with well above average prospects for future earnings growth. The interest rate levels remain within usual ranges during traditional interest rate cycles and enable opportunities to acquire listed business interests at more favourable prices than otherwise. We are not dismissive of risk factors such as impacts of escalation of the 2 wars, and that the Federal Reserve fails to realise that historical theoretical economic models are outdated (2023 inflation is not 1970s demand inflation) and keeps short term rates too high for far too long and inflicts more damage which escalates. The manipulation of key bond market prices might also resume, with wider impacts to equity markets and to economic activity (if interested see discussions of reflexivity and actions cause reactions). Incidentally, the inverse yield curve indicator of recessions in past decades (which was never stated as causal) may be less relevant, as the short-term rate has been set artificially since the 911, GFC and Covid interventions.

Overall, the risks of errors remain high including because most political systems are under increasing pressures exacerbated by populism and internal fissures and possible commodity price risks from geopolitical events. As noted last month, current features include tighter access to capital, regulatory oversteps and emerging business pressures in many economies around the world. Even in the US which remains the strongest major economy, many small businesses continue struggling as cash pressures build on them and consumers. Banks tightened credit during Q2 2023 and continued in Q3, and of course the Regulators have proposed draconian new capital and reporting requirements to cut off access to capital even further in regulated entities. Time and again over the years, this results in disasters as capital moves to unregulated excess. This time, bad outcomes likely will be exacerbated by excessive official interest rate rises impacting with lagged but cumulative effects. Across many continents, the unrelenting myriad of anti-business anti-growth ideologies dominated regulators and politicians continue to dampen initiatives, risk taking and opportunities with cumulative, deleterious effects. In the US, the regulatory ideologues continued antitrust actions against both Alphabet and Amazon, with some novel aspects, and of course uncertain judicial and commercial outcomes.

In the month the US administration's favoured union double digit wage and other demands were successful after shutting major auto manufacturers. Transitory inflation continued to be fueled by unfunded fiscal projects requiring more expensive borrowings.

All holdings in the portfolio as at 31 October 2023 are shown in the table that follows (shown as percentages of investment assets).

	%		%
Visa	11.4	Prosus	1.6
Amazon	11.3	Intercontinental Exchange	1.5
MasterCard	11.2	DBS Group	1.4
Microsoft	7.1	Lloyds Banking Group	1.4
Alphabet Class C	6.9	United Overseas Bank	1.2
American Express	6.3	United Health Group	1.1
Home Depot	6.1	Oversea - Chinese Banking	1.1
Alphabet Class A	5.8	US Bancorp	0.9
Meta Platforms	5.6	Lowe's	0.7
Bank of America	5.4	RB Global	0.4
Flutter Entertainment	2.5	JP Morgan Chase	0.4
HCA Healthcare	2.3	Allianz	0.4
CVS Health	2.2	Schroders	0.1
CK Hutchison	1.9	L'Oreal	0.1
Morgan Stanley	1.7		

Although we remain very cautious about all currencies and maintain our negative views on the AUD over extended periods, we continue to move money into AUD in advance of obligations, including in October. Net debt shown as a percentage of investment assets was approximately 17.4% as at 31 October 2023. AUD net cash was 5.6% (taxes, other expenses, buybacks and dividends are paid in AUD), USD net debt 11.5% and Euro, GBP, HKD and SGD borrowings totalled approximately 11.5% of investment assets as at 31 October 2023 (all approximate). Key currency rates for AUD as at 31 October 2023 were 0.633 (USD), 0.599 (EUR) and 0.522 (GBP) compared with rates for the previous month which were 0.645 (USD), 0.610 (EUR) and 0.529 (GBP).

Yours faithfully



Chris Mackay  
Portfolio Manager

1 November 2023

<sup>1</sup> Net tax liabilities are current tax liabilities and deferred tax liabilities, less tax assets.

All figures are unaudited and approximate.

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