CAPITAL INVESTMENTS LIMITED

Level 36, 25 Martin Place
Sydney NSW 2000 AUSTRALIA

General: +61 2 9235 4887
Facsimile: +61 2 9235 4800
Website: www.mffcapital.com.au
ABN: 32 121 977 884

MFF Capital Investments Limited ("MFF")
Net Tangible Assets ("NTA") per share

Please find enclosed MFF's monthly NTA per share for August 2023.

Authorised by
Marcia Venegas | Company Secretary

1 September 2023

MFF Capital Investments Limited (‘MFF’)
Net Tangible Assets (‘NTA’) per share for August 2023

MFF advises that its approximate monthly NTA per share as at 31 August 2023 was $3.580 pre-tax ($3.398 as at 30 June 2023), and $3.050 after providing for tax[1] ($2.912 as at 30 June 2023). The figures are cum the increased fully franked final dividend of 5 cents per share declared at the end of July. For MFF nothing should be read into the short term one month changes in portfolio values relating to currencies and market price rises of the four largest holdings, which offset some wider equity market weakness in the month. Q2 results and corporate update statements from MFF portfolio companies in the month were again extremely positive overall, with progress in some quality longer term investments by portfolio companies offsetting some pockets of increased competitive pressures and adverse regulatory actions (this month CVS and other health companies accompanied perennial regulatory targets in technology and finance). However, more broadly, across some regions and industries, short term outlook statements were less favourable, and Government actions contributed to a less sanguine consensus view of the stickiness of inflation than a month ago.

Each 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. In August, MFF’s sold about 0.15% and buying was slightly under 0.7% of portfolio value, reflecting modest purchases at sensible prices for some quality businesses within our focus areas. MFF became entitled to dividends of about A$5.8 million (about 0.25% of portfolio value) and this month’s tax payment was about A$5.5 million [tax payments reduce month to month pre-tax figures]. We have not introduced any new holdings for many months, although we actively adjust risk and portfolio processes. Recent decisions have revolved around price margins of safety (see below) and future decisions will include whether and how (within sensible risk parameters) to increase exposure to potential multi decade winners over coming decades, as part of portfolio construction through upcoming cycles.

We repeat last month’s cautions “higher market prices and rising expectations have commenced eroding the margins of safety related to prices. This may well continue, as accelerating momentum and narratives feed each other, with rallies broadening and deepening, for example, as fears of missing out displace fears of loss; overall, however, powerful mean reverting forces eventually prevail. In July 2023, optimistic collective market intelligence (artificial and human) was a world away from the rampant fear and pessimism of late calendar 2022. Major equities markets swept straight past more modest returns from bonds, even after 2022 bonds’ worst calendar year in many decades. Market fluctuations are inevitable and, in the past, have favoured MFF which has the capital resources and scope not to follow momentum and opinions, and to be objective, disciplined and opportunistic in comparing value with price across its extensive but focused investment opportunities… Obviously, sensible businesspeople and longer-term investors factor in and prepare for downturns as well as upturns. Sadly (for those who put any weight on it), the newly found “consensus” in favour of a “soft landing” may be as akin to an elbow as the consensus forecasts were during and following the panics of 2022. Many small businesses continue struggling as cash pressures build on them and consumers. Banks tightened credit during Q2 2023, and of course the Regulators proposed draconian new capital and reporting requirements to cut off access to capital even further in regulated entities. Time and again over history, 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”.

Quality of management and sustained, growing advantages built over many years enable portfolio companies to mitigate partially a portion of inevitable challenges, including cycles and increasingly adverse political/regulatory conditions. Ultimately, sustained earnings dictate success or otherwise of portfolio market prices. In the meantime, portfolio processes and disciplines are crucial. The late John Neff managed successfully for decades the Windsor Fund which became the world’s largest, with detailed focused approaches including many thousand wins from his “free plus” [very similar in concept to price margin of safety but with more emphasis on identifiable catalysts including mean reversion]. Time and again he used duration advantage and detached, deep business analysis to buy and sell profitably, often contrary to prevailing short term sentiments. Over time the cumulative benefits of the free plus approach bested clients and advisers required to use short term macro-economic forecasts which often cause buying or selling opportunities on the other side. Instant communications, “democratisation” of all opinions, and instant access to markets, reduce the influence of deeply researched active investment actions as proportions of total market activity and may translate into [less efficient] market price discovery.

Interest rates are important. In the month, the US 10-year bond (commonly regarded as a key “risk free” benchmark useful for asset valuations) closed month end at approximately 4.1% rising in the month and holding at levels approximating the recent peaks in Q4 calendar 2022 with the recent peak US inflation concerns. For MFF these rates remain well 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. In 2022, some investors argued (it appears correctly) that the post pandemic inflation and interest rate concerns had closer parallels to traditional interest rate cycles (certainly compared with the economic/market shocks of the pandemic itself) and may offer opportunities to acquire at more favourable prices than otherwise.

The possible second order and other consequences of the inflation and interest rates continue to develop but have not caused MFF to dispose of its very high-quality portfolio and swap for other assets. The US (the best major economy for the near term) may continue to "muddle along" with economic growth, in comparison with extraordinarily strong conditions (overall) in recent decades, but many predict shocks. Currently, muddle along is supported by company and other data. It also appears that disinflation continues to become more widespread, as do reductions in money supply and money supply reaching real economies, albeit of course with lags and unevenness. We attach much less confidence to economic forecasts than to the business outlooks for the medium term and beyond of a few leading companies. Recent sustained outperformance by winning large companies must be considered in the context of history which indicates that diseconomies of scale are real and deadly for large organisations.

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

	%		%
MasterCard	12.3	Prosus	1.7
Visa	11.7	Intercontinental Exchange	1.6
Amazon	11.2	Lloyds Banking Group	1.3
Alphabet Class C	7.4	DBS Group	1.3
Home Depot	7.0	United Overseas Bank	1.2
Microsoft	6.1	Oversea - Chinese Banking	1.0
Alphabet Class A	6.1	United Health Group	1.0
American Express	5.5	US Bancorp	0.9
Bank of America	5.2	Lowe's	0.8
Meta Platforms	5.2	RB Global	0.5
Flutter Entertainment	2.6	JP Morgan Chase	0.3
CVS Health	2.0	Allianz	0.2
HCA Healthcare	2.0	Schroders	0.1
CK Hutchison	1.9	L'Oreal	0.1
Morgan Stanley	1.8		

Although we remain very cautious about all currencies and our negative views on the AUD over extended periods continue, we move money into AUD in advance of obligations. Net debt shown as a percentage of investment assets was approximately 14.0% as at 31 August 2023. AUD net cash was 5.1% (taxes, other expenses, buybacks and dividends are paid in AUD), USD net debt 8.5% and Euro, GBP, HKD and SGD borrowings totalled approximately 10.6% of investment assets as at 31 August 2023 (all approximate). Key currency rates for AUD as at 31 August 2023 were 0.648 (USD), 0.597 (EUR) and 0.511 (GBP) compared with rates for the previous month which were 0.674 (USD), 0.611 (EUR) and 0.524 (GBP).

Yours faithfully

Chris Mackay
Portfolio Manager

1 September 2023

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

All figures are unaudited and approximate.