



MFF

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***MFF Capital Investments Limited ('MFF')
Net Tangible Assets ('NTA') per share for June 2020***

Please find enclosed MFF's monthly NTA per share for June 2020.

Authorised by

Marcia Venegas | Company Secretary

1 July 2020

MFF Capital Investments Limited ('MFF') Net Tangible Assets ('NTA') per share for June 2020

MFF advises that its approximate monthly NTA per share as at 30 June 2020 was \$2.809 pre-tax (\$3.225 as at 30 June 2019), and \$2.478 after providing for tax¹ (\$2.663 at 30 June 2019). The 2019 comparative figures are not adjusted for fully franked dividend payments totalling \$0.245 per share and cash tax payments equivalent to approximately \$0.235 per share (unaudited, based on end June 2020 shares on issue) during the 2019/20 financial year.

Activity for MFF in June was relatively limited, as measured by portfolio transactions. MFF finished the month with balance sheet cash of about 44% of assets (more than double the size of the next largest position). Sales were approximately \$19.7m and purchases were approximately \$51.7m. Cash tax paid was \$14.8m (this reduces pre-tax NTA) and MFF became entitled to approximately \$1.0m of dividends from portfolio companies [all figures approximate and rounded]. Currency has been a significant headwind for NTA since mid March and, despite some USD strength towards month end, currency was a moderate headwind for MFF's monthly NTA.

We continued with our recent portfolio strategies and actions. Overall, we have aimed to protect meaningful amounts of capital from more substantial erosion, whilst keeping balance sheet strength and liquidity to maintain most of our holdings in small numbers of advantaged businesses and provide flexibility for future investments. In recent months unprecedented monetary stimulus (in particular) has driven the divergence between equity and risk debt market rallies and lower expectations for traditional corporate earnings (and aggregate demand deficiencies) prior to any post pandemic 'normalisation'. The rally benefitted us in the short term with better prices for some realisations in June and earlier, although we chose not to swing hard for technology 'winners' and avoided the speculative mania referenced below.

MFF combines holdings in advantaged businesses, significant cash and balance sheet capacity, with clear focus on increasing, over time, exposures to investments with higher than average positive probabilities. Prior markets have given us opportunities for returns in excess of the fluctuations in the business performances of the high quality businesses we target. Future markets will provide future opportunities for sustained compounding and for Free Plus, the concept used by the late John Neff who was the 31 year portfolio manager of the then most successful large mutual fund. Prevailing pessimism usually lowers purchase prices.

Our processes for assessing investment and divestment decisions remain relatively constant irrespective of near term market conditions or movements. Although the pandemic period is unique/unprecedented, some characteristics mirror previous periods. In simple terms, we weigh up factors including individual market prices, values (including assessments for potential profitable growth and discount rates over time), other opportunities/opportunity costs, risks and probabilities (where market influences such as momentum may impact).

Realistic consideration of cycles is also important for each factor. In January when we declared the special dividend, we noted high market prices and limited opportunities, as well the portfolio's weightings in cyclical and market related companies benefitting from the then booming economies and markets. We have materially reduced our most cyclical exposures given sustained materially changed circumstances of lockdowns, global pandemic, oil price collapse and century high unemployment and government transfer payment (consumption) spending.

There were no particular changes in June to alter our longer term business evaluations of key portfolio companies. Overall, our caution was not reduced [we completed the sale of our entire Singapore holdings in early June, for example]. The CCP has now imposed its law on HK, and the US and elsewhere appear to be commencing sanctions. The pandemic is impacting emerging economies more than previously. Geopolitical and trade issues between the US and China risk a tipping point and escalation. The CCP continued not to allow Visa/MasterCard into domestic clearance, continuing their 20 year delay since first WTO agreement, even though now included/'required' by the [under pressure] stage 1 trade deal. Profitable success in China is a key driver in realistic business case projections for fewer multinationals. Current polls indicate US voters are seeking at least minimal empathy and more competence, and probabilities have increased for material changes later in the year.

Cash is MFF's largest holding. We prefer not to hold significant amounts of cash for long periods. Cash is a wasting, non earning asset (as discussed in releases and at our AGMs in recent years). We far prefer significant holdings in sustainably advantaged businesses on sensible terms. Cash and savers fare badly under inflation and financial repression.

However, cash is usually valuable in crises for making advantaged purchases when asset prices fall significantly in relative and absolute terms. Our investment approach has benefitted from past market cycles, when purchases were possible at low prices (often well below underlying values) when near term economic and business outlooks were terrible. Assessment of successful longer term investments looks beyond short term marks to market and comparisons with indices and other investors.

So far this time we have retained cash rather than risk permanently destroying capital with overpriced purchases or seeking to trade for prices in the market recovery in recent months. In previous years we have 'bought the dips' and occasionally purchased for shorter term value/relative value opportunities (see past releases and AGM discussions for details and rationale). This time we consider that longer term opportunities might be more valuable (risk adjusted) than possible short term trading opportunities. Currently we are inquisitive and patient, positive about future opportunities; albeit with lower return expectations than for most of the past decade and we remain price sensitive. MFF does not wholly own businesses throwing off large amounts of cash for our deployment, and thus must sell from time to time in order to raise cash for future opportunities.

Current markets are buoyed by factors including massive central bank stimulus (which removes effective price signalling and market disciplines from major asset classes) and associated short term aggregate market perceptions. Equity market prices likely also still reflect the multiplied positives of the heavily stimulated pre pandemic period. Technology based growth companies have continued to be market favourites as the pandemic has evolved. Larger companies have had better pandemics than smaller companies as they have resources to absorb extra costs, add revenue lines and deal with more pressured competitors. These factors have been reflected in equity markets, as multiples of earnings have expanded further, and prices have risen although earnings expectations have contracted.

Growth has also been rerated upwards as interest rates are expected to be low for a long time (and hence discount rates for future growing earnings detract less from present value calculations). Over the past decade profitable growth companies have materially outperformed as growth and multiple expansion caused compounding, and now many are in algorithmic portfolios and hundreds of individual ETFs and index funds where marginal buyers are not price sensitive. Equity indices are dominated by these winners.

In June there were data and anecdotes regarding the pandemic, shutdowns, reopenings, political, global issues, fiscal and monetary stimulus to meet some of the more optimistic or more pessimistic views, albeit without apparent game changers to remove broadening pressures/allow rapid return to 'normal'. State and municipal budget pressures continue to worsen, along with the impacts of more populist responses to the pandemic in less developed and other jurisdictions. Wider societal pressures increased in June in part reflecting that fiscal policies have not adapted (or even been extended in most cases). It is becoming more obvious that benefits accruing to wealthier asset owners individually exceed, and have far more duration, than ancillary support for less wealthy and unemployed, although sustained economic multipliers would prioritise the reverse. Blunt monetary stimulus was initially important but has limited broad durable positive impacts whilst artificially supporting markets.

In the month, analysts considered that there were examples of manias and mini bubbles (panicked buying of technology winners, speculative buying/day trading of low dollar priced and even bankrupted stocks and assets perceived to 'backed by the Fed/central bank', strong new account opening as gambling accounts transferred to markets, including upticks in margin borrowing and more particularly option and other derivative utilisation). Increased bankruptcies, some related to uncovering of frauds, and reductions in optimistic near-term earnings and recovery expectations were largely ignored by market buyers, as were widening social/political disruptions. Issuance in central bank liquidity driven debt and equity markets might have crested recently with record risk issuance in the US by SPACs (special purpose acquisition corporations) and in Hong Kong by Chinese/Caribbean VIEs (variable interest entities) as well as record levels of more conventional issuance to support loss making and overlevered businesses. Whilst issuance is often a late indicator [reflecting a desire to issue, or better knowledge of issuer than purchaser], manias and bubbles can extend for much longer than logic might dictate. Historically none have continued forever and, when supply and demand adjust, most unwindings are more difficult for more participants than the rises were pleasant for smaller numbers of participants.

We have maintained large amounts of USD cash, and the portfolio remains currency unhedged. At the moment these appear to be the least bad positions. In relation to this currency mix, we currently do not have strong views given various often conflicting factors, in contrast to views we have held at different prices and in different circumstances in the past. Currently we expect most future purchases of long term investments to be from USD.

Notes from last month continue to apply to the assessment of impacts on markets of extended financial repression and suppression of market price discovery functions (as follow). Fiscal and particularly monetary policy are regarded by many as ample backstops for equity markets. Historically there have been eventual limits, for example to massive bond issuance, although unprecedented issuance and central bank buying may go on for extended periods. Rising savings around the world materially assists bond issuance but reduces earnings needed for servicing and ultimately refinancing. The implications for US markets are unknown if for example 10-year bond rates move to say 2% from 0.6%. The last 30 years in Japan do not support a favourable thesis for sustained economic and market growth, although the economic and market differences between leading US companies and Japan are meaningful.

Individual markets evolve differently to whole economies. Aggregate demand deficiencies, even with [temporary] fiscal support, include sizable demand shifts. For example, there is emerging evidence that upcycles in residential real estate may have commenced in various jurisdictions. If sustained, this may have wider economic and business benefits given multiplier, financial sector stability and household net worth benefits. Factors include sustained low interest rates, widely available loan capital for housing, pent up demand from favourable demographics and deferred family formations and demand from potential relocations to suburban and regional areas (which also improves availability and affordability in inner city). Unemployment and bankruptcies are obvious major counter forces.

Holdings as at 30 June 2020 are shown in the table that follows (shown as a percentage of investment assets and net cash) except for positions totalling about 3% in 2 companies.

 Holding 	 % 	 Holding 	 %
Visa	18.5	Wells Fargo	0.1
MasterCard	16.0	HCA Healthcare	0.1
Home Depot	9.2	Morgan Stanley	0.1
CVS Health	2.5	Magellan High Conviction Trust	0.1
Microsoft	2.1	Alphabet	0.1
JP Morgan Chase	1.1	Facebook	*
Lloyds Banking Group	1.0	Magellan Global Trust	*
US Bancorp	0.8	PM Capital Global Opportunities Fund	*
Lowe's	0.7	Bank of America	*
Schroders	0.4	Platinum Capital	*
		* less than 0.1%	

Net cash shown as a percentage of investment assets and net cash, was approximately 44.0% as at 30 June 2020. AUD net cash was 4.6% (taxes, other expenses and dividends are paid in AUD), USD net cash 39.5% and other currency borrowing/cash exposures were below 0.1% of investment assets and net cash as at 30 June 2020 (all approximate). Key currency rates for AUD as at 30 June 2020 were 0.689 (USD), 0.613 (EUR) and 0.557 (GBP) compared with rates for the previous month which were 0.664 (USD), 0.597 (EUR) and 0.537 (GBP).

Yours faithfully,



Chris Mackay
Portfolio Manager

1 July 2020

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

All figures are unaudited and approximate.

Important note

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