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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 June 2021.

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

1 July 2021

## **MFF Capital Investments Limited ('MFF') Net Tangible Assets ('NTA') per share for June 2021**

MFF advises that its approximate monthly NTA per share as at 30 June 2021 was \$3.280 pre-tax (\$2.809 as at 30 June 2020), and \$2.804 after providing for tax<sup>1</sup> (\$2.478 as at 30 June 2020). Six cents per share fully franked dividends were paid during the year. Tax paid during the month was comparable with each of April and May 2021 tax paid (noted in those NTA updates). See MFF's Half Year Report for details on imputation credits and dividend policy.

The MFF portfolio is concentrated in companies which are advantaged, extremely profitable cash flow generators, with very solid post pandemic prospects and current resilience, even if pandemic impacts extend for far longer than currently expected by many. The competitive positions of portfolio companies have improved during the pandemic period and the portfolio is materially stronger than it was at end May 2020 when we started to reinvest the significant pandemic related cash balances. MFF remains characterised by portfolio and process continuity, and patience rather than activity continued to be regarded as appropriate for another month, in June. Purchases in the month were well below 1% of investment assets and there were no sales.

June 2021 was a month for broad, strong, ongoing profit and outlook upgrades, rather than the more customary seasonal profit downgrades, and interest rates remained low/zero. Short term investor sentiment moved upwards, market volatility has remained low and concerns about elevated asset prices and speculation have not prevented indices from rising. Broad strength in markets and economies and for leading economic indicator measures are typically followed first by ongoing positives rather than sustained market and economic downturns. Positive sentiment is rewarded by momentum. Debt markets also remained benign in the month, without contagion from pockets of fear tempering some speculation in emerging debt markets, including China as the CCP assesses policy support around over borrowed and/or insolvent SOEs and other debtors. The limited portfolio specific information released during the month was positive, including increased dividend and buyback authorities for major US banks confirmed by the US Federal Reserve after stress tests.

Northern hemisphere reopening remains a current positive, with huge increases in year on year activity (and in many cases compared with 2019), and negative focus remains muted about whether spending is being brought forward and/or substituted. Vaccine rollouts continued and continued to be effective in suppressing the most adverse health impacts of the pandemic, even as more transmissible variants become predominant. Data indicated that deaths from more conventional causes, such as flu and pneumonia, are exceeding COVID deaths in leading vaccinated regions. Hence some Governments away from Australia have started moving strategic goals away from virus suppression to minimising harmful impacts on overall health and health systems. Economic reopening and cross border movements have commenced, albeit very unevenly. Even as 'forecasts of the moment' (whether inflation is transitory, for example) continue multiplying most are being treated with caution.

Over many years MFF has invested most of its assets in very high-quality companies with prospects for sustained profitable growth. Our loose target for these investments remains 85% of the portfolio, depending upon markets and other factors. MFF's significant gap between its pre-tax NTA and post-tax NTA primarily reflects the sustained market price appreciation of these core investments over years and their retention, given our assessment of the ongoing positive prospects for these businesses relative to prices and alternatives. In addition to this core, we also buy quality companies where we perceive their market prices and other risk factors to be favourable, for example as contrarian investments where markets may be overweighting short term adverse sentiment or other headwinds. These companies have also benefited MFF's figures. Given the opportunities available in these 2 categories during and after the Financial Crisis, we have had very few holdings in our third category, where we seek very low price to value ratios even though medium to longer term business prospects appear more challenged.

Our expectation (noted from late 2020 in ASX releases) that 6% pa pre-tax might be a reasonable market benchmark in prevailing conditions, has been far exceeded in the first six months of calendar 2021 with widespread double-digit post-tax equity and other asset market returns. Since the pandemic equity market lows late in Q1 calendar 2020, all three categories of investments mentioned in the previous paragraph have risen strongly in price; and price appreciation has become more detached from business prospects in the third category, and in outright speculations, in the first half of calendar 2021. Lower return expectations for the medium to longer term are more logical but less common after periods of outsized market appreciation, as positive sentiment becomes more pervasive. The combinations underpinning the current strong asset prices include sustained low interest rates underpinned by monetary policy interventions, extreme liquidity, strong and growing near term profitability, trillions of stimulus including direct payments, inflation expectations, rising markets encouraging momentum and institutional, retiree and speculative money to move into riskier assets away from very low yielding core bond assets where nominal principal risk is low. The yield on the benchmark US Government 10-year bond closed the quarter at approximately 1.47%pa down from approximately 1.7%pa at the start of the quarter, and this was positive for sentiment and market prices along with positive near term earnings outlooks. However, differences in absolute interest rates/discount rates at these levels should not be impactful on prudent business/equity valuations, and near-term earnings factors are far less important for business/equity valuations than sustained year on year outcomes. As sentiment predominates, it may reverse without requiring triggers from material changes in long term economics.

Higher market prices reduce margins of safety despite having many positive near-term implications. Obvious direct risks continue to increase and broaden, along with our central case expectations for indirect impacts of inevitable corrections. Whilst positive wealth effect multipliers continue to inflate current economic activity, broader economic risks grow as momentum, speculation, participation and prices increase, 'prudent' savers continue to be chased off the side-lines into risk assets, some chasing bubbles and promoted schemes prior to inevitable reversals. Sustained higher market prices also encourage their own reversals; for example, as buoyant markets increase available funding, talent, and other resources for innovative and effective competitors. Reversal of political, community and geo-political factors is also becoming more probable, as conditions have been very favourable for capital in recent decades, and increased economic inequality encourages legislators, regulators, and judges to act. Budget deficits with central bank funding have reached levels that were previously unthinkable, and impacts have not been stressed tested. It remains possible that the current positive equity market cycle might be more concertinaed and quicker than usual and reprise Graham's multi decade warnings about addictive characteristics of peer activity and paper profits from low quality companies during the later stages of bull markets. Longer term risks and opportunities, including from digitisation and globalisation, arguably remain more important than cyclical considerations, even in current market conditions.

The 30 largest holdings in the portfolio as at 30 June 2021 are shown in the table that follows (shown as a percentage of investment assets).

	%		%
Visa	15.1	L'Oreal	1.6
MasterCard	14.1	Alphabet Class A	1.5
Amazon	9.8	JP Morgan Chase	1.4
Home Depot	8.6	Mitsubishi	1.3
Facebook	7.0	Lloyds Banking Group	1.2
Alphabet Class C	5.7	US Bancorp	1.2
CVS Health	3.6	Asahi Group	1.2
Microsoft	3.5	Itochu	1.0
Bank of America	3.4	Mitsui & Co	1.0
Prosus	2.3	Allianz	0.9
Procter & Gamble	2.0	Sumitomo Corp	0.8
CK Hutchison	1.8	DBS Group	0.8
Flutter Entertainment	1.7	Oversea - Chinese Banking	0.7
Intercontinental Exchange	1.7	Lowe's	0.7
Morgan Stanley	1.6	United Overseas Bank	0.6

Net debt shown as a percentage of investment assets, was approximately 6.6% as at 30 June 2021. AUD net cash was 0.2% (taxes, other expenses and dividends are paid in AUD whilst proceeds of MFF Options (ASX ticker: MFFOA) exercises are received in AUD), USD net debt 2.1%, Yen net debt 3.7% and other currency borrowing/cash exposures were below 1% of investment assets as at 30 June 2021 (all approximate). Key currency rates for AUD as at 30 June 2021 were 0.751 (USD), 0.633 (EUR) and 0.543 (GBP) compared with rates for the previous month which were 0.774 (USD), 0.633 (EUR) and 0.545 (GBP).

Yours faithfully

A handwritten signature in black ink that reads 'Chris Mackay' in a cursive script.

Chris Mackay  
Portfolio Manager

1 July 2021

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

All figures are unaudited and approximate.

Figures are not adjusted for unexercised MFF Options (MFFOA).

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