



MFF

CAPITAL INVESTMENTS LIMITED

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

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

Marcia Venegas
Company Secretary

3 February 2020



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Today MFF traded ex-dividend (20 cents per share fully franked special dividend payable 19 February 2020). MFF advises that its approximate monthly NTA per share as at 31 January 2020 was \$3.802 pre-tax (\$3.225 as at 30 June 2019), and \$3.158 after providing for tax¹. As MFF is now trading ex-dividend, the ex-dividend figures are \$3.602 pre-tax and \$2.958 after providing for tax. The interim ordinary dividend will be paid in accordance with the usual schedule (ex-dividend April 2020, payable May 2020) and these figures are not adjusted for that dividend.

MFF again cautions against excessive focus on pre-tax figures. Successful companies pay corporate tax. MFF has noted its significant tax instalments paid over recent years. Although MFF was not required to pay any instalments in January, the MFF financial statements released in January noted that MFF had deferred tax liabilities of approximately \$349.6 million. Deferred tax liabilities become current upon assessment after profitable realisations are made. When paid, these tax instalments reduce pre-tax NTA figures (MFF paid tax instalments of approximately \$25.5 million in the 6 months to 31 December 2019).

MFF reacted to the strong equity markets and weaker AUD/stronger USD during the latest month. In January MFF sold approximately \$46.9 million of securities from the portfolio and became entitled to approximately \$2.1 million of regular quarterly dividends from portfolio companies. MFF also continued to transfer cash balances into AUD, and the AUD cash balance was approximately \$137.9 million at month end. The AUD cash balance is already adequate for the special dividend payment and for working capital. MFF's usual monthly cash/currency summary is at the end of this release (monthly cash/currency figures are unadjusted for accounting adjustments eg for tax liabilities assessed but not yet paid or not yet assessed but payable after assessment, and the timing and recognition of receivables and payables for accounting purposes each month).

Equity markets were very strong until the final day of the month. Several of our portfolio companies issued their Q4 2019 financial updates (most including outlook statements) and these were generally very strong and exceptional in some cases. Company results reflected strong economic conditions and recovery in previously weaker areas such as Latin America. Consumer confidence was at a very high level and corporate confidence returned, particularly in relation to technology spending. Massive fiscal stimulus and sustained low interest rates are fuelling broad based corporate strength with multipliers operating. Record bond market inflows also drove down interest rates and underpinned increased asset prices.

As noted in the half yearly financial statements, these factors benefitted MFF's core portfolio activities as well as the smaller opportunistic/tactical aspects of the portfolio. Our risk controls severely curtailed the tactical portfolio component and we extended this in January, including the full close out of two tactical positions (one of the remaining defensive FMCG positions which benefitted from the low interest rate so called flight to safety and our single energy position was only held for a month after the price spike in early January). The full holdings as at month end are below to show the overall risk positioning and these tactical close outs, although these changes are immaterial financially for the portfolio.

Our concerns are with market prices, not with business strength. We continued to sell modestly into momentum, without perceiving a need for urgency or particular disquiet with outlooks for individual holdings. Positive momentum usually continues for extended periods, and earnings outlooks are currently favourable. Portfolio holdings announced increased dividend payouts to be paid in the coming months and year.

However, we are now even less comfortable with opportunities for new investment than we have been in recent years. At end January 2018 we perceived strongly positive market sentiment, and we bought into the subsequent market selloff. We also purchased in the selloff around calendar year end 2018. Apparently easy profits might have been made if we were more aggressive during 2019, but our equity risk exposures already were substantial. During 2019 the equity rally broadened and deepened, and many otherwise conservative investors were dragged out of cash into riskier assets, pushing prices up, increasing market risks and reducing the pool of future buyers.

It is different to January 2018 when narrower but exuberant extrapolation dominated, and we were able to buy a package of relatively defensive holdings with satisfactory risk characteristics in the aftermath. Defensive holdings, as well as growth, have appreciated as have many others that have plausible stories attached. Our risk controls support the special dividend payment rather than using cash on balance sheet to chase ever more marginal opportunities.

All holdings as at 31 January 2020 are shown in the table below (shown as a percentage of investment assets and net cash).

Holding	%	Holding	%
Visa	17.0	US Bancorp	1.6
MasterCard	16.9	Blackrock	1.6
Home Depot	10.3	Microsoft	1.4
Bank of America	8.2	Oversea - Chinese Banking	1.3
JP Morgan Chase	6.1	Capitaland	0.7
Alphabet	5.3	Kraft Heinz	0.7
Lowe's	4.1	Facebook	0.6
HCA Healthcare	3.8	Schroders	0.4
S&P Global	3.3	Singapore Technologies Engineering	0.2
Wells Fargo	3.0	Morgan Stanley	0.1
CVS Health	2.8	Ferguson	0.1
Lloyds Banking Group	2.8	SATS	*
DBS Group	1.9		
United Overseas Bank	1.7		

* less than 0.05%

Net cash as a percentage of investment assets was approximately 4.2% as at 31 January 2020. AUD net cash was 7.0% (taxes, other expenses and dividends are paid in AUD), USD net debt 2.3% and other currency borrowing/cash exposures were below 0.3% of investment assets as at 31 January 2020 (all approximate). Key currency rates for AUD as at 31 January 2020 were 0.669 (USD), 0.604 (EUR) and 0.508 (GBP) compared with rates for the previous month which were 0.703 (USD), 0.626 (EUR) and 0.531 (GBP).

Yours faithfully,



Chris Mackay
Portfolio Manager

3 February 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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