



MFF

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

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

Authorised by

Marcia Venegas | Company Secretary

1 May 2020



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

MFF advises that its approximate monthly NTA per share as at Thursday 30 April 2020 was \$2.920 pre-tax (\$3.225 as at 30 June 2019), and \$2.490 after providing for tax¹. The 20c per share fully franked special dividend was paid in February. The figures are ex dividend for the 2.5c per share fully franked interim ordinary dividend which is to be paid 15 May 2020.

Equity markets rebounded during April, and roughly retraced about half of the March declines for the largest companies and indices. However, business for vast numbers of enterprises continued to decline, particularly for the smaller and medium sized. Our short term NTA figures benefitted from the equity market effects, but the monthly NTA figures were impacted by currency moves (specifically, the approximately 7% rise in the AUD against the USD in the month). Tax instalments of approximately \$41.3m (approximately 7.5 cents per share) paid in the month also reduced cash and pre-tax NTA.

In the March NTA release we outlined our immediate and longer-term priorities and approaches for the portfolio, including our focus upon advantaged, profitable businesses. We continued to build balance sheet cash and liquidity in April. We also detailed our significant selling this financial year (approximately \$655.5m) and we sold approximately \$238.6m in April. April purchases were zero and our entitlements to dividends from portfolio companies during the month were approximately \$1.4m [all figures approximate and rounded]. Net cash is now above 35% of assets and is approximately double the size of the next largest position. The full portfolio is set out towards the end of this release.

Our recent portfolio actions aim 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. Prices achieved for the actions taken in April benefitted from the partial equity price rebounds. We remain price sensitive, albeit recently prioritising reductions in our cyclical exposures which were very profitable (and apparently sensible) prior to the impacts of the shutdowns related to COVID19 going global.

We continue to caution against excessive focus on pre tax figures. In recent years equity price increases ran ahead of excellent business performances by our portfolio companies and we made many sales. We accelerated our profitable sales in the first quarter and this continued in April. Our profitable sales incur tax and significant instalments paid monthly and quarterly. To date Australia has not offered broad tax relief or delay for profitable solvent taxpayers during the pandemic.

Investors should largely ignore short term market price moves, both positive and negative, and certainly should not follow everyone led by market movements. In 2020 this is harder to do but may be even more important than usual. Market conditions are transitioning from very frothy equities, fuelled by multiplier effects including artificially depressed interest rates, dangerously misguided tax relief and other fiscal stimulus, through periods of fear, shut down and pandemic to whatever is to come in future decades. Market price complacency was a feature of the late bull market and may be returning as wealthy people and market professionals have largely sheltered from the pandemic and enough have moved their focus to [sustained] artificially low interest rates, trillions of dollars of monetary and fiscal stimulus to support asset prices and away from their sports and other gambling distractions.

In usual conditions equity market price moves are important leading indicators (and form part of the modern versions of official Leading Economic Indicators for major countries). Obviously, indicators are just that, and from time to time are dangerous (particularly for periods beyond the very short term). The sustained outsized success of leading technology companies, their popularity for speculation and investment, and that of index funds and algorithmic trading (particularly momentum and volatility related) may dampen the relevance and reliability of equity indices as forward indicators.

Businesses were materially 'over earning' during the later stages of the equity market boom and this was never sustainable for most businesses. It is possible but not probable that economies, businesses and markets return within a few years to the [unsustainable] ebullient conditions favoured by property developers, optimistic politicians and communist/totalitarian rulers seeking re-election/legitimacy. Long term optimism is tempered by margin of safety focus including concerns about risks and short and medium term concerns about market prices and cyclicity.

Quarterly reporting and updates released by our portfolio companies were mostly realistic. Many saw booming conditions through until mid-March and then significant double-digit declines. Most have withdrawn guidance on revenues and earnings for 2020. The 2nd quarter has started far worse than Q1, although some companies tentatively argued that year on year rates of decline might have stabilised and some felt that the reopening of China from shutdowns might provide some relatively positive guidance. Many have halted share buybacks and a few are eliminating reducing or deferring dividends in 2020. Last month we anticipated reductions in discretionary expenditure and capital expenditure budgets, and these were confirmed by managements. Although many companies are hesitant to enact redundancies and Government programmes are aiming to pay for keeping on employees for some months, new unemployment applications are already at or approaching Great depression levels. Multipliers have started working in reverse.

The nature of and timing of business and social reopening varies by jurisdiction. Optimists see positive signs in resumed activity in China and elsewhere. There is much data analysis, and conjecture about the duration of behavioural changes. As well as massive negative impacts, some portfolio companies may have benefitted for parts of their activities, including the acceleration of cloud computing (2 years in 2 months estimated by Microsoft), less cash and more card usage (including contactless) and formerly pressured sales of consumer staple processed foods reversing. On average, equity market participants usually overweight near term and recent events in inputting into their [multi decade] financial models which accommodate sustained repressed low interest rates. The oil price collapse continued in April and multiplier impacts have started for the economically significant oil complex, including layoffs and bankruptcies. Eventually supply and demand balance for marginally priced globally consumed and traded commodities, with longer term implications.

Geopolitical risks continued to increase during the month. Huge debts are being incurred to pay for deficits. High leverage has been increased as central bank buying gives confidence for companies and governments to borrow more. Most governments have increased (emergency) powers other than temporarily, and multinational co-operation and globalisation are increasingly stressed. There are no apparent circuit breakers to reduce heightened tensions between the two largest economies and rivals for global influence. Populism and 'fairer' solutions are increasingly attractive from the left and the right as inequality increases towards tipping points via materially divergent incidence impacts of the pandemic and shutdowns, and central bank bailouts.

Many key variables remain materially uncertain for longer term portfolio investors, despite huge efforts and much success at virus containment and some progress in treatments and tracing as well as spending by Governments and central banks. We won't repeat or update the more extensive comments on the pandemic, general markets and related issues from last month's release. Amongst many important and likely sustained issues in April, emergency equipment fraud and other corruption was discovered, corporate fraud began unravelling and fiscal, social, employment, service delivery and other pressures became more significant and more obvious for Emerging Markets, European countries as well as for states, cities and other regions everywhere, particularly where taxing powers are separate from populations and their crucial services.

Prices as well as business details matter for our eventual redeployment of capital. Recovery from previous down cycles have often favoured medium sized companies with growing business opportunities, whereas post GFC world and in the early stages of this pandemic, market price and business gains have gone to the largest businesses, particularly digital, which were also favoured at the end stages of the bull market.

Holdings as at 30 April 2020 are shown in the table that follows (shown as a percentage of investment assets and net cash). Net cash is now the largest position and net cash levels measured in AUD fluctuate with currency movements, as cash is predominantly not in AUD (see final following paragraph).

Holding	%	Holding	%
Visa	18.2	Oversea - Chinese Banking	1.3
MasterCard	16.2	US Bancorp	1.1
Home Depot	10.2	Lowe's	1.0
Wells Fargo	2.4	Schroders	0.4
CVS Health	2.3	HCA Healthcare	0.2
Lloyds Banking Group	1.9	Morgan Stanley	0.1
Microsoft	1.9	Alphabet	0.1
United Overseas Bank	1.6	Facebook	*
JP Morgan Chase	1.6	Bank of America	*
DBS Group	1.5	Kraft Heinz	*
		* less than 0.1%	

Net cash (this month including short term receivables) shown as a percentage of investment assets and net cash, was approximately 38.3% as at 30 April 2020. AUD net cash was 0.8% (taxes, other expenses and dividends are paid in AUD), USD net cash 34.8%, SGD net cash 2.3% and other currency borrowing/cash exposures were below 0.1% of investment assets and net cash as at 30 April 2020 (all approximate). Key currency rates for AUD as at 30 April 2020 were 0.655 (USD), 0.598 (EUR) and 0.519 (GBP) compared with rates for the previous month which were 0.612 (USD), 0.558 (EUR) and 0.494 (GBP).

Yours faithfully,



Chris Mackay
 Portfolio Manager

1 May 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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