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***MFF Capital Investments Limited ('MFF')
Net Tangible Assets ('NTA') per share for December 2018***

Please find enclosed MFF's monthly NTA per share for December 2018.

***Geoffrey Stirton
Company Secretary***

Wednesday, January 2, 2019

MFF Capital Investments Limited ('MFF')
Net Tangible Assets ('NTA') per share for December 2018

MFF advises that its approximate monthly NTA per share as at 31 December 2018 was \$2.649 pre-tax, (\$2.762 pre-tax as at 30 June 2018) and \$2.179 after providing for tax¹. A tax instalment of approximately 4.05 cents per share was paid in December and the performance accrual of 0.2 cents per share was triggered at month end (each reduce pre-tax NTA). The franking credit balance was approximately 7.4 cents per share at month end.

In December major equity market price indices mostly declined by around high single digit percentages. Most index declines so far are about 20% from peaks around the end of Q3. MFF's portfolio declined in market value for the month, the quarter and for the first 6 months of our financial year.

In December, MFF reacted to the lower prices by utilising some of our Balance Sheet strength, and deployed more capital in a month than we have for a number of years (purchases were about 8.5% of year end gross portfolio value, sales about 0.06%). Lower market prices reduce some price risks. Additionally, some key interest rate risks have diminished in the near term. We decided to start acting rather than wait, partly because we considered that the benefits of lower market prices were not offset by the likely reflexive/trickle down medium term impacts of the lower equity/debt/other asset values, and associated sentiment and behavioral factors. We have retained capacity for further action in our balance sheet strength and across the portfolio composition (markets have moved on from our early 2018 decisions to park some cash in consumer companies as short term alternatives to cash). Our purchases were entirely in existing holdings, except for one repurchase of a small holding (details included in the table below) that we had sold in the September quarter. In considering market prices, risks and alternatives, we continue to have modest expectations for future investment returns in comparison with high returns achieved in past decades.

Our portfolio companies continue to be advantaged, continue to have opportunities for profitable growth and we consider that they continue to be satisfactorily priced. We consider that the risk/return profiles for the purchases (and for the portfolio retentions) are more favourable than alternatives. Overall, we continue to be positioned in growing, less structurally challenged, high margin, sizable, businesses with shares having high levels of market liquidity. We remain disinclined to push down the quality spectrum to chase 'deep value' given our risk/return preferences, although it is possible that recent events might extend the duration of some major economic cycles (contrary to current market consensus) and benefit such equities more than our portfolio.

Market sentiment turned very unfavourable in December and our contrary action was not supported by consensus; prices obviously might continue lower. We continue to expect market price fluctuations, or volatility. Our focus is upon quality business positioning and comparing market prices and values. Well over US\$10billion of after tax earnings is expected from our portfolio companies for December and over US\$50billion for the quarter. Overall, these extremely strong cash earnings are being deployed very well by our portfolio companies (this extends well beyond share buybacks which became less expensive with price declines).

MFF's asset values had outsize benefits in recent years because market prices rose more strongly than very strong business performances and increases in underlying values. This trend reversed as extremely strong earnings for the September quarter and high levels of share buybacks, were insufficient to prevent market declines. Obviously, prices may continue to decline, and earnings may follow [as more are now predicting]. Over longer periods there is convergence as earnings, future earnings potential and capital deployment are reflected in market prices. In December, MFF's opportunity costs used to assess alternatives included a range of current possibilities that were more attractive than our early 2018 comparisons between cash, term deposits and cash alternatives.

More likely than not, volatility in various markets should present decent opportunities over the next few years but at the cost of periods of downward price movements (volatility) which could be extended and severe. We also must continue to expect and allow for increased policy impacts, regulation and competition for successful businesses, including MFF portfolio companies. Policy and political pressures have continued to build in recent years, as have aggregate debt levels. To date, US monetary tightening has been commenced successfully in benign conditions, but policy risks and challenges are perennial and do not appear to be lessening. Structural changes in major economies include persistent overcapacity, changed distribution channels and competition from scale players with extremely low marginal costs of capital. Pressures are reflected in, and influenced by, conflicting and unsettled trade practices/policies, pressure on incomes (outside of large asset owners) and conflict regarding views on fiscal stimulus, tax, redistribution/safety nets/health and retirements policies, and roles of governments amidst broad populist movements/political uncertainty.

Although short term indicators are mostly noise, and less important than company positioning and medium term prospects, leading forward economic indicators have not yet shown the same weakness as equity markets. Corporate activity, particularly M+A, continued at high levels and with high sale prices and leverage ratios through 2018 and the latest quarter. Perhaps this reflection of corporate (and private equity) optimism will dissipate in 2019. Consumer confidence remained positive in most geographies and most sectors (outside of autos and property in an increasing number of geographies). The MasterCard figures for US holiday retail sales indicated increases above 5% year on year (combined online and in store) reflecting strong consumer activity. Major lenders continued to report strong lending appetite and capacity, and extremely low bad debt levels. Corporate, lender and consumer confidence contrasted with falling portfolio prices (equity share markets) particularly in December and the latest quarter.

Theories rolled out by commentators for equity weakness, alongside the impacts of trade and geopolitical tensions and the Federal Reserve's programmes of quantitative tightening and short term interest rate increases, include combinations of some or all of forced computer selling including some based off formulae triggered by changes in volatilities and momentum reversals, sales by hedge funds experiencing losses and expecting ongoing redemptions, ongoing investor caution scarred by the tech wreck and GFC, caution on the part of older, wealthy investors, and investors burned by the collapse in Bitcoin prices and 40%+ drop in oil prices. Knock on effects of the Fed's increases in short term rates and from the asset price falls are still to be felt, as is the reversal of 'overearning'.

Uncertainty and risks are synonyms (in some but not all usages). Each appears to be increasing in incidence and severity (digitization of information and rise of mass media, including social media are some factors influencing perceptions). Lower prices for investment opportunities are associated with increased [or increased perceptions of] both risks and uncertainties. Uncertainties usually decay and may not always become risks. Probabilities of incidence and severity of risks change over time as do prices of asset/investment opportunities which are based upon supply and demand at the time. Over longer periods there is usually strong correlation between movements in asset prices and actual and prospective returns from the assets but in the short run 'social media' type popularity contests materially influence asset prices. Loss aversion is strong, consistent with prospect theory.

Some uncertainties dissipate and new uncertainties and risks emerge in every period. Risks of material interest rate rises were prominent in explanations of the sharp sell offs in markets from end January 2018. Risks associated with Italy, and uncertainty associated with negotiations with the EU on fiscal policy, were also prominent, particularly from mid-year. At year end 2018 US Government benchmark 10 year bonds were yielding about 2.7% p.a., well below where many commentators were extrapolating in 2018 and for the past 5 years or so, and materially below yields earlier in the year. Italian 10 year bond yields traded at comparable yields to the US at year end. Primary markets evidenced satisfactory demand for new Government bond issuance. Debt market concerns will remain elevated given structural changes to bond markets in response to regulatory changes continue to unsettle, the trillions of increased aggregate debt post GFC and ongoing refinancings by moderate credits and sovereigns.

MFF remained invested in recent years because we assessed that market prices did not reflect prospective returns from our portfolio of businesses. We remained positive about medium term outlooks during pullbacks when uncertainties and perceptions of risks contributed to equity investors periodically selling positions, rather than face another 'tech wreck' or 2008/9 market meltdown. There are arguments either way about whether uncertainty and risks are greater than in past years and decades, including (on the optimistic side) much data about rising global living standards, reduced poverty, less warfare, longer lifespans, lower inflation and fewer failed states. Probabilities are better with sensible selections for longer periods of time. Random variations including sentiment changes are more impactful if targeted/measured over short run periods.

Specific uncertainties outside of the ubiquitous trade tensions, interest rate/quantitative tightening risks and geopolitical issues such as Brexit are relevant to individual companies and markets, and include the Chinese Government's evolving relationship with private capital from China and abroad, their stimulus actions and domestic US infrastructure renewal prospects. Recent focus on interest rate risks may dissipate for a period which theoretically benefits long duration growth assets and in practice might also encourage repetition of yield substitute chasing (some Government yields outside of the US remain at or close to zero).

Holdings as at 31 December 2018 with a market value of 0.5% or more of the portfolio are shown in the table below (shown as a percentage of total investment assets).

Holding	%
Visa	13.9
MasterCard	12.5
Home Depot	9.6
Bank of America	7.8
Alphabet	7.0
JP Morgan Chase	6.1
Facebook	4.7
Lowe's	4.7
HCA Healthcare	4.1
Wells Fargo	3.6
S&P Global	3.6
US Bancorp	3.3

Holding	%
CVS Health	2.9
Lloyds Banking Group	2.5
Blackrock	2.0
Apple	1.9
DBS Group	1.7
United Overseas Bank	1.6
Oversea - Chinese Banking	1.3
Coca Cola	1.2
Kraft Heinz	0.9
AECOM	0.7
Capitaland	0.8
Microsoft	0.5
Colgate-Palmolive	0.5

Currency actions were modest and overall positioning remained unchanged. USD denominated equity purchases have been funded from USD borrowings. Currency market trends remained relatively stable during the volatility in other markets, although currency markets are typically transmission mechanisms, and rarely stable for extended periods. Net debt as a percentage of investment assets was approximately 9.7% as at 31 December 2018. AUD net cash was 1.4%, GBP net debt 0.4%, USD net debt 10.6% and other currency borrowing/cash exposures were below 1% of investment assets as at 31 December 2018 (all approximate). Key currency rates for AUD as at 31 December 2018 were 0.7040 (USD), 0.6158 (EUR) and 0.5528 (GBP), compared with rates for the previous month which were 0.7303 (USD), 0.6450 (EUR) and 0.5723 (GBP).

Yours faithfully,



Chris Mackay
Portfolio Manager

Wednesday, January 2, 2019

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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