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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 May 2023.

Authorised by
Marcia Venegas | Company Secretary

1 June 2023

MFF Capital Investments Limited ('MFF') **Net Tangible Assets ('NTA') per share for May 2023**

MFF advises that its approximate monthly NTA per share as at 31 May 2023 was \$3.286 pre-tax (\$2.744 as at 30 June 2022), and \$2.839 after providing for tax¹ (\$2.438 as at 30 June 2022). Tax paid in the month was below 1 cent per share, and a preliminary estimate for June is close to 1 cent per share, again reflecting portfolio sales (below) and seasonally high, increased dividends from portfolio companies. Unrealized gains caused the increased gap between pre-tax and after tax NTA figures. Portfolio price/value characteristics remained satisfactory, although frothiness displaced fear in some pockets of equity markets. This month, MFF paid the increased 4.5 cents per share fully franked dividend but made slower progress at higher prices with the on-market buyback.

MFF's primary feature is its combination of shareholding interests in extraordinary businesses with sustainable competitive advantages and above average sustainable growth rates, acquired on satisfactory terms. Over time, this has delivered increased shareholder value. Market fluctuations are inevitable and have favoured MFF which seeks to be disciplined and opportunistic in comparing value with price across its extensive but focused investment opportunities. Past success has built MFF's extremely strong balance sheet, with a high-quality, liquid portfolio (gross market value over \$2 billion), an on-market share buyback program and hundreds of millions of dollars of retained earnings and over a hundred million dollars of franking credits out of which fully franked dividends are intended to continue to be paid six monthly (with a schedule of intended increases announced previously, subject to factors including legislative and tax administration changes).

We prefer companies with decent probabilities of sustainable advantages and above average profitable growth, ideally with excellent management, and, with at least reasonable purchase prices. Hence, month after month, MFF's primary activity remains holding shares in companies we regard as excellent on terms we regard as favourable (the full portfolio is shown below). May was no exception despite market movements, some portfolio changes, some meaningful economic and political events, and lots of noise. The main portfolio characteristics remain Quality, Value and Continuity. In most months, our portfolio activity is small in comparison with portfolio value. In May there was some ongoing fear and panic, ongoing banking and commercial real estate issues [including the failure of another leading bank, with its purchase on favourable terms by an MFF portfolio company, following month after months of interest rate rises and their foreseeable second order effects] and more evidence of marked slowdowns in economic and business variables. Share prices for many companies fell as outlooks were slashed, commodity and other market prices reflected increased recession expectations, but some major technology company share prices rose as Artificial Intelligence (and related) narratives supported perceptions of their competitive advantages. China issues continued and mostly impacted various non-US markets. MFF's selling was about 1.5% of portfolio value and buying about 1.25% of portfolio value. Little should be inferred from the activity; some reflected ongoing patient realization of value-based purchases made after the initial stage of the pandemic. The extent of bifurcation in major US equity markets was an unusual feature in May (for example, NASDAQ large capitalization indices rose approximately 6% in the month, and the price based DJIA index was down about 4% for May and reportedly fell for 17 trading days, the most in a month since the European crises of 2012). As always, currency, commodity and bond markets also moved, both leading and following equity moves. There are few that believe that markets are in comfortable equilibria. Our structure allows for focus, flexibility, and patience in buying or selling, with quality characteristics, price/value and opportunity costs being most relevant in considering whether there are opportunities to transact on favourable terms and/or satisfactorily manage some risks.

The month was appalling for fans of regulators and politicians, whether of democracies or regimes. The US debt ceiling farce was matched by ongoing incompetence in failing to restore confidence after the Federal Reserve and administration damage to the banking system. Day after day, regulators around the world levied fines, increased taxes, and enforced anti-business measures. The month had one small administrative positive. The banking regulator of Singapore (MAS) is working with industry to expand the talent pool for artificial intelligence and data analytics in the finance sector. Around the world month after month anti-business anti-growth ideological incompetent administrations have regulated and curtailed their targets and their populations, and of course most are approaching technology change from that perspective. Singapore's banks and educating authorities, including schools, will work with the financial regulator on training programs that incorporate the latest AI developments and trends as "if you look at all the trends, almost every function of the finance sector requires AI."

Further companies reported March/April quarter updates during the month. Overall, the portfolio companies' reports reflected sustained competitive advantages and resilience, in challenging business, economic and market conditions. Cyclical slowing is becoming more widespread, and competition is biting into some industries. In aggregate the portfolio companies generated many billions of cash profits which they reinvested to maintain business advantages and in growth opportunities, as well as paying dividends and many billions for sensible buybacks. Increased interest rates are not as negative for the portfolio that they are elsewhere in economies. Portfolio companies' scale, scope, advantaged technologies, and customer focus contributed to market share gains. Scale combined with adaptability allow many to continue to invest in people and capital, applying digital and other new technologies which in some cases materially improve customer satisfaction and reduce ongoing costs for customers and the companies.

Approximately 5-10% of the portfolio companies are bedding down large acquisitions, utilizing strong cash flows to reduce leverage, although acquisition activity is down materially given political and regulatory headwinds. Reflecting these headwinds, announcements of layoffs, “turnarounds” and CEO changes continued, often without any entrepreneur equity lifeline from mergers or other deals. Cost cutting, even by high margin companies, increased portfolio margins further and (particularly in large technology) was “rewarded” by higher market prices, and its precedential value (copying) does not require complex pattern recognition data analysis.

The US 10 year bond rate (the benchmark or risk free rate) remains reasonably anchored. It rose month end on month end from approximately 3.42% p.a. to approximately 3.64% p.a. Some falls in various rates in March and April continued in May, allowing some financial institutions to mitigate some of the concerns about mark to market for held to maturity bank securities, and some primary/secondary issuance transactions occurred. Business results including compounding of reinvestment are far more important over time for investors focussed on quality profitable growth than the 10 year bond gyrations. Of course, as the Federal Reserve “overshoots” on quantitative tightening and/or retains interest rates that are too high for too long, and overall monetary conditions that are too tight, the damage caused by a repeat of Lehman type decisions should still be avoided (despite the damage to date; see above). In previous decades, reversals of US central bank interest rate decisions have been customary.

All holdings in the portfolio as at 31 May 2023 are shown in the table that follows (shown as percentages of investment assets).

	%		%
MasterCard	12.0	JP Morgan Chase	1.6
Visa	11.6	Intercontinental Exchange	1.6
Amazon	10.7	Prosus	1.5
Alphabet Class C	7.2	Lloyds Banking Group	1.4
Microsoft	7.1	DBS Group	1.3
Home Depot	6.5	United Overseas Bank	1.2
Alphabet Class A	6.0	Oversea - Chinese Banking	1.0
American Express	5.9	US Bancorp	0.8
Meta Platforms	5.5	Lowe's	0.7
Bank of America	4.7	RB Global	0.5
Flutter Entertainment	2.7	United Health Group	0.4
CK Hutchison	2.3	Allianz	0.2
CVS Health	2.3	Schroders	0.1
Morgan Stanley	1.7	L'Oreal	0.1
HCA Healthcare	1.6		

We continued to maintain some liquidity in AUD. Most MFF expenses, and taxes, dividends, and buybacks are paid in AUD, and we regarded this as prudent matching. We remain very cautious about all currencies and our continuing negative views on the AUD over extended periods were given support by the pressures on reasonably fair, co-operative Federalism and on future service commitments evident in State and Federal budget statements. The current sustained period of USD strength (which returned in the month) and US investment opportunity (and immigration flows to the US and a few other democracies) is already becoming associated with banking, hard currency debt, inflationary and other pressures, even prior to customary damage from predictable (but unprepared for) reversals of commodity price and volume strength. Net debt shown as a percentage of investment assets, was approximately 14.3% as at 31 May 2023. AUD net cash was 3.8% (taxes, other expenses and dividends are paid in AUD), USD net debt 8.4% and Euro, GBP, HKD, SGD and Yen borrowings totalled approximately 9.7% of investment assets as at 31 May 2023 (all approximate). Key currency rates for AUD as at 31 May 2023 were 0.647 (USD), 0.607 (EUR) and 0.522 (GBP) compared with rates for the previous month which were 0.661 (USD), 0.599 (EUR) and 0.526 (GBP).

Yours faithfully

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

Chris Mackay
Portfolio Manager

1 June 2023

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

All figures are unaudited and approximate.

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