



MFF

CAPITAL INVESTMENTS LIMITED

MLC Centre
Level 36, 19 Martin Place
Sydney NSW 2000 AUSTRALIA

General: +61 2 9235 4888

Facsimile: +61 2 9235 4800

Website: www.mffcapital.com.au

ABN: 32 121 977 884

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

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

Authorised by

Marcia Venegas | Company Secretary

4 January 2021

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

MFF advises that its approximate monthly NTA per share as at 31 December 2020 was \$2.829 pre-tax (ex 3.0 cent per share fully franked final dividend paid in November 2020) (\$2.809 as at 30 June 2020), and \$2.490 after providing for tax¹. Portfolio changes were modest and portfolio activity in the month was below 1% of net assets. The full portfolio is shown below.

Although the composition of MFF's portfolio improved in recent months as cash was deployed to holdings in advantaged companies, overall market price risks continue to be elevated and rising for equities and other asset classes, and aggregate realistic longer-term future returns are lower. Strengths in balance sheet and portfolio composition continue for MFF.

The weaker USD (in particular) and stronger AUD gathered some momentum at month end and was about 4.75% negative for month end NTA figures (see currency figures below). The AUD/USD rate for MFF's 30 June 2020 accounts was .6885, and the 12% currency movement over the 6 months negatively impacted NTA figures for the period. MFF has deployed almost all its USD cash into securities, and the impacts of portfolio value movements are expected to exceed currency movements over the medium-term.

Previous ASX releases and the latest Annual Report set out details of MFF's significant but temporary cash balances, which we have sought to deploy rationally. We consider cash balances as temporary in part because Government and central bank policies in recent years have made cash a poor asset class, other than for very short periods and for optionality. Government and central bank reactions to the pandemic further weakened cash as a store of value. For Australian and other non-US investors significant opportunity cost negatives of holding USD cash have materially increased by adverse currency movements as markets looked forward from the pandemic from Q2 calendar 2020.

MFF built its cash balances to protect capital and to provide significant resources for opportunities if markets, businesses and economies were distressed by the impacts of the pandemic and associated shutdowns. However, it became apparent that risks/rewards of recent and current opportunities were not at all comparable to those associated with the Financial Crisis. Rational portfolio choices in recent months have needed to reflect current and foreseeable realities of higher prices, lower future returns and increased risks as well as sustained zero or negative real (and nominal) returns on cash. Our portfolio decisions and risk controls needed to reflect the reality of returning bull markets for most asset classes, irrespective of how unlikely this appeared earlier in calendar 2020 and its disconnect from the pain for so many citizens and businesses.

Experienced market practitioners, analysts and academics have argued in 2020 for lower discount rates in considering the values of businesses, other assets and the cashflows that might be received from them. The theory notes both lower Government bond rates (the US 10 year halved over calendar 2020 from an historically low level of about 2% pa to about 0.9% pa) and lower 'equity risk premia'. Strong cases are made for reductions by at least 1.5% pa, and closer to 2% pa in discount rates applied, whatever the precise maths or jargon used. Reductions in those discount rates from, say, close to 8% pa to close to 6% pa, plugged into DCF models dramatically increases valuations and prices.

Elsewhere in bullish markets, record trading is happening in call options (those that benefit holders when prices rise), and market analysts and M+A 'experts'/buyers adjust their traditional DCF methodologies to include 'option values', particularly for companies to expand profitably into future markets, for profits to return post pandemic and to assess prospects for currently unprofitable enterprises to become fabulously profitable if future conditions are favourable. Zero value expiries were common over past cycles combining optimism and options, particularly for retail investor participants.

In previous decades there were plenty of opportunities for investments that were likely to earn pre-tax returns above 10% pa and this was a sensible minimum hurdle rate in starting to consider opportunities. In current circumstances it is credible for aggregate medium to longer term pre-tax returns to be below 6% pa from developed world businesses, equities and other assets. However, bull markets encourage increase risk taking and extrapolation, with latest (November 2020) US margin debt figures returning to record levels and rising 9.53% month on month alongside vaccine and election news.

In our portfolio we continue to prefer businesses with sustainable advantages and prospects for extended periods of profitable growth. However, zero/low interest rates materially increase the theoretical valuations for many of these businesses and increase prices generally. We also prefer out of favour or underrecognized businesses which allow for better purchase prices.

MFF's deployments have targeted businesses with well above average probabilities of sustainable advantages and growth alternatives and moderate aggregate business risks over the longer term. Prices for these businesses are higher than before, and longer-term future returns are likely to be lower than double-digit pre-tax expectations of previous decades. Our portfolio also includes some out of favour but advantaged companies with complexity and/or near to medium term headwinds but somewhat lower longer-term growth probabilities. Portfolio turnover (sales) in the second category are likely to be greater over time, as time more materially benefits holdings in the first category. During the month US and UK bank regulators allowed some buybacks and dividend return increases. On the other hand, some extreme antitrust actions were commenced against US technology companies, with rule of law actions to play out over a few years, and in China probably more rapidly.

We continue to seek companies in our preferred categories but at low prices, as this would combine margins of safety in purchase prices and businesses. Our portfolio continues to focus on company securities with significant market liquidity, to enable swaps into more attractive holdings if such opportunities are available, recognised and acted upon.

We attempt to be reasonable and conservative in assessing prospects for profitable growth, and the sustainability of advantages, although in recent years we have underestimated the global networked growth that has been achieved by technology enabled and/or advantaged companies. Going forward, analysts and market participants will need to assess what demand has been pulled forward and what changes are more long-term, the sustainability of growth rates, future technologies, competition and regulations in comparison with market prices.

Previous bull markets typically overextended innovative trends (for example online and digital success) to excess and then have always ended with material losses over time, notwithstanding market reflexivity (which allows massive capital raisings by unprofitable concept companies, which survive/thrive for a while). Recently, enthusiasm for lower quality companies has also abounded, extrapolating both vaccine success and continued success by the pandemic lockdown winners. IPOs and SPACs of unprofitable companies have continued to return positively for their promoters and speculators. These characteristics are typical for maturing bull markets, as participation broadens with stories of wealth 'created'.

Extremely positive, and rising, assumptions are required across a range of logically incompatible factors to meet rising market expectations (widespread strong business margins and profits as well as strong wage and employment growth for market demand; ongoing massive Government deficit spending, including productive infrastructure and demand creation/support as well as strong bond markets, positive but controlled inflation and ongoing Central bank liquidity; increased equality and social harmony with Government transfers to disadvantaged groups without burdening taxation or powerful elite interests; geopolitical stability and increased trade without adversely impacting domestic industries; sensible regulation that promotes economic growth by productive enterprises). Keynes chapter 12, and hundreds of other commentators over centuries, have highlighted the differences between popular speculation and using market fluctuations for sensible investing in enterprises which may protect and grow capital over time.

Vaccine rollouts have commenced. Scientists, pharmaceutical companies and health officials are reacting to new data and prospects for broad rapid effective coverage without material side effects. Transmission, testing and lockdowns continue in the meantime. US political and regulatory risks remain elevated; well beyond this week with the Senate runoffs and ongoing certifications/ legal challenges. Although the incoming Biden administration is enjoying a honeymoon in comparison with its predecessor, early support is historically low but not yet inversely proportional to objective despair at nominations/ appointments of 'loyal' apparatchik mediocrities and worse [contrast Costello's positive comments about the early ministries in the Howard Government]. Sensible prioritisation, competence and building support are crucial and difficult for new administrations, even quality administrations, and have real business risks and consequences, well beyond examples such as the exodus of talent and businesses from the policies and practices of similarly credentialed Democrat state administration failures. Beyond observing that they are undiminished, clearer assessment of key geopolitical risks awaits interactions between the Chinese and new US administrations.

Holdings as at 31 December 2020 are shown in the table that follows (shown as a percentage of investment assets and net cash).

Holding	%	Holding	%
Visa	18.2	JP Morgan Chase	1.4
MasterCard	16.8	Mitsui & Co	1.3
Amazon	9.2	Sumitomo Corp	1.2
Home Depot	8.4	Lloyds Banking Group	1.1
Facebook	4.9	US Bancorp	0.9
CVS Health	3.5	Lowe's	0.7
Bank of America	2.5	Marubeni	0.5
Berkshire Hathaway Class B	2.4	Schroders	0.5
Prosus	2.2	DBS Group	0.4
Microsoft	2.2	Oversea - Chinese Banking	0.3
Intercontinental Exchange	2.1	HCA Healthcare	0.3
Asahi Group	2.0	United Overseas Bank	0.2
Itochu	2.0	Ritchie Bros Auctioneers	0.2
CK Hutchison	1.9	Wells Fargo	0.1
L'Oreal	1.9	Magellan High Conviction Trust	0.1
Flutter Entertainment	1.8	Alphabet	0.1
Mitsubishi	1.8	PM Capital Global Opportunities Fund	*
Morgan Stanley	1.5	United Health Group	*
Berkshire Hathaway Class A	1.4	* <i>less than 0.1%</i>	

Net cash shown as a percentage of investment assets and net cash, was approximately 3.8% as at 31 December 2020. AUD net cash was 3.6% (taxes, other expenses and dividends are paid in AUD whilst proceeds of MFFOA Option exercises are received in AUD) and USD net cash 0.2%. Yen borrowings/cash and other currency borrowing/cash exposures were below 1% of investment assets and net cash as at 31 December 2020 (all approximate). Key currency rates for AUD as at 31 December 2020 were 0.772 (USD), 0.631 (EUR) and 0.565 (GBP) compared with rates for the previous month which were 0.737 (USD), 0.616 (EUR) and 0.552 (GBP).

Yours faithfully,



Chris Mackay
 Portfolio Manager

4 January 2021

¹ 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).

MFF Capital Investments Limited ABN 32 121 977 884 (**MFF**) has prepared the information in this document. This document is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. This document has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs and MFF does not offer financial advice in any form whatsoever, expressly or implied. To the extent anyone attempts to imply general financial product advice is contained in this document, it is by MFF as a corporate authorised representative of Magellan Asset Management Limited ABN 31 120 593 946 AFSL 304 301.