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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 December 2023.

Authorised by
Marcia Venegas | Company Secretary

2 January 2024

MFF
CAPITAL INVESTMENTS LIMITED

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

MFF advises that its approximate monthly NTA per share as at 31 December 2023 was $3.665 pre-tax ($3.398 as at 30 June 2023), and $3.129 after providing for tax[1] ($2.912 as at 30 June 2023). The currency impact over the month and the latest 6 months was approximately 2.5% adverse for stated figures. The 30 June 2023 accounts for MFF indicated pockets of potential value which have not been diminished in the latest 6 months. These include $114 million of franking credits (after final 2023 dividend), $976.6 million of retained profits and profits reserve and the deferral benefit of $278.2 million net deferred tax liability [figures as at 30 June 2023]. Over the seven years to 30 June 2023, MFF declared fully franked dividends of $320.4 million, paid Income Tax of $242 million and bought back and cancelled $25.6 million MFF shares. MFF also managed capital growth over this period, with Net Profits of $1,012.8 million after (30%) Income Tax on unrealised gains as well as realised profits, starting from Net Assets of $786.4 million.

MFF's net gains in the most recent 6 months (after providing for full 30% tax on both realized and unrealized gains) are unlikely to be far away from global indices which do not have any allowance for tax. In MFF's case the monthly pre-tax figures are actual figures and for December 2023 are after paying approximately $8 million in Australian tax, which will assist future dividend franking. In addition to seeking sustained capital growth over medium term and longer periods, MFF has paid out significant fully franked dividends which have been increased regularly. MFF recommenced an on-market share buyback in January 2023. This increased market liquidity for sellers and added modestly to per share values for continuing shareholders. Although most shareholders are positive about MFF dividends, the failure to retain the cash paid out reduced historic returns, particularly as MFF does not have separate business earnings to fund future purchases and has sporadically raised limited equity (and only on pro rata equal opportunity terms).

MFF's primary feature remains its combination of shareholding interests in extraordinary businesses with sustainable competitive advantages and above average sustainable profitable growth rates, acquired on satisfactory terms. MFF is a long-term holder of advantaged businesses with moderate recycling of investments (mostly related to market prices and risk management and to provide for funding of alternative opportunities). In the month, continuing rebounds in bond markets (see below) and the return of animal spirits and more widespread speculation in equity markets were features and MFF had sales of approximately 4% of portfolio value and negligible purchases.

Lack of change was again the primary feature. For the vast majority of portfolio actions (and inaction), we want them to be value adding in their own right. Unusually, MFF's overall results will be better over time if the selling in December was unnecessary, too early, wrong. We were acting on possible future opportunity costs (i.e. to increase future resources for possible future opportunities) and not even for "risk management" purposes [MFF's borrowing levels were already prudent] beyond some reduction in correlated concentrated investments (albeit superior Quality and satisfactory or better Value). Of course, momentum was against our actions; buyers were everywhere for almost everything, including those who had been sellers at lower prices. MFF has focused on companies in very liquid markets where price liquidity risks and frictional costs (ex-tax) are minimal, and MFF processes almost always include easing in and easing out during active position sizing, enabling modest mitigation/better pricing during sustained contrary momentum. Past MFF reports discussed momentum, including its self-reinforcing tendencies for customary persistence in many markets, its short-term focus and significant risks compared with fundamental medium-longer term price/value/quality analysis [into 2022, momentum, subsidies and experts extolled Benjamin Braddock into solar and rare earths such as lithium, and even benchmark Brent oil and producers had strong price momentum which more than reversed with time].

MFF is not predicting [the elite at Davos January and promoters provide more than enough possibly contrary indicator predictions] but preparing patiently for when opportunities might be very attractive. In December, rampant, desperate yield seeking was joined by aggressive risk taking in the guise of return seeking. Obviously, overall, higher prices for the same assets reduce future returns, and, logically, lower asset returns should be accompanied with less risk taking. Across broad sample sets, the best returns are when prices are the lowest with the fewest buyers. In October debt focused professional investors were overwhelmed from buying bond duration by career risks and related factors but by December they had trillions of dollars of demand for these assets at materially higher prices (and actively sought hundreds of billions of dollars of additional risk which had been shunned at far lower prices less than a quarter before).

Regulated banks continue aggressively shedding credit related risks to eager unregulated entities, some of which are funded by promotional selling to risk unaware yield seekers. Unlike under the post GFC reforms originators are not even always required to retain risk exposure. Chasing fees and volumes, more of these Upstarts are also originating aggressively (commissions) and lack even basic credit skills (tech is not yet a complete substitute for credit, and obviously failed in early 2023). Inevitably, aspects of this will end very badly. Secondary, and tertiary impacts must be considered even if avoiding direct involvement with illiquid assets/daily liquidity related products.

In December there were few formal updates from portfolio companies or directly relevant to the portfolio. Overall, when considering a broader array of companies across various geographies, we were less positive about many updates than reflected in subsequent market action. We believe that more examples are evident of diminished pricing power, competition, margin pressure and subdued consumer and business demand. Even the two-edged sword of Government spending saw some constraints which must increase as increased interest costs meet increased Government debt, meet dreadful increases in regulatory interventions and lawyers' picnics, meet higher taxation and resistance in the context of geopolitical pressures and destabilized democracies heading off to elections. We are less confident than the newfound bullish consensus about the possibilities of avoiding negative outcomes after the belated recent realization by central banks of approaching or actual disinflation and deflation and related damage particularly in Europe (CCP incentives to crank up manufacturing exports are years in advance of any WTO action expected to be ignored anyway). As usual it is easier to expect that individual company results and outlooks will not all be positive. In this context, investors hoping for 1995, 1998 or 1999 sunlit uplands might be indulging similarly to those in the very late 1960s early 1970s.

We continue reviewing whether market context might make it sensible to be more active rather than less active with the portfolio. Of course, assessment must continue with urgency about whether portfolio companies are likely to continue with their successes for profitable growth. At the recent AGM we again highlighted potential future winners (which include many of the current winners as the curse of scale is not biting some companies as hard as in past decades) and work continues. Valuations matter, and the 1982-2021 sugar hit from sustained reductions in interest rates cannot repeat. On the other hand, rigid supporters of traditional value investing relying on reversion to means may be underweighting impacts upon traditional company profits, prospects and values from the internet, cloud, smart phones, globalization, and data, even before the latest artificial intelligence. Currently there appear to be far more challenged businesses than sustained winners, and some major 20th century leaders have been challenged.

No discussion is required of near-term economic data which showed widening economic cracks, more signs of deflation and much disinflation. Of course, such data fluctuates widely and does not predict even short periods as significant shifts in sentiment and activity become more common. Real rates are rising and traders remain fearful about difficulties for US Treasury when issuing long dated bonds in markets that are prone to hedge fund and other manipulation and swings as they are far less liquid than they would have been with better regulation of banks, less bad central bank interventions and absent geo-political issues which are balkanizing some buying away from western Government issuers. Confidence should not be supported by the recent ridiculous movements in the US 10-year bond yields (commonly regarded as a key "risk free" benchmark useful for asset valuations) which closed month end at approximately 3.88% p.a. falling from approximately 4.34% p.a. in the month (and 4.93% p.a. two months ago) against recent peaks of above 5% p.a., lows for the year under 3.3% p.a. and almost unchanged year on year. The US (and other Government) deficits and multiple trillion-dollar funding requirements remain in focus. This volatility upset equity investors required to adjust their asset priced models by changing their "base" discount rates and to fudge their "equity risks premia" to agree with whatever equity action they needed. For MFF, interest rate levels remain below our hurdles for investments, and we are concentrated in companies that earn multiples of these levels on their capital, and with well above average prospects for future earnings growth. The interest rate levels remain within usual ranges during traditional interest rate cycles and provided MFF with opportunities to acquire listed business interests at more favourable prices than otherwise.

We continue not to be dismissive of risk factors such as impacts of escalation of the 2 wars, and that the Federal Reserve continues to fail to realise that historical theoretical economic models are outdated (2023 inflation is not 1970s demand inflation) and keeps short term rates too high for far too long and inflicts more damage which escalates. The manipulation of key bond market prices probably continues until stopped by events and intervention, with wider impacts for equity markets and to economic activity (if interested see discussions of reflexivity and actions cause reactions). Incidentally, the inverse yield curve indicator of recessions in past decades (which was never stated as causal) may be less relevant, as the short-term rate has been set artificially since the 911, GFC and Covid interventions. Overall, the risks of errors remain high including because most political systems are under increasing pressures exacerbated by populism and internal fissures and possible commodity price risks from geopolitical events. Even in the US which remains the strongest major economy, many small businesses continue struggling as cash pressures build on them and consumers. Banks tightened credit during Q2 2023 and continued in Q3 and Q4, and of course the Regulators have proposed draconian new capital and reporting requirements to cut off access to capital even further in regulated entities. Time and again over the years, this results in disasters as capital moves to unregulated excess. This time, even with the changed Federal Reserve rhetoric, bad outcomes likely will be exacerbated by excessive official interest rate rises impacting with lagged but cumulative effects. Across many continents, the unrelenting myriad of anti-business anti-growth ideologies dominated regulators and politicians continue to dampen initiatives, risk taking and opportunities with cumulative, deleterious effects. In the US, the regulatory idealogues continued antitrust and other pernicious actions against virtually all successful companies, including major tech companies, with some novel aspects, and of course uncertain judicial and commercial outcomes.

Focus has been key for processes to increase probabilities of satisfactory or better financial results for MFF since at least the GFC review and 2012 changes. For the portfolio and more broadly, saying NO is fundamental to focus. Of course. societal and other pressures require compromise, with some immediate costs and often more dramatic opportunity and other costs accruing over years. The H2 2022 focus on value and quality was a necessary "catch up" amidst myriad noise and sub-optimal distractions followed by current (possibly early) portfolio action in preparation for future risks and opportunities.

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

	%		%
Amazon	11.3	CVS Health	1.6
Visa	10.5	Lloyds Banking Group	1.5
MasterCard	10.4	Prosus	1.5
American Express	7.3	DBS Group	1.4
Home Depot	6.8	United Overseas Bank	1.2
Microsoft	6.6	US Bancorp	1.1
Alphabet Class C	6.5	Oversea - Chinese Banking	1.1
Bank of America	6.3	United Health Group	1.0
Alphabet Class A	6.0	Lowe's	0.7
Meta Platforms	5.7	JP Morgan Chase	0.4
Flutter Entertainment	2.6	RB Global	0.4
HCA Healthcare	2.4	Allianz	0.2
Morgan Stanley	2.1	Schroders	0.1
CK Hutchison	1.8	L'Oreal	*
Intercontinental Exchange	1.6	** less than 0.1%*	

Although we remain very cautious about all currencies and maintain our negative views on the AUD over extended periods (exacerbated by commodity boom complacency, ongoing disfunction, asymmetry and unaccountability at multiple levels of Federation and numerous recent anti-business actions) , we continue to move money into AUD in advance of obligations, including in December. Net debt shown as a percentage of investment assets was approximately 12.1% as at 31 December 2023. AUD net cash was 5.8% (taxes, other expenses, buybacks and dividends are paid in AUD), USD net debt 6.4% and Euro, GBP, HKD and SGD borrowings totalled approximately 11.5% of investment assets as at 31 December 2023 (all approximate). Key currency rates for AUD as at 31 December 2023 were 0.682 (USD), 0.618 (EUR) and 0.535 (GBP) compared with rates for the previous month which were 0.663 (USD), 0.608 (EUR) and 0.524 (GBP).

Yours faithfully

Chris Mackay
Portfolio Manager

2 January 2024

[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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