



**MFF**

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

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

*Authorised by*

Marcia Venegas | Company Secretary

1 September 2020

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

MFF advises that its approximate monthly NTA per share as at 31 August 2020 was \$2.831 pre-tax (cum 3.0 cent per share fully franked final dividend)<sup>2</sup> (\$2.809 as at 30 June 2020), and \$2.495 after providing for tax<sup>1</sup>.

Activity for MFF in August was again limited, as measured by portfolio transactions. Purchases were approximately 1.25% of assets and sales were below 1%. Month end balance sheet cash (including short term US treasury bills) was approximately 37.9% of assets; about double the size of the next largest position. MFF became entitled to approximately \$0.63m of dividends from portfolio companies (all figures approximate and rounded). Currency was again a moderate headwind for NTA as there was further USD weakness at August month end. Ongoing Australian uncompetitiveness in wages/conditions remain temporarily shielded by COVID assistance and border closures, and China again seeks lower priced alternative technology/scrap/iron ore sources, as steel production returned to record levels.

Asset markets have remained buoyant, with Central Bank stimulus driving need for yield, return chasing and momentum. Optimistic outlooks were prevalent to look through trillions of 'one-off' pandemic special adjustments, as well as capitalising boosts to pandemic 'winners'. Although we have reduced our return expectations from previous decades, we remain price sensitive and cautious about the increasing risks of chasing asset price momentum in the midst of the pandemic. Bankruptcies and business failures have been delayed by Government and central bank stimulus as well as forced waivers by banks, landlords and some other suppliers. Productivity 'benefits' are coming through in corporate results, and reduced employment will impact consumption.

Fraud risks are not protecting index investors. The WireCard (Germany) fraud is reminiscent of the Swedish Match fraud in the 1920s. Its market price peaked after rising 25x or more as it was added to prestigious indices before the evidence of the fraud was accepted by market authorities. Accounting adjustments and Government payments assist story tellers in maintaining their narratives around the world. It is not only China where Government responses have again included focus on appearances of stability, short term unproductive investments and delaying/avoiding transparency. Credulity remained widespread as too few asked 'what were they thinking?' as 100 year Latin American bonds defaulted in 3 years causing billions of losses, and the US political convention breached all conventions.

We have remained cautious about adding new heavily cyclical positions, although some pricing appears more reasonable in those spaces. Some pockets of value have been value traps for some time, although the business results ultimately prevail. During the month we saw extraordinarily favourable sales and market share gains by some holdings, including Home Depot and Lowes, and companies benefitted from technology changes enhancing customer satisfaction whilst reducing costs. Berkshire's disclosures in the month included significant purchases in itself and in some other conglomerates not favoured currently by markets.

MFF remains engaged, patient and price sensitive, even though interest rates on cash are at zero bounds and our future return expectations for equity markets are modest. We seek margins of safety with profitable resilient businesses to survive the recessions with profitable growth potential, and market prices that appear at least satisfactory. Deep cyclical downturns and uncertainty typically result in some opportunities. Dividends continue to be suspended or reduced(including for some MFF holdings) as the pandemic and lockdowns continue.

Holdings as at 31 August 2020 are shown in the table that follows (shown as a percentage of investment assets and net cash) except for positions that round down to 0.0%.

| <b>Holding</b>             | <b>%</b> | <b>Holding</b>                 | <b>%</b> |
|----------------------------|----------|--------------------------------|----------|
| Visa                       | 18.7     | Lowe's                         | 0.7      |
| MasterCard                 | 17.9     | US Bancorp                     | 0.7      |
| Home Depot                 | 9.6      | Schroders                      | 0.4      |
| CVS Health                 | 2.7      | Ritchie Bros Auctioneers       | 0.2      |
| Berkshire Hathaway Class B | 2.5      | HCA Healthcare                 | 0.2      |
| Microsoft                  | 2.2      | Facebook                       | 0.1      |
| Berkshire Hathaway Class A | 1.4      | Wells Fargo                    | 0.1      |
| Flutter Entertainment      | 1.3      | Morgan Stanley                 | 0.1      |
| CK Hutchison               | 1.2      | Magellan High Conviction Trust | 0.1      |
| JP Morgan Chase            | 1.1      | Alphabet                       | 0.1      |
| Lloyds Banking Group       | 0.9      |                                |          |

Net cash (including short term US Treasury bills) shown as a percentage of investment assets and net cash, was approximately 37.9% as at 31 August 2020. AUD net cash was 4.6% (taxes, other expenses and dividends are paid in AUD whilst proceeds of MFFOA Option exercises are received in AUD). USD net cash was 33.3% and other currency borrowing/cash exposures were below 0.1% of investment assets and net cash as at 31 August 2020 (all approximate). Key currency rates for AUD as at 31 August 2020 were 0.740 (USD), 0.618 (EUR) and 0.552 (GBP) compared with rates for the previous month which were 0.717 (USD), 0.606 (EUR) and 0.546 (GBP).

Yours faithfully,



Chris Mackay  
 Portfolio Manager

1 September 2020

<sup>1</sup> Net tax liabilities are current tax liabilities and deferred tax liabilities, less tax assets.

<sup>2</sup> Figures are cum final dividend 3.0 cents per share fully franked, dividend ex date 9 October 2020 and payable 6 November 2020.

All figures are unaudited and approximate.  
 Figures are not adjusted for MFF Option issue (MFFOA).

**Important note**

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