



**MFF**

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***MFF Capital Investments Limited ('MFF')  
Net Tangible Assets ('NTA') per share for June 2019***

*Please find enclosed MFF's monthly NTA per share for June 2019.*

**Marcia Venegas  
Company Secretary**

1 July 2019



## **MFF Capital Investments Limited ('MFF') Net Tangible Assets ('NTA') per share for June 2019**

MFF advises that its approximate monthly NTA per share as at Friday 28 June 2019 was \$3.225 pre-tax (\$2.762 as at 30 June 2018), and \$2.663 after providing for tax<sup>1</sup>. The financial year end franking credit balance was approximately 8.4 cents per share.

In the latest month and fiscal year MFF maintained its primary focus upon long term holdings in outstanding businesses, many of which appear to have above average prospects for profitable growth. NTA figures over the latest six months and year benefitted from stronger market prices as well as persistent USD strength/AUD weakness. As is usual during bullish market conditions, sales during the six months were at lower prices than at financial year end and conditions were favourable for long term extrapolation of assumptions of business growth and record low global interest rates. We are even more wary than usual about analysis of short-term market movements such as 12 months, as profiled narratives act in search of a storyline. Luck is crucial in any short-term period and likely is even more impactful (and misleadingly so if history is a guide) in generally elevated markets.

Portfolio composition was again largely unchanged in the month and for the quarter. Our portfolio companies again delivered excellent business performances in the year, particularly our larger holdings. Overall business prospects and competitive positions strengthened moderately for the portfolio companies and continue to exceed high expectations. On the other hand, after tax portfolio market price appreciation again exceeded these strong increases in underlying values. Reversion to the mean continues to lose to Mr Market's storied momentum and promotion. June saw the loss of the most successful, disciplined mutual fund manager of his generation and a flow of successful veterans handing back outside money. In their place it is Go-Go in the bull markets, as all around the world the Benjamin Braddock of their generation are ascending the escalators, recently installed as articulate assistant portfolio managers, trending on message in socially aware funds, as fear of missing out on the profiles and returns accruing to algorithms (self driving of course) and Instagram influencers require freedom from the boring economic scars and lessons of history borne by previous generations.

Obviously market participants are paying higher prices for future potential. Market participants bought index funds, ETFs, big name tech and other growth companies, yield stories and other narratives whilst buoyed by zero interest rate liquidity from around the world. Higher market prices equate to lower future returns, higher capital risks and lower margins of safety. Business margins of safety have also been declining for some time with pressure on multilateralism immigration and trade, increased regulation, reduced support for democratic foundations and reduced business margins of safety as on demand casualisation reduces value and duration of commitments expected or given, and technology and low cost abundant finance have increased start up activity. Higher market prices in 2018/19 again resulted in sales from MFF's portfolio and current tax liabilities. Higher market prices also decrease the likely potential benefits for MFF from deferred tax liabilities, as future sales are more likely than when market prices were lower.

We are a long way from ideal buying markets and we will be impacted when momentum reverses, although we continue to have some investments that appear to be less expensive and somewhat out of favour, we maintain strong balance sheet capacity and our concentration in highly liquid investments in profitable companies. We have benefitted little in recent times from out of favour investments compared with market preference for quality growing narratives bought at almost any price and increasingly expensive yield seekers having perceived lower business risk. Theory continues to indicate that reducing investment duration might help risk controls as turning points become closer (however this has hurt returns recently for experienced investors compared with long only momentum). We have stopped counting the multiple occasions and ways in which promoters argue that basic laws of scale and economics cease to apply as reversion to the mean fades as winning businesses keep winning irrespective of societal impacts, complexity or other real world countervailing forces.

Headlines have focused on political, trade and other problems, margins and business pockets that remain pressured, including car and broader manufacturing, introduction of rent controls (Berlin) and more punitive property taxation in some jurisdictions. However, actual business and consumer optimism is high overall, as purse strings are being loosened by massive liquidity, strong employment and the glow of major gains in major asset markets. IPOs and new debt and equity issuances are being sold for yield, for growth and for narratives. Political cheerleaders are promoting even lower interest rates and bigger deficit spending, including for infrastructure. Start up businesses have never been easier to establish and finance, and every day speculative businesses are inspiring entrepreneurs as they become Unicorns even with unsustainable business cases in competitive (albeit innovative) fields, and venture capital backers are accelerating their own fund raisings. The April NTA comments covered some risks for MFF if a market melt up pushes through the market peaks from the end January and end September 2018.

MFF is an equity investor, takes business equity risk and risks have not lessened. Our risk assessments and processes must extend beyond market risks, disruption, competition, discount rates and pricing pressures discussed in recent years. It is easier than ever to establish businesses in services based economies, with enabling technologies, global perspectives and funding. Hence new and stronger competition is expected for most industries. We must also strip out very significant cyclical tailwinds and one-off structural benefits which contribute to 'over earning' by businesses, and which benefit the portfolio's market prices directly and indirectly. Examples include the secular and cyclical tailwinds in many tech sectors, and the unsustainable absence of material bad debt exposures in consumer lending. Equity ranks after other securities in the capital structure and only makes a return after costs and liabilities are met, and equity outcomes fluctuate significantly. During the latest six months of overall very bullish equity market conditions (after the January profit warning from Apple) we benefitted from purchases at the end of calendar 2018 whilst our sales detracted from year-end figures. Reversion to the mean over time has been a constant in markets, but it is being tested by participants in current QE, instant digital conditions. Professional investors in both bonds and equities had plenty of cover to easily spin their Federal Reserve reduced discount rate narratives to support buying in late fiscal 2019 (crucial for market momentum) despite net selling in December at lower prices.

Negative interest rates in Europe and Japan continue downward pressure on US and global interest rates and finance 'carry' flows to the US, USD and other positive yields. Consensus moved in recent months to dismiss inflation, and markets reflect this new consensus. Hence borrowing costs are low and leveraged financial market participants are becoming more active, and risks (and, in time, losses) increase. Eventually markets are likely to give us decent opportunities.

Holdings as at 28 June 2019 with a market value of 0.5% or more of the portfolio are shown in the table below (shown as a percentage of investment assets).

<b> Holding </b>	<b> % </b>	<b> Holding </b>	<b> % </b>
Visa	16.3	CVS Health	2.4
MasterCard	15.6	Blackrock	2.2
Home Depot	10.3	DBS Group	2.0
Bank of America	8.5	United Overseas Bank	1.9
JP Morgan Chase	6.8	Oversea - Chinese Banking Corp	1.5
Alphabet	6.0	Coca Cola	1.0
S&P Global	3.6	Facebook	0.5
Lowe's	3.9	Capitaland	0.8
US Bancorp	3.7	Kraft Heinz	0.7
HCA Healthcare	3.9	Microsoft	0.9
Wells Fargo	3.6	AECOM	0.5
Lloyds Banking Group	2.5		



Net debt as a percentage of investment assets was approximately 2.3% as at 28 June 2019. AUD net cash was 3.5% (taxes, other expenses and dividends are paid in AUD), GBP net debt 0.6%, USD net debt 4.9% and other currency borrowing/cash exposures were below 1% of investment assets as at 28 June 2019 (all approximate). Key currency rates for AUD as at 28 June 2019 were 0.702 (USD), 0.616 (EUR) and 0.551 (GBP) compared with rates for the previous month which were 0.693 (USD), 0.622 (EUR) and 0.550 (GBP). Narratives around currencies have as usual included more forecasts below spot when the AUD has been at about 0.70 USD than when the AUD was rising through parity, whereas the more obvious assessment is that the lower AUD affords less possible risk protection for the unhedged global investor that pays bills in AUD.

Yours faithfully,

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

Chris Mackay  
Portfolio Manager

1 July 2019

<sup>1</sup> 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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