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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 2024.

Authorised by
Kathy Molla-Abbasi | Company Secretary

2 January 2025

MFF CAPITAL INVESTMENTS LIMITED

MFF Capital Investments Limited ('MFF')
Net Tangible Assets ('NTA') per share for December 2024

MFF advises that its approximate monthly NTA per share as at 31 December 2024 was $5.084 pre-tax ($4.284 as at 30 June 2024), and $4.161 after providing for tax[1] ($3.574 as at 30 June 2024). The pre-tax NTA figures each month are after deducting taxes paid by MFF (including $4.2m paid for December and $18.8m paid 2 December 2024 for the fiscal 2024 top up). The difference between pre-tax and post-tax NTA figures for MFF (mid hundreds of $millions) reflects substantial (mid $1-2 billion) unrealised gains built up over years, with deferred taxes being balance sheet non-current liabilities at the full 30% tax rate [note: that market prices do not guide fair value assessments, except for accounting purposes].

Approximately $142.857 of net profits taxed at 30% rates are required to match $100 of gains recorded by indices and trusts without direct tax impacts. As MFF has sustained compounding gains, with a high proportion of unrealised gains, standard broker and other comparisons routinely understate MFF to a significant, increasingly greater degree. MFF has built many years equivalents of profit reserves and franking credits from Australian taxes to meet future dividend requirements (based upon existing legislation) at considerable direct cost (over $300m cash taxes paid in recent years) and at material cost to compounding which otherwise would have benefitted MFF's figures. As at 30 June 2024 MFF's franking credits were $148.8m (25.34 cents per share) and updated figures will be included with the half yearly results later in the month.

For MFF, December was another month of very little direct portfolio activity with sales of about 1.1% of portfolio value, and no purchases. MFF continues moderate sales in preparation for future opportunities. We are cautious buyers and reluctant sellers as our holdings are overwhelmingly in outstanding businesses which increase in value over time (with profitable growth characteristics that meaningfully outperform average businesses). We have over $600m of capacity and significant portfolio liquidity, in the case of better opportunities, for which patience usually helps. Whilst we (and the overwhelming majority of market participants) see benign to positive current US business conditions, which may ignite broader melt ups in market prices, disciplined processes will require/cause ongoing portfolio changes, including sales, to reflect fluctuations in market prices, business dynamics, risks and opportunity cots.

Objective skepticism is necessary but difficult during conditions featuring sustained bullish MOMO FOMO (see below) and speculation, when visualizing preconditions to prevent extreme failure is crowded out by hubris and overconfidence, and genuine excitement for the uses and potential of new technology in many fields from medical research and agriculture to transportation. Alphabet announced that it added over 100 new languages to core digital services to provide information access for another 500m people. The three cloud mega providers continue adding services/revenue streams to core offerings. Although markets reflect true earnings/cashflows over extended periods, the dominance of narratives may extend into year after year to disconnect market participants and their money from reality.

Whilst listed markets have issues and many prices are elevated in comparison to history, strains are building and may become far more damaging elsewhere. Why? What next? are relevant questions for most economic and market activities, particularly when influential and impressive pitches take oxygen from analysis for emotion as they are being sold. Key aspects of the "wisdom of crowds" hurt as markets fluctuate with sentiment. Also, there are areas of finance where recent stability invites easy profits and excess, which eventually damages future stability (a few are noted below).

Areas to watch include some so-called emerging markets (and declining badly/imprudently governed pressured more mature economies). Some already have to protect currencies [and attempt to not suffer exploding inflation/diminished living standards from higher local currency import prices], as the appreciating USD attracts capital flows.

Recent and ongoing unwindings of disasters of past M+As will be no hurdle for 2025 and future misguided overconfident M+A allocations of shareholders' money as Directors are presented with narratives/arguments framed self servingly as choices 1. on the quest for growth; 2. to avoid obsolescence as disruption, competition, and regulation bite; and 3. whilst some reduced regulation permits.

Debt refinancing markets have been open/extremely benign to end 2024, but more leveraged companies need more refinancings over the next two years and demands from governments increase to new record levels. Periodically (and currently) ignored by yield seekers are the unevenness and opacity of debt markets (perhaps apparent, ironically, in bond index failures to exclude big losers, whereas market capitalization equity indices have active investors cleanse their indices) with asymmetric risks/returns (success from par is getting money back). Still nascent regulatory failures have allowed accelerating multiplication of private credit formats raised with fees and artificially low bad debts inflating "performance data", outside the heavily regulated excess capital holding traditional banking system.

Also, currently some of the best story tellers reprise the waves of junk bonds, derivatives and similar past "successes" and now narrate that their fees super charged illiquid non transparent investments are superior. Bubbles are becoming greater and more risky/damaging in non public markets as money chases money and derivative trades are already multiplying to create "product" blessed by the sages gaming the rating agency rules and processes (as occurred prior to past crises). The story tellers absolutely tap into and create their legendary zeitgeist necessary for the grand scale with suspended belief that this time is unique and past examples have limited precedent value. Even the great financial crisis is now a generation ago. They easily exploit elite society, including financial professionals' and HNW envy and frustration that meme, crypto, index, option and other "less qualified" seeming punters have massively outperformed their returns, for some since Covid but others for longer. At the same time cognitive dissonance compounds with their increased unhappiness despite their massive elite overreach via/including nanny state regulations as Europe, Canberra and elsewhere regulate, spend, tax and legislate detracting from productivity, squash entrepreneurship and damage non subsidized non favoured businesses.

In December comments from major companies were unusually benign. There has been a lack of preannouncement profit warnings, and many are more upbeat than usual about short term prospects. Mostly this is noise for companies and investments we consider, with their time frames in decades rather than months. However, there are various multiplier and cyclical effects that need to be factored in when considering results, with extrapolation from favourable conditions particularly in growth traps, even more damaging than value traps. Also in December, refocuses/pivots towards the US accelerated, sentiment measures rose for entrepreneurs in the US, and near-term risk-taking by institutions and other portfolio investors were reinforced. This positivity was reflected in the increase in the USD in the month (4%+ v AUD as investors also moved capital after the government with fringe parties jammed through record impacts of regulations and legislation at end November). Caution about future inflation and deficits (often the flip side) drifted into medium and longer dated bond prices.

Momentum (MOMO) and fear of missing out (FOMO) risk seeking catch cries continued to be augmented by younger traders' you only live once (YOLO). Market prices are obvious sentiment indicators, and hence fluctuate far more than underlying business values. Of course, downturns in market prices yield more bargains than when sentiment is elevated. Some rebalancing is expected to start 2025 via so called professional investors, away from [i.e. selling] price appreciated US equity markets, and many others will have waited beyond 2024 year end to realise sizable capital gains. Short term forecasters will have opinions on the impact such selling has on market sentiment [in general, changes in the composition of public ownership and marginal prices paid do not impact the businesses of the vast majority (by value) of companies that do not need equity capital or have businesses which directly participate in markets].

MFF's long-standing investment objectives are to maximise compound, risk-adjusted after-tax returns for its shareholders and to minimise the risk of permanent capital loss. The investment process requires sensible allocation of capital and patience from the portfolio manager and shareholders, to seek to achieve consistent processes leading to outcomes which reflect the benefits of compounding. The core investment philosophy underpinning these objectives is built on taking a medium to long term view focusing on outstanding companies trading below their intrinsic values. We must not squander a "return on luck", and some benefits usually accrue during strongly rising markets, and full market and economic cycles require process and prior preparation. MFF needs to be able to weather dramatic changes in markets which may be more possible if not inevitable given severe budget stresses, policy capriciousness, geopolitical events, and inevitable future challenges.

Technology excellence is compulsory for companies aspiring to be sustained winners in their fields for 2025 and beyond. Technology, including AGI, has demonstrated major value adding use cases in areas including fraud control/responses, in coding for better data analysis and in better segmented digital messaging and spending opportunities where massive audiences spend their time. For various companies this enables responsible growth to be achievable with risk controls prioritized including automation, and customer satisfaction being deliverable. Such companies have scope to adopt the Kahneman insight (lived by Bezos and Berkshire) that a significant majority of people fear losses far more than they value gains and hence risks are viewed more clearly than growth, as fear of failure becomes fulfilling. However, if controls and processes are in place, including with technology and skilled focused humans, responsible growth and even flywheels might be achievable, although it is not automatic for companies to chase lifelong learning and master ongoing varied challenges available to small teams and individuals. An insightful parallel is the advice and leading by example to deal with fear of failure and develop cumulative skills from a successful experienced actor to a younger star with decades ahead i.e. "advice to other actors and younger people is 'keep going, do everything, try everything and really not to be afraid… Is this going to work? Are people going to like it?' Who cares?".

For MFF to succeed over the next decade we need a significant proportion of our capital to be allocated towards companies that have high probabilities of achieving sustained responsible growth. Corporate adoption of technology is not slowing, and it is not obvious that the proportion/number of sustained high return on capital, profitably growing "winners" will increase [losers from previous technological changes have been easier to identify and were more plentiful than initially expected]. Success for MFF requires exposure to beneficiaries of disruption but few of the losers.

Most likely, deep research expertise of Montaka Global (existing and adapting, deepening, and broadening) will aid in some allocations to future winners as well as current winners, and few allocations to fading previous successes.

The longer sweep of history indicates that it may be overoptimistic to expect China's recently repurposed Marxist controlled economy to pivot meaningfully towards consumption, including the frivolous consumption that Xi considers typifying the "declining" west allowing greater freedoms to choose. As China seeks to re-purpose away from the property and infrastructure bubbles fueled by state borrowing, Xi's December year end edict included "In 2025, we will fully complete the '14th Five-Year Plan.' It is necessary to implement more proactive policies, focus on high-quality development, promote high-level scientific and technological self-reliance …"

We are focussed on margins of safety in our portfolio businesses, and this includes targeting businesses with sustainable competitive advantages, well above average prospects for future profitable growth, sensible opportunities for profitable adjacencies and diversification against capricious regulators and political processes, and competitive intensity. Our portfolio is concentrated in businesses with services, networks and products that meet high levels of deliverables for millions of customers and look after employees. We have been cautious about business risks and do not believe that (possibly temporary) lowered equity market volatilities, higher indices or other extraneous matters not pertaining to sustainable business quality, should distract from rising not falling risks. We also require margins of safety in market prices to assist in risk management as well as subsequent upside. Margins of safety become smaller as equity prices rise, except in unusual cases where more than offset by greater improvements in underlying business advantages. These objectives, investment philosophy and processes guide portfolio construction, with adjustments for changing prices and other circumstances.

The US changes in direction gave short term impetus to some regulators and bureaucrats before they are replaced to advance their causes as they challenge major productive companies. Malaise deepened in Europe including French and UK budgetary issues, further demonstrations in the Merkel memoir and beyond of the "end of the German miracle", and ongoing collapses in productivity reflecting socially indulgent non-economic Canadian, Australian and UK politicos by way of examples. The US announcement of a Department of Government Efficiency was welcomed by taxpayers, as around the world many politicians, regulators, other bureaucrats, activist judiciaries have fought to enact ideological but anti-business anti-growth priorities (as share of Government spending rises and per capita GDP and other economic measures fall). Perhaps ironically (given elite control fetishes), unplanned, untethered immigration and (unsurprisingly) sticky inflation expectations, continued in December, including from major ideologically driven Government spending on election targeted handouts and "future" projects [many off balance sheet, and in the US accelerated pre inauguration]. Overcoming sensible bipartisan precedent extending over recent largely dormant decades as inflation now threatens political perks/privileges, interventionist actions aimed to curb central bank independence for short term political fixes.

The massive overcapacity export drive from the CCP, and the actions of the incoming US administration will impact 2025 and likely beyond. Also, it is optimistic to expect that wider CCP issues will fade away for citizens, businesses or externally.

For some the feared/ongoing so-called decline of the west is manifest in nanny states moves to strict legal liability predicated "no harm no loss" rather than sensible innovation and business risk taking. This has consequences in lower growth, lower productivity, more bureaucrats, and lawyers, as well as productive younger citizens leaving states and countries. Politicians mirror previous interventionist failures, fail to reverse interventions whilst new are imposed, waste inefficiency and spend unfettered with Finance Departments not fighting capital city bureaucratic bloat, thousands of small businesses collapsing under the weight of regulations and labor laws, repressed consumers stressed by direct and indirect [indexed] taxes, energy and other elevated costs of living, uncompetitive corporate tax rates and bracket creep smashing incentives to work [beyond the need to work to meet untethered inflation]. Without any effective Treasury/Finance Department productivity counterpoint, fully entitled leaders gloat at the political expediency of passing bills, reverse past sensible reforms they opposed, target short term re-election gimmicks whilst adding thousands of hours and more of multicoloured tape and complexity.

Currency markets (along with bond markets) are sometimes reliable early signals and must be watched, as market pressures manifest in varied ways, after reactions to policy decisions and how to pay or borrow for promises. Overall, competent central Government administrations are unlikely to become easier or more prevalent. Bad government policies including significant express and implied forward commitments make future electoral decisions more difficult, as policy reversals cause pain and have costs.

Whilst we continue to fear that momentum will test us all, as bullish conditions continue, there are identifiable risks well beyond large equity markets (including illiquid asset pools and derivatives). Widespread, apparently easy, gains have permeated the zeitgeist and, later in bull markets are as likely as not to accelerate. More mature bull markets separate people from valuable assets. Of course, downturns [cycles] are to be expected. Additional margins of safety are necessary for sensible investors and businesses.

All holdings in the portfolio as at 31 December 2024 are shown in the table that follows (shown as percentages of investment assets).

	%		%
Amazon	12.8	United Overseas Bank	1.5
MasterCard	10.6	HCA Healthcare	1.3
Visa	9.6	Oversea - Chinese Banking	1.3
American Express	8.1	US Bancorp	1.3
Meta Platforms	7.8	United Health Group	0.9
Bank of America	7.7	Lowe's	0.6
Alphabet Class A	7.3	CVS Health	0.6
Alphabet Class C	6.6	Intercontinental Exchange	0.4
Microsoft	6.4	Prosus	0.4
Home Depot	6.3	RB Global	0.2
Flutter Entertainment	2.7	Schroders	0.1
DBS Group	1.9	Allianz	*
Lloyds Banking Group	1.7	L'Oreal	*
CK Hutchison	1.7	** less than 0.1%*	

Net cash shown as a percentage of investment assets was 1.1% as at 31 December 2024. AUD net cash was 6.2% (taxes, other expenses, buybacks and dividends are paid in AUD), USD net debt 1.4% and Euro, GBP, HKD and SGD borrowings totalled approximately 3.7% of investment assets as at 31 December 2024 (all approximate). Ongoing cumulative manifest anti business anti growth interventionist, extremely hard to reverse, pro-inflation policies may predicate risks of further currency weakness/ further benefits from not hedging to AUD. Key currency rates for AUD as at 31 December 2024 were 0.619 (USD), 0.598 (EUR) and 0.494 (GBP) compared with rates for the previous month which were 0.651 (USD), 0.617 (EUR) and 0.513 (GBP).

Yours faithfully

Chris Mackay
Portfolio Manager

2 January 2025

[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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