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 May 2020

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

Authorised by
Marcia Venegas | Company Secretary
1 June 2020

MFF CAPITAL INVESTMENTS LIMITED

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

MFF advises that its approximate monthly NTA per share as at Friday 29 May 2020 was $2.940 pre-tax ($3.225 as at 30 June 2019), and $2.557 after providing for tax[1]. The 2.5c per share fully franked interim ordinary dividend was paid 15 May 2020. Tax instalments of approximately $34.8m (approximately 6.3 cents per share) paid in the month reduced cash and pre-tax NTA. Currency was also a moderate headwind for MFF's monthly NTA.

We continued with the recent portfolio strategies and actions noted in our releases over recent months. Overall, we have aimed to protect meaningful amounts of capital from more substantial erosion, whilst keeping balance sheet strength and liquidity to maintain most of our holdings in small numbers of advantaged businesses and provide flexibility for future investments. We continued to build balance sheet cash with sales of approximately $192.8m in May. May purchases were below $1m and our entitlements to dividends from portfolio companies during the month were approximately $1.7m [all figures approximate and rounded]. Net cash is now above 45% of assets and is more than double the size of the next largest position. The full portfolio is set out towards the end of this release.

Ample data have been produced regarding COVID and the related economic impacts. These include increased savings by wealthier recipients of Government pandemic outlays alongside very significant month to month bounces in spending amongst lower income deciles, speculation on sustained rebound effects, timing and effectiveness of vaccine and therapeutic research, as well as testing and tracing measures. As at late May, Good Judgement, associated with Philip Tetlock (UPenn) a forecast process expert, reportedly gave a 9% likelihood of an effective vaccine being approved to inoculate 25m US people by 31 March 2021. Business owners, political leaders and the general public appear to be more optimistic, around the world, as are recipients of fiscal payments travelling hundreds of miles to queue for hours for gaming venues reopening.

Progress of equity markets and reopening of societies during COVID-19 have run in parallel. Progress in containing the virus, testing tracing and isolating outbreaks, allowed large parts of societies to emerge from lockdown, particularly later in the month, and for more commercial activities to recommence and equity markets rise. This obvious plausibility and recent years success of buy the dips, interest rates are low forever, there are no good alternatives and momentum/algorithms/ETF buying may have contributed to significant market price rises compared with cost for almost any buys since mid March. ETF trading is almost never associated with fundamental analysis of the underlying values compared with market prices of the individual components. Separation of prices and value anchors, supported by plausible narratives, assisted historical buying periods. The rapid rebound in US margin lending and smaller investor participation coincided with a further drop in Leading Economic Indicators, other than market prices. Irrespective, arguments that the long post GFC bull market was over have not been supported by recent market price action.

Some corporate management has been outstanding through the early stages of this pandemic and associated financial crisis. Actions include rapid acceleration of adoption of technology to benefit customers and employees. The response of many US large capitalisation companies has been flexible and decisive, with many drawing down immediate liquidity in Q1 and later accessing long term funding markets following the prompt decisive Fed action. Many are restructuring supply chains for increased reliability and in response to geopolitical and tariff actions. Some are acquiring and expanding into contiguous areas whilst anti-trust activity is muted. Government regulation has favoured big business overall, for example declaring major retailers to be essential, but forcibly shutting smaller businesses, requiring massive sums to be spent to remodel workspaces and customer areas to improve safety, and increased pro cyclical lending regulations necessitate that major companies have better access to market funding. Overall MFF's portfolio has benefitted from these recent factors, although less than if we had a larger concentration in large capitalisation technology winners.

In contrast, the quality of political leadership is constrained by outdated multiple layers of government. During the pandemic, the US has had major dam collapses and fighting between levels of Government, and lead political actors holding majority taxing and spending powers seriously advocating that State and local Governments declare bankruptcy. The delivery of crucial services, employment and infrastructure are dislocated from taxing borrowing capacity and revenues.

As the pandemic has progressed liquidity issues have moved to solvency as central bank and fiscal actions have supported many businesses. Bankruptcies, supply chain actions and redundancies have multiplied effects (for example the bankruptcies of Advantage and Hertz car rentals impact significant used car markets). Cyclicality may be disguised and underestimated during the heaviest phases of fiscal and monetary stimulus. Many companies have accelerated restructuring and adaptation (perhaps symbolised by GE selling its foundational light bulb business) with adoption of technology, social distancing and changing habits accelerating retail outlet and bank branch closures, and start-up funding pressures, as examples. The partial oil price recovery does little to reverse the multiplied impacts for the economically significant oil complex, and layoffs and bankruptcies continued.

Whilst many have argued that economies should snap back to recent strength, others such as Johan Rupert the Executive Chairman of luxury company Richemont has argued that the pandemic will cause a complete 'reset' rather than a pause in seeking economic growth.

Cities, globalisation and exploding global travel have been key factors in global GDP growth over recent decades, certainly since the European fall of wall and China began being involved with WTO benefits and rules. Heavily populated cities, globalisation and widespread global travel are crucial for ongoing economic growth and economic sufficiency for billions of people, but they are the fuel for future airborne viruses spreading. Longer term, even if this pandemic is promptly brought under control, conditions for ready transmission remain.

Broader negatives of globalisation are increasingly accelerated for many, given the wide impact of COVID-19 and increasingly apparent divergence of goals between struggling western middle-class voting economies and the rapid rise in wealth, power and forcefulness of the CCP. Political changes might be dramatic. Early evidence is towards reduced preferences for central cities and commuting, as well as re-onshoring of manufacturing and supply chains, although time will tell. The changes involving Hong Kong may also have sustained implications (as might the complete absence of a response from the EU), as might the factors surrounding the riots in numerous US cities and the combined Europe shared debt bond of EU750 billion. Emerging market borrowings also remained well utilised and supported.

Fiscal and particularly monetary policy are regarded by many as ample backstops for equity markets. Historically there have been eventual limits, for example to massive bond issuance, although relatively unconstrained issuance and central bank buying may go on for extended periods. Rising savings around the world materially assists bond issuance but reduces earnings needed for servicing and ultimately refinancing. The implications for US markets are unknown if for example 10-year bond rates move to say 2% p.a. from 0.6% p.a. The last 30 years in Japan do not support a favourable thesis for sustained economic, earnings and market growth, although the economic and market differences between leading US companies and Japan are meaningful.

Holdings as at 29 May 2020 are shown in the table that follows (shown as a percentage of investment assets and net cash). Net cash is now the largest position and net cash levels measured in AUD fluctuate with currency movements, as cash is predominantly not in AUD (see final following paragraph).

Holding	**%**	**Holding**	**%**
Visa	18.5	HCA Healthcare	0.2
MasterCard	16.2	Morgan Stanley	0.1
Home Depot	9.3	Alphabet	0.1
CVS Health	2.5	Facebook	*
Microsoft	1.9	Magellan Global Trust	*
Lloyds Banking Group	1.3	PM Capital Global Opportunities Fund	*
JP Morgan Chase	1.2	Bank of America	*
US Bancorp	1.0	Platinum Capital	*
Lowe's	0.6	Magellan High Conviction Trust	*
Schroders	0.4	Kraft Heinz	*
Wells Fargo	0.3	Oversea - Chinese Banking	*

* *less than 0.1%*

MFF
CAPITAL INVESTMENTS LIMITED

Net cash (this month including short term receivables) shown as a percentage of investment assets and net cash, was approximately 46.4% as at 29 May 2020. AUD net cash was 5.0% (taxes, other expenses and dividends are paid in AUD), USD net cash 41.5% and other currency borrowing/cash exposures were below 0.1% of investment assets and net cash as at 29 May 2020 (all approximate). Key currency rates for AUD as at 29 May 2020 were 0.664 (USD), 0.597 (EUR) and 0.537 (GBP) compared with rates for the previous month which were 0.655 (USD), 0.598 (EUR) and 0.519 (GBP).

Yours faithfully,

Chris Mackay
Portfolio Manager

1 June 2020

[1] Net tax liabilities are current tax liabilities and deferred tax liabilities, less tax assets.

All figures are unaudited and approximate.

Important note

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.