

Comments from Chris Mackay
Managing Director and Portfolio Manager
MFF Capital Investments Limited 2023 Annual General Meeting
Friday, 29 September 2023

Thank you Annabelle. Welcome shareholders.

A key principle is that MFF is a business investor, investing in a portfolio comprising a small number of advantaged businesses. Portfolio companies' business successes primarily determine MFF's success. Over time, compound increasing cashflows and strong returns on capital prevail, even as interest rates are higher for longer. In addition, markets will continue to provide opportunities and risk management benefits for MFF.

We have two related businesses. Our portfolio of advantaged businesses began as a trickle, is compounding into a tributary, and we expect that over the long-term it compounds into a fast-flowing stream. The second, Value, is the market's gift to give as it has done for decades. The market gives us access to an oil well that refills itself, over and over, through time, with process and patience. We have scale, systems and advantages for both businesses, including that many market players who want to get rich want it to happen quickly, agents and many others don't handle volatility and become sellers when the markets are most attractive for buyers.

Whilst focused on the goals of compounding capital and seeking to avoid permanent capital loss, MFF has paid fully franked dividends in the hundreds of millions out of net profits after tax totaling more than a thousand million. MFF's considerable profit reserves, franking credits and balance sheet strength support the Directors' ongoing dividend policy and share buybacks noted earlier by Annabelle.

MFF's portfolio companies remain advantaged with excellent returns on invested capital. They are extremely profitable, and cash generative; we have come to enjoy earnings seasons when some of our companies report real, cash profits after tax of US\$1 billion or more, per week. We believe they have sustainable advantages and strong prospects for above average profitable growth over the medium term. Value (acquisitions at attractive prices) and Quality (compounding growth) underpin the portfolio's medium to longer term analytical focus. The portfolio companies are well placed to weather inflation and deflation, increasingly adverse rules, regulations and taxes. A quality portfolio means that MFF is never under pressure to act; patient accumulation and long-term retention of a portfolio of outstanding companies should compound to at least satisfactory results.

Results from retention of the long-term quality portfolio provide the balance sheet strength, upon which MFF seeks to improve upon through periodic activity. High probability long term companies are underpriced from time to time, as most market participants chase short term rewards and overweight lower probabilities with perceived higher potential payoffs. As a related matter, a very small number of advantaged companies with scale advantages and innovation are growing their advantages with compounded results without meaningful disruptions, most observably in recent years alongside digitization and globalization. This anomaly bears careful analysis and has wide ranging potential implications, as so far it is contrary to observable disadvantages of scale past tipping points across organizational structures and histories.

With eyes open to numerous challenges and risk factors, including some that will be covered today, MFF remains confident about the opportunities and benefits of capitalism for huge numbers of people particularly in established democracies which correct some of the excesses. Our actions for at least the past decade showed our belief in opportunities for world's best companies in the US capital markets which have returned far better risk reward outcomes than chasing BRICS and other fast fashions. Subject to price selectivity, and even with stresses upon its democracy, US capital markets continue to lead more ideological parochial markets with many inferior companies and governance standards, and few global champions (which must be bought by home biased domestic pension funds and hence are often overpriced compared with the full menu of choices available). We must continue to adapt, and we are global, and capital will move to places such as Singapore which scores highest on most recent capitalism freedom reviews.

Overall, with numerous caveats, we are extremely positive about the quality of business management for many of the leading global corporations, including the extraordinary innovations, but also in helping societies and Governments meet major challenges. Some old cliches are being pushed aside as business in the west adapts, for example KKR is leading multiple extremely profitable initiatives to empower workers with equity and technology.

Turning to markets, MFF benefits from opportunities arising from or relating to market price volatility, which can be high for a wide range of individual companies (50% or more, 12 months low price to high price, even for the largest companies). In addition to the long-term quality portfolio MFF actively considers a somewhat larger (but still focused) range of advantaged companies in readily understandable business areas and seeks to buy at attractive valuations.

For MFF, portfolio turnover has been low. Our broad categories of portfolio activity currently are related to 1. risk management, for example significant

changes in factors influencing businesses 2. improvements to the quality and/or value of the portfolio or 3. transforming some holdings to liquidity to allow for future buying opportunities and/or the funding of dividends, the buyback, and taxes and other expenses.

In assessing risks, primary focus is upon individual companies and industries within the context of the portfolio. This also applies to opportunities, and markets underestimating potential for profitable growth for a small number of extraordinary companies which can comprise significant holdings in the portfolio. Broader risk assessments currently include high levels of Government and consumer debts, geopolitical issues, ageing demographics, immigration, competing deflationary and inflationary pressures and mean that margins of safety (or margins of error) should be wider than in recent decades of digitization and globalization benefits plus low inflation and interest rates. Wider margins of safety apply in capital allocations, in considering (and stress testing) possible future levels of inflation and interest rates, and hence sensible asset values, as well as investment, productivity, consumption and other underpinnings of economic activity.

MFF's portfolio is extremely liquid as it is invested in securities that have very high levels of daily trading in comparison with our holdings. MFF's portfolio liquidity provides some of the optionality advantages that cash holdings provide for others. MFF also benefits from a higher average level of investment of the portfolio over time. Large or small parts of the portfolio can rapidly be converted to cash if it is in MFF shareholders' interests, after paying significant levels of tax on currently unrealized portfolio gains. Counterintuitively, in recent years investors could buy higher quality companies at discounts to prices paid for illiquid, inferior businesses and other assets ie a discount for liquidity. Looking forward, there are even greater dangers in chasing and holding illiquid assets and most likely risk assessments should become even more important (for MFF possible second order and tertiary impacts may be relevant).

For those interested in the very short term, our views are that 1. market valuations for the portfolio remain broadly satisfactory in prevailing circumstances, even after the significant H1 calendar 2023 market price increases, 2. pockets of the portfolio are at attractive prices and 3. some opportunities may be apparent in the September mini correction. Obviously, such "overall" views are not what we rely upon, and obviously, are caveated with reference to prevailing prices and circumstances, including ongoing implications of the increased debt levels and other risk factors noted.

Fiscal 2023 and medium-term results

3 separate but related main points, around clear processes, goals and focus:

1. MFF's outstanding Quality portfolio was the primary focus for the year and happened to coincide with positive short-term results for fiscal 2023.
2. Numerous externalities required repeated attention to process for the portfolio, as circumstances changed and to avoid or eliminate negative portfolio impacts.
3. Negative structures, processes and people/culture build on themselves and, unless they get eliminated promptly, distract from better opportunities.

At this time last year, markets were adverse, and investors were nervous. Frankly, our positive market perspectives and focus upon opportunities, were not accepted by most. Negative short-term earnings revisions and sharply reversing momentum provoked selling by institutional investors, and falling prices encouraged further selling. Elite consensus was that recessions were imminent as interest rates rose. Panics and fear had some months to run. Agency risks encouraged professional investors to the short-term, to protect portfolios as prices of shares and bonds fell in tandem.

Last year we attempted to argue that "market conditions allow us to deploy very substantial capital to our preferred, Quality businesses". We offered bromides on how to deal with "downward market price volatility" ignoring futility of past down cycles. Unfortunately, our messages of Price Value and Quality fell flat, as almost all of the then remaining MFF Options expired unexercised. MFF had to adjust to the reality in that down market of very limited access to equity capital offered on an equal access basis.

In the long run it matters little that major equity markets bottomed in Q4 of calendar 2022. We obviously had no idea at the time, and were not making any such prediction as we reject the usual marketing/timing tools. Clearly that is not where last year's comments were directed. " Amongst the negative emotion is the absolute key message – We seek advantages that compound – which underpins our positive outlook and is not stubborn contrarianism. This year we have bought tomorrow's compounding dollars at much lower prices than yesterday's nominal prices. The expected lifetime value of our portfolio of businesses is enormous, with cash generation expected to grow materially over time, with compounding benefits, irrespective of whether market prices in upcoming months go up or down depending on the sentiments of the day".

In markets investing, sustained success usually involves improving probabilities

through systems and processes guided by core principles. In Annexure 1 to these remarks lodged with the ASX, we have included a metaphor for sustained successful investment approaches, in case it is of interest in pattern recognition for some shareholders.

A core principle of active investing is that market prices are there to provide opportunities, not as primary guides about business values over the medium term. Falling markets and recessions (which are inevitable parts of cycles) provide opportunities to buy Quality and Value at lower prices than amidst a boom. This has typically provided profit for acquirers such as MFF who are able to become patient holders. Fortunately, most market participants do not operate this way.

Noise is constant in markets with millions of distractions from assessing sustainable business quality and comparing values and market prices with satisfactory margins of safety. Details will change and opportunities might be short-lived and risks greater compared with previous cycles. But opportunities arise even in context of the end of 40 years of generally downward trending interest rates, and inflation that experts argue might be entrenched or transitory. 24 hour digital "information" and unlimited computing power influence, measure and publish price, index movements disconnected from long-term business management and prospects. In almost any year we witness sentiment moving dramatically with rising and falling markets, price moves far exceed movements in fundamental underlying business values, and movements are also magnified by a myriad of financial instruments, promoters and politicians.

It is best to ignore much that derogates from core fundamental processes. This includes polished historical results, particularly separated from detailed processes and portfolio composition. For at least a decade MFF has published every holding that we have held at any time in any year, and success and failures are completely visible. In the accounts each half year the Board began including a medium-term unpolished data table, notwithstanding that interested shareholders always had all the information in previous reports.

From the table it is evident that over the last seven years to 30 June 2023, MFF has 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.

Period Ended ¹	Net Profit/(Loss) After Income Tax \$'m	Opening Statutory Net Assets \$'m	After Tax "Performance Indicator" % ²	Share Buy-back 'm	Dividends Declared \$'m ³	Dividend Yield Indicator % ⁴	Cash Tax Paid \$'m	Closing Franking Account \$'m	Expenses Excluding Income Tax and Interest \$'m ⁵	Expenses Indicator % ⁶
30 Jun 2017	158.8	786.4	20.2	-	10.0	1.3	3.9	1.3	9.4	1.2
30 Jun 2018	240.0	953.1	25.2	-	16.2	1.7	18.0	11.0	7.0	0.7
30 Jun 2019	218.6	1,238.2	17.7	-	19.0	1.5	41.6	45.6	7.0	0.6
30 Jun 2020	25.1	1,443.6	1.7	-	139.0	9.6	129.4	118.0	8.0	0.6
30 Jun 2021	217.5	1,361.9	16.0	-	37.2	2.7	3.4	106.9	6.9	0.5
30 Jun 2022	(170.8)	1,593.6	(10.7)	-	43.8	2.7	14.6	104.1	7.0	0.4
30 Jun 2023	323.6	1,424.9	22.7	25.6 ⁷	55.2	3.9	31.1	114.0	5.6	0.4
	1,012.8			25.6	320.4		242.0		50.9	

¹ Figures are rounded, approximate and not audited.

² Net Profit/(Loss) After Income Tax Expense divided by Opening Statutory Net Assets.

³ All dividends fully franked except 2017 interim (1 cent per share franked to 85%).

⁴ Dividends Declared divided by Opening Statutory Net Assets.

⁵ MFF was not required to pay performance fees to Magellan from 31 December 2019. MFF also does not pay cash or other incentives or grant any stock awards to staff or board members.

⁶ Expenses (excluding Income tax and Interest) divided by Opening Statutory Net Assets.

⁷ During the period ended 30 June 2023, the Company purchased on-market, and cancelled, 10,028,930 ordinary shares, at a total cost of \$25,641,000.

Current Portfolio

This brings us to the current portfolio. On the screen we are showing the holdings in the portfolio at 22 September 2023 (shown at market values as percentages of investment assets).

All holdings in the portfolio as at 22 September 2023

	%*		%*
MasterCard	11.9	Prosus	1.7
Visa	11.3	Intercontinental Exchange	1.6
Amazon	10.9	Lloyds Banking Group	1.5
Alphabet Class C	7.2	DBS Group	1.4
Home Depot	6.6	United Overseas Bank	1.2
Microsoft	6.4	Oversea - Chinese Banking	1.1
Alphabet Class A	6.1	United Health Group	1.1
American Express	5.8	US Bancorp	0.9
Bank of America	5.5	Lowe's	0.7
Meta Platforms	5.5	RB Global	0.4
Flutter Entertainment	2.6	JP Morgan Chase	0.4
CVS Health	2.3	Allianz	0.2
CK Hutchison	2.0	Schroders	0.1
HCA Healthcare	1.9	L'Oreal	0.1
Morgan Stanley	1.8		

*Shown as percentages of investment assets.

Whilst we remain very confident about the prospects for their extraordinary businesses, we have calmly worked down Visa and MasterCard such that neither is the largest holding, and they are each closer to the 10% level discussed previously. We also continued to reduce or eliminate some holdings

introduced after the first stage of Covid when we had extensive cash resources to deploy whilst avoiding permanent capital loss in the day trading speculative environment. Unusually, there were no new businesses added to the portfolio this financial year.

Previous extensive comments about the competitive advantages of the portfolio companies will not be repeated. The positive characteristics detailed at last year's AGM have been reinforced and extended in many cases (included as Annexure 2 to the ASX release of these remarks). It is delightful when outstanding management has operational excellence combined with outstanding capital allocation, particularly in businesses with sustainable structural advantages. MFF seeks to maintain its discipline in holding excellent businesses with continuing profitable growth prospects and sensible risk/reward tradeoffs. We want future winners, and this likely includes current winners with ongoing opportunities for profitable growth.

In calendar 2023 we have continued to see sensible Value opportunities in the portfolio, particularly in out of favour sectors. Although we expect lower overall returns from the higher starting point of recovered markets, such opportunities likely exceed sensible minimum target return levels. A few years ago, in the context of discussing our Amazon purchases, we noted lowered general market return expectations of 6% or so compared with historical returns of about 8% or above across most periods. The subsequent market corrections and out of favour sectors have enabled our higher minimum return thresholds to be given some more opportunities to compare with existing portfolio holdings.

Many of the hugely advantaged companies to which we increased our exposures in 2022 will continue to deliver excellent returns if their businesses continue compounding, but we are not in line again for huge bounces off the bottom. Investors and speculators chasing extrapolations are aided in the short term by momentum and buyers are paying far more in comparison with objective measures of value than the fewer buying very decent but out of favour businesses. Since 30 June we have had buying and selling to about 10% of the portfolio, primarily in response to risk management and opportunity costs arising from differential price movements (rather than any notable changes in underlying businesses). As usual, we should be wary of touting any business that we own or have owned but can cover some strengths and weaknesses for individual companies in response to specific questions.

Part of the reason we have not added businesses has been inherent caution

about the sustainability of competitive advantages. We continue to believe that sustainable secular growth will be far more unusual and more valuable over the next decade, post the Bubble unwinds and central bank actions. Hence, we continue to hunt for opportunities and compare them with existing holdings and are very grateful for deep research insights received, which were valuable for MFF last year, particularly as short-term noise levels rose almost everywhere else. In the future they may well also help deliver more advantaged companies with long runways of advantaged profitable growth, including some smaller companies. As at 30 June the largest unrealized "market" loss for MFF was slightly above 0.4% of portfolio value (below 0.4% if adjusted for dividends received), 3 holdings were below AUD cost, total unrealized losses were below 1% and 6 holdings were below cost in underlying currencies (ignoring not insignificant dividends received). Whilst this might reflect appropriate portfolio management in difficult markets, going forward, we continue to examine the case for greater diversity and risk in stock selection.

In the last 24 months we have all had real time refreshers on the impacts of inflation upon businesses, consumer and Government spending, supply chains, pricing power and values of businesses and other assets. Last year we mentioned expected likely outperformance of businesses with sustainable advantages and asset light, low capital expenditure, low working capital but high returns on capital models. We prefer those businesses, even in times of inflation, compared with so-called traditional inflation hedges which are bid up by speculators but lack their income, returns on capital and asset turns. Investments in absolute premium businesses are materially better than holding cash and bonds or weaker businesses, particularly in extended inflationary periods.

Many have been looking for how the pandemic and related events have fundamentally changed future economic activities and outlooks; over time more similarities are perceived in common with the pre pandemic period.

In the real world away from massive advantages, businesses import in USD but sell in depreciated local currencies, pay premiums along supply chains hoping for continuous access to inputs, machines and inventory, and are forced to pay increased wages and energy, and increased taxes, retirement/health contributions and other "special" charges levied by party officials with lifetime sinecures; all the time desperately hoping mega retailers allow price increases to recover a fraction of the increased costs whilst being forced to bombard social media to get the attention of consumers with global choices. At the same time holders of longer-term Government bonds may mistakenly believe in fiscal discipline suggested by Adam Smith in 1755 along with peace, easy taxes and a tolerable administration of justice. Markets are digesting a flood of debt

issuance from the US and other Governments. Along with quantitative tightening this contributes to currently sustained higher medium to longer term bond yields and higher “cost of capital”.

Cost and availability of capital are very important for market returns and trajectories. Some excitement at the return of mega IPOs to the US earlier this month may translate into multiplied benefits for confidence, activity, innovation and business development and partially offset the anti-business ideologues in the administration strangling innovation with legal actions, bureaucratic red tape and preventing venture companies being bought by larger players. Fortunately, misguided overreach did not entirely shut down private debt markets in the most recent downturn. The recent downturns and higher interest rates obviously impact business development, with pressures on Boards and professional investors from rising discount rates and equity risk premia. Many new initiatives for companies and whole ventures lose funding and support in such conditions, particularly if they are in loss making phases. Market cycles benefit some portfolio companies as competition for customers, talent, supplies and capital subside and with some reverse impacts of misguided burdensome regulation.

On balance we continue to believe that costs of capital and its availability are not likely to be longer term impediments to overall business activities. Sensible high return projects can be funded, and funding continues to be available for many lower return projects. Recent investment and cost disciplines from major companies have rapidly increased returns, not been driven by the capital scarcity of past inflationary decades. Arguably, the world remains awash with enough capital and capital generating capacity (including taxes on profitable enterprises) which may allow not excessively inflationary funding of the main developed world fiscal deficits, of decarbonisation transition, and with strong employment opportunities. Capital surpluses are disinflationary and continue to be driven by factors including demographics, wealth effects, services economies, technology and globalisation of billions of labour participants.

Central bankers continue to occupy the spotlight, and hammer inflation with imperfect tools of higher short-term interest rates and quantitative tightening. Contrary to the new soft-landing consensus, probabilities continue increasing that central bank policy errors have been made and require reversal as their delayed impacts manifest. Eventually, conditions may again become deflationary (e.g. low growth/reducing general prices in Europe and Japan in recent decades). The latest results from Costco indicate inflation trending downwards to 1-2% p.a. Money supply and velocity of money figures have dropped significantly.

All risks are more pronounced in the context of increasingly urgent anti-

business, anti-growth interventions, controls and taxation which are being imposed to reshape societies in ways that were unthinkable in past decades. Many of the anti-business initiatives are anti-successful businesses and impact MFF's portfolio companies. Geo-political risks are also rising, affecting all.

Value investors use detailed risk assessments to target margins of safety in business quality as well as in purchase prices, which may afford partial protections against adverse impacts. Investors look for possible direct and second order effects and systemic stresses. For example, in commercial real estate, from holders of illiquid assets, misguided regulation of banking sector encouraging the flood of third party and unsophisticated capital into vehicles promoted by unregulated risky lenders without adequate processes or capital, from high US Dollar borrowing emerging market countries and companies, or borrowers without liquidity, as they become under pressure from bankers, non-bank and vulture financiers, and law makers and regulators protecting their short-term perceived interests (including but not limited to non-democracies).

Risk management and objectivity also require focused monitoring of successful portfolio companies. History indicates that recent groundbreaking innovative medical devices, blockbuster drugs, extraordinary AI chips and models, electric motor vehicles and short-range air transporters become contestable, if not commoditized, by new developments, regulation and low margin competitors. Similarly, high priced luxury products typically have not stayed fashionable, scaled globally and sustained pricing at multiples of cost with volumes comparable to leading mainstream products with equivalent functionality. Innovation and competition underpin capitalist systems in mature democracies with separations of powers, where meritocracy dominates patronage.

Massively successful companies churn out significant amounts of free cash and capital allocation becomes a challenge. For how many years should financial models show uninterrupted growth before capital is wasted and the best employees demotivated by failed acquisitions, pet projects, bureaucracies, mega headquarters and consultants? In contrast a small number of MFF portfolio companies have materially enhanced their returns with outstanding capital allocation over years.

Clear filters mean that MFF can focus on its best opportunities in Quality and Value and say no to almost everything. MFF has no set time frames, no contingent liability financing pressures and hence may allow duration to be an advantage. MFF is not under any pressure to buy or sell anything at any price, at any time. MFF is not limited to any geographies or any industries, or required to avoid or seek historic volatility, or to predict catalysts. Business risk

assessments have become more important in recent years (arguably since before the dot.com bubble began bursting) whilst most third-party analysts feature possible returns. Short-term market price movements, even of a year or so, do not predict the future, and successful long-term business investment is not a series of short-term periods.

Currencies

In recent years we have made detailed comments regarding our approach to currencies, and these comments remain applicable. Our regular monthly releases also periodically mention currency analysis, processes and patience.

To date, our assets have almost entirely comprised international equities and we have not hedged the overall currency exposures, as longer-term shareholders are aware (although in most circumstances we seek to hold AUD to pay dividends, fund the buyback and pay taxes and other expenses.

Borrowings are typically in international currencies).

Overall, the strength of the USD benefitted MFF again in financial 2023, although USD strength is a material near term translation impact for US multinationals, an operational issue for some with USD operating cost bases mismatched with foreign currency revenues and USD strength is becoming a geo-political concern.

We believe that MFF's currency profile continues to offer some possible risk mitigation benefits, as currency movements are a primary transmission mechanism for risk adjustments in the world economy. Of course, currency movements will be painful from time to time, particularly when 'risk on' sentiment boosts the AUD and weakens the USD. Our multinational, high return on capital portfolio holdings benefit from cumulative returns, whereas fluctuations amongst major currencies have usually not been cumulative in recent decades.

Longer-term concerns have again increased in the last year for the currencies of most countries, with few possible exceptions. We are not predicting repeats of the Asian currency and broader emerging markets crises, but each year recently crises of some sort are become more likely as more countries face more pressures and China acts unilaterally. The medium-term position for Australia has also weakened in relative and absolute terms, with future headwinds building, despite valuable iron ore and other commodity price and volume strength.

If we make material changes to the foreign exchange positions, we will include details in the subsequent ASX announcements to inform shareholders.

Closing

We are all grateful for the Board's leadership given ongoing opportunities and challenges ahead. We have intentionally sought to structure MFF with interests aligned, patiently focused upon a moderate number of periodically very advantaged opportunities, whilst seeking to minimize agency risks, short-termism, unrealistic expectations and repeated process failures (of omission and commission). We also thank the teams at Magellan who have continued to look after us with professionalism and care.

A final question is why have any activity rather than just setting and forgetting an "ideal" portfolio of outstanding companies that will maintain and grow their sustainable advantages? In addition to the obvious, that markets provide opportunities, business risks evolve over time, and markets also overshoot on quality; nothing exceeds like success and optimism must include realism.

I will hand back to Annabelle and we would be happy to address questions.

Chris Mackay

Managing Director and Portfolio Manager

Annexure 1

AN INVESTMENT METAPHOR

Decades ago, a small 14-year-old from rural Canada went to Toronto and was smashed by huge ice hockey players in his early scrimmages. Encouraged by his coach, he made detailed studies of movements of players, how they related to movements of the puck, concentrated on what differentiated the best players with slight physiques and sought out correlations and causations. This resulted in a 20-year professional career for the greatest player ever in terms of goals, assists, team victories and in evading the huge guys out to smash him at every match.

Value investors relate to the results of his study: fewer players went behind the goals or were in the corners, but each area allowed closeness to goals and options to attack directly or via transfer to free players near to the attacking goal. The goals acted in the same way as low prices to create a Margin of Safety from the huge defenders or the market. Compounding investors also related to moving the puck much faster than any human could travel, and a string of passes compounded when they are sent to where the players are heading, rather than where they were. Of course, upside is greater than in sports for investors in global networks, services and products used billions of times can achieve significant compounding from digital adoption and other scale

advantages. The focus on thousands of hours targeted practice resonates with behavioural finance in markets and business, developing the practiced disciplines, pattern recognition and multiple skills to underpin confidence when markets are losing their heads, choosing the most favourable time to act and most importantly whether, why and when are they buying Value Quality or both. In another parallel to the MFF portfolio, the regulators, aghast at compounded success, invoked stupid regulations in parallel with the Canadian feel good socialism. They banned concurrent ejections (when the playing numbers reduced, the probabilities strongly favoured the best with the room to move the puck, even though numbers were equal). The regulators failed to understand that goals and excitement rather than brutality were important. Eventually after changes in regulators and 7 years of bad outcomes, they relented. In addition to the matters mentioned, investors and businesspeople ideally have scope to broaden the moat, to widen their goal net area when they are attacking to increase the protection from the huge defenders and to increase the probabilities of scoring. As we have said many times, history and science indicate the benefits of scale have limits, albeit globalisation, digitisation and other technology beneficiaries in our portfolio have been challenging limits.

Annexure 2

PORTFOLIO COMPANY CHARACTERISTICS (EXTRACTED FROM 2022 AGM COMMENTS)

Currently, the portfolio remains populated by companies with atypical market characteristics:

1. sustainable pricing power, with ready scope to increase prices with inflation (for example because they offer extreme value for money [think Amazon Prime] and/or their charges increase in terms of increasing nominal prices [card and health networks, marketplaces and exchanges];
2. high gross margins which allow most scope to maintain net margins, perhaps via cuts to expenditures if volumes/values fall with cyclical movements [currently happening in tech];
3. opportunities for profitable adjacencies or ancillary businesses which ideally reinforce customer satisfaction and customer lifetime value propositions and advantaged profitable core activities without typical centralized conglomerate problems;
4. 'stay in business' capital requirements which are modest relative to scale (and hence lower risks of material cost overruns during inflation and shortages);

5. hundreds of millions or billions of customers or end users utilising the products and services on a very regular basis, without choosing to substitute;
6. sensible capital deployment towards profitable growth and in some cases many billions of dollars of share buybacks on sensible terms;
7. use of technology to improve customer service and satisfaction at the same time as cutting costs [the best banks and health providers are digitising] and/or as advantaged networks or platforms [including Ritchie Brothers and the health and beauty omnichannel businesses within Hutchison] and
8. combinations of balance sheet strength, access to capital and focused advantaged core businesses with adaptability and resilience.