

2017



MFF

CAPITAL INVESTMENTS LIMITED

ANNUAL FINANCIAL REPORT

FOR THE FULL YEAR ENDED – 30 JUNE 2017

MFF CAPITAL INVESTMENTS LIMITED: ABN 32 121 977 884

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MFF CAPITAL INVESTMENTS LIMITED

CHAIRMAN'S LETTER

for the year ended 30 June 2017

I am pleased to write to you in the 2016/17 Annual Report for MFF Capital Investments Limited ("MFF"). Please also take the time to read the financial statements and our Portfolio Manager's Report which follow.

Financial Results

MFF recorded a net profit after tax of \$158.8 million for the year ended 30 June 2017. The 2016/17 result represents an after tax return of approximately 20.2% for the year based on our starting net assets. Pre-tax profit was \$226.8 million. Deferred tax liabilities in respect of unrealized gains on investments increased by \$55.9 million to \$164.3 million and current tax liabilities were \$6.7 million as at 30 June 2017.

MFF's balance sheet and financial flexibility remain strong. As at 30 June 2017 MFF's \$953.1 million of Total Equity comprised Retained Profits of \$409.2 million and Contributed Equity of \$543.9 million. Investments at market value were \$1.2 billion and Borrowings \$71.1 million. We continue to maintain healthy levels of interest cover, low risk levels relating to portfolio liquidity and minimal contingent liabilities. The portfolio remains concentrated in companies with large volumes of daily trading in comparison with MFF's holdings (in other words almost all of our portfolio holdings are very liquid, or capable of being converted rapidly to cash if necessary). Interest cover for the year measured using dividends received on MFF's portfolio exceeded net finance expenses by 10.5x and pre interest and tax income exceeded net finance expenses by 5.9x (in each case excluding net portfolio gains, which exceeded net finance expenses by over 100x).

MFF uses "mark to market" accounting for both investments and foreign exchange and our net profit principally reflects the positive movements in the market value of our investments in the year.

Your Board is pleased with MFF's financial results for the year and year end financial position.

MFF's profit or loss starts each new financial year at zero, based off the market values at the end of the previous financial year. Hence significant fluctuations in reported year to year results are inevitable. If MFF's analysis is successful, market fluctuations should continue to benefit MFF over the medium to longer term. However, your Board and Portfolio Manager repeatedly note that negative movements are inevitable. We continue to caution against elevated investor expectations. Risks associated with the sustained low interest rates and higher asset prices increased during the year.

Please refer to the Portfolio Manager's report for discussions about the portfolio, including some current risks relating to higher market prices for our existing portfolio.

Overall pre-tax operating expenses reduced year on year (details are in the Statement of Profit or Loss and Other Comprehensive Income). Tax payments are direct corporate outflows and reduce MFF's pre-tax assets. Taxes and charges include foreign dividend withholding tax, GST, employment taxes, 'user pays' regulatory, stock market and other levies, as well as corporate taxes. These taxes and charges are the largest expenses for MFF.

Portfolio turnover increased in the year but was again modest (an outcome not a target), with sales in the year representing approximately 12.3% of average portfolio value. Increased portfolio turnover usually results in higher current tax payable for MFF (as occurred in 2017). Corporate tax payments may increase materially in the future given MFF's substantial unrealized gains in the portfolio and higher market prices.

MFF's Portfolio

Details about the portfolio are included in the Portfolio Manager's report (refer page 16) and investments held are listed in note 6 of the financial statements. In the current financial statements and other shareholder communications, we provide shareholders with very high levels of transparency about MFF, our portfolio, decisions made, prospects and risks, in addition to detailed statutory information.

During the year MFF continued to be substantially invested and finished the year with a net borrowings position of approximately 5.8% of investment assets (compared with a net borrowings position of 10.7% of investment assets as at 30 June 2016). Net finance expenses represented approximately 0.16% of year end investment assets.

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CHAIRMAN'S LETTER

for the year ended 30 June 2017

The major positions in the portfolio were relatively little changed during the year. Most notable was the benefit from the price appreciation of longer term holdings, including financial institutions.

Your Board continues to be updated regularly by the Portfolio Manager on his assessment of the risks and potential upside for the holdings, and potential holdings. We remain pleased with the composition of the portfolio, although there can be no guarantees that these (or any other) holdings will provide investment outperformance or even positive performance

Currency movements were a modest net negative in the year as MFF maintained its effective "short AUD" position. MFF continues to favour the partial potential risk mitigation aspects that this provides for the investment portfolio, as well as being favoured on the Portfolio Manager's view of the medium term fundamentals. Potential currency benefits and risk mitigation aspects are far lower at 30 June 2017 rates of approximately 0.767 for the AUD/USD compared with the more favourable potential risk/reward trade-offs when rates were above 1.00, in recent years. The Portfolio Manager's Report also discusses MFF's currency positions.

Dividends

The Directors have declared a fully franked dividend of 1 cent per share, to be paid in November 2017 with the Dividend Reinvestment Plan to operate (at zero discount).

The Directors have reviewed the dividend policy to apply on the increased capital after the final exercise of the MFF options. Starting with the first dividend of 2018 we intend to increase the rate of six monthly dividend to 1.5 cents per share, subject to corporate, legal and regulatory considerations, with continued operation of the Dividend Reinvestment Plan (at zero discount). The increased dividend would represent approximately \$16 million per annum on the increased capital.

The revised dividend policy balances various considerations. We note and continue to respect the desire of some shareholders for higher dividends. We also note that MFF's retained funds continue to be put to good use with strong medium term returns. MFF remains small compared with both its cost base and investment universe, and shareholders who need or want higher levels of immediate income from their MFF holdings, in the context of their overall portfolios, have ready markets in both the MFF shares and options which were issued to shareholders at zero cost (until the options cease trading prior to their expiry).

The portfolio remains focused upon holdings which appear to have above average medium term growth prospects and it has not made sense to sell these holdings, pay tax on the gains and reinvest in similar or inferior investments. Although these principles remain true, markets are also cyclical, and higher prices mean more realizations for MFF than when prices are low.

Almost the only source of tax franking credits for MFF has been current corporate tax payable each year by MFF, and the level of franking credits attached to MFF dividends to date has ranged from zero to fully franked. As at 30 June 2017 available tax franking credits were approximately \$1.3 million. As noted above current tax liabilities are \$6.7 million and this adds to the franking credit level able to be attached to dividends. Approximately \$2.6 million was deducted last year by overseas jurisdictions from dividend payments received by MFF (and this amount does not earn Australian tax franking credit benefits).

Capital Structure

A bonus issue of options was undertaken in October 2012 on a 1:3 basis to shareholders and the bonus options are quoted on the ASX (Code: MFFO). The adjusted exercise price of the options is \$0.9964 and the expiry date is 31 October 2017. A liquid market continues to be available to holders. As at 30 June 2017 approximately 59.9 million options were unexercised.

We do not currently have any plans to raise additional new capital or otherwise alter MFF's overall capital structure. MFF has liquid investments, debt markets remain favourable and the options are nearer their expiry date. Capital structure can be reviewed promptly if circumstances change, for example if a general fall in markets

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CHAIRMAN'S LETTER

for the year ended 30 June 2017

leads to far more attractive investment opportunities and the most sensible funding is not sale of existing investments, or additional use of MFF's borrowing capacity. Your Board favours the possible benefits of greater scale but only if this is in shareholders overall interests. Your Board seeks to ensure that shareholders have equal opportunity to participate in entitlements or bonus option issues, and to realise market value for their entitlements and options.

MFF's capital structure has an advantage that in times of stress, MFF is not forced to sell investments to meet redemption requests. However, MFF has not had the very material benefits of steady inflows in the generally rising markets in recent years. Over the years, MFF has had to sell existing investments to fund new investments. MFF's opportunity cost is high when selling high quality existing investments thereby incurring tax on accrued gains, in order to buy replacement investments.

The Portfolio Manager maintains a search for sensible investments which might provide MFF with a meaningful flow of income, but market prices remain unfavourable compared with the benefits of MFF's portfolio, including its liquidity aspects.

Service Arrangements

The Board remains pleased with our strong relationship with Magellan Asset Management (the main operating subsidiary of Magellan Financial Group) which in recent years has provided the Company with administrative services and investment research under a services agreement. These arrangements were extended during the year. Please see note 13 of the financial statements for additional details.

On-market Share Buy-back

MFF did not acquire any further shares pursuant to the on-market buy-back during 2016/17 but the on-market buyback authorisation remains operative.

Annual General Meeting

My fellow Directors and I look forward to meeting those of you who can attend the Annual General Meeting on 25 October 2017. We welcome your input and feedback on MFF. The Notice of Annual General Meeting will be despatched to shareholders in the coming weeks.

Yours faithfully,



Richard F E Warburton AO

Chairman

28 July 2017

MFF CAPITAL INVESTMENTS LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2017

The Directors of MFF Capital Investments Limited, ("MFF" or the "Company") submit their report in respect of the year ended 30 June 2017.

1. Operations and Activities

1.1 Company Overview

The Company is a listed public company incorporated in Australia. Its principal place of business is Level 36, 19 Martin Place, Sydney, New South Wales, 2000.

The Company is listed on the Australian Stock Exchange (ASX code: MFF and MFFO).

1.2 Principal Activity

The principal activity of the Company is the investment in a minimum of twenty exchange listed international and Australian companies.

1.3 Dividends

During the year, dividends amounting to \$9,500,000 were paid representing 2.0 cents per ordinary share. The final dividend for the year ended 30 June 2016 of \$4,704,000 was fully franked, and the interim dividend for the half year ended 31 December 2016 of \$4,796,000 was 85% franked (June 2016: \$9,284,000 representing 2.0 cents per ordinary share, fully franked).

On 28 July 2017, the Directors declared a fully franked dividend of 1.0 cent per ordinary share, (June 2016: fully franked final dividend of 1.0 cent per ordinary share), which is expected to be paid on Friday 10 November 2017. The amount of the proposed dividend, based on the number of shares on issue at 30 June 2017, is \$4,837,000. The Dividend Reinvestment Plan (DRP) will operate in conjunction with this dividend and no discount will be applied for the DRP.

On 30 June 2017, the Company's total available imputation credits (based on a tax rate of 30%) were \$1,286,000 (June 2016: \$3,785,000)

The Directors have reviewed the Company's dividend policy. With effect from the first 2018 dividend, the policy is for regular six monthly dividends at 1.5 cents per ordinary share. The dividend policy balances the requests of some shareholders who prefer regular dividend payments against the strong returns MFF has obtained on retained capital, MFF's need for scale to attempt to offset partially the cost base, as well as the tax inefficiency of dividend payments. The Board also note that there continue to be liquid markets in ordinary shares and MFF 2017 options for shareholders who might need additional cash in excess of the dividends.

1.4 Review of Financial Results and Operations

• Financial Results for the Year

The Company recorded a pre-tax profit of \$226,822,000 (June 2016: pre-tax loss \$14,077,000) and a net profit for the year after income tax of \$158,774,000 (June 2016: after tax loss \$9,855,000).

The Company's net assets increased by \$166,734,000 in the year (June 2016: decrease \$9,882,000) which was primarily due to market price movements for the Company's investment portfolio. This has resulted in a higher pre-tax net tangible assets (NTA) of \$2.324 per ordinary share (before net tax liabilities of \$0.354) as at 30 June 2017 compared with \$1.913 per ordinary share (before net tax liabilities of \$0.229) as at 30 June 2016. The Company also reported a higher post-tax NTA of \$1.970 per ordinary share as at 30 June 2017 compared with \$1.684 per ordinary share as at 30 June 2016. If all of the MFF 2017 Options had been exercised at 30 June 2017, the Pre-tax and Post-tax NTA values would have been reduced by 14.6 and 10.7 cents per share to \$2.178 and \$1.863 per ordinary share respectively as at that date.

MFF CAPITAL INVESTMENTS LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2017

1.4 Review of Results and Operations (continued)

As a result of the material deferred tax liability balance, principally due to unrealised gains, the Company has the benefit of significantly larger investment assets than if all deferred tax liabilities were paid in cash each year. Lower quarterly research and services fees, under the revised Services Agreement which was effective from 1 January 2017, contributed to lower expenses in the year ended 30 June 2017. For further details, refer to note 13 to the financial statements.

As markets will always be subject to fluctuations, the investment performance and results of the past year to 30 June 2017 should not be considered to be representative of results and returns in future financial periods.

- **Operations – Portfolio and Activities**

The Company's financial results, investment returns, portfolio composition and changes during the year are summarised in the Portfolio Manager's Report (refer page 16) and detailed in the financial statements. Various risks, including some economic, political and market risks are also noted.

- **Strategy and Future Outlook**

The Company is invested in equities, with a focus upon the equities of non-Australian domiciled companies and this is expected to continue. As markets continue to be subject to fluctuations, it is not meaningful or prudent to provide a detailed outlook statement or statement of expected results of operations.

It is also not meaningful or prudent to forecast the level of franking credits that may arise from income tax that might become payable from net realised gains from the Company's investment portfolio particularly given there are non-controllable variables involved such as future currency and equity movements, as well as foreign tax withholding for most overseas jurisdictions. As at 30 June 2017, MFF's tax provisions comprised a deferred income tax liability of \$164,317,000 and current income tax liability of \$6,681,000 in respect of the current financial year.

The Company provides regular updates in the weekly and monthly NTA announcements, which can be found in the ASX announcements and in the investor centre section of the MFF website, www.mffcapital.com.au. Releases to shareholders and the ASX have included discussions in relation to MFF's investment processes and some investee companies from time to time. The Company sets out its largest portfolio holdings at 30 June 2017 in the Portfolio Manager's Report (this information was also released to the ASX on 3 July 2017 as part of the June 2017 monthly NTA release).

1.5 Likely Developments and Expected Results of Operations

The Company will continue to pursue its principal investment objective which is to increase the per share net asset value of the Company, over time, in a manner consistent with prudent risk management. Additional comments on expected results of certain operations of the Company are included in this report under the review of operations – portfolio and activities at section 1.4 and proposed change to the dividend policy in section 1.3. Refer also to the Chairman's Letter and the Portfolio Manager's Report for further information.

The methods of operating the Company are not expected to change in the foreseeable future.

1.6 Significant Changes in State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the year.

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DIRECTORS' REPORT

for the year ended 30 June 2017

1.7 Events Subsequent to the End of the Financial Year

In the latest release to the ASX on 24 July 2017, the Company reported a NTA as at 21 July 2017, as follows:

	21 July 2017 \$	30 June 2017 ^(A) \$
Pre-tax NTA	2.277	2.324
Net tax liabilities	0.342	0.354
Post-tax NTA	1.935	1.970

The above NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 options.

Pre tax NTA if all of the MFF 2017 options had been exercised	\$ 2.138	\$ 2.178
Post tax NTA if all of the MFF 2017 options had been exercised	\$ 1.834	\$ 1.863

(A) Audited NTA (refer note 17 of the financial statements)

Other than the above matters, and the proposed final dividend detailed at section 1.3, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

1.8 Unissued Shares under Option

On 17 October 2012 the Company issued 114,516,157 listed MFF 2017 options to shareholders on the basis of 1 listed MFF 2017 option for every 3 ordinary shares held on 10 October 2012 for nil consideration. As at the date of this report, there were 59,871,984 MFF 2017 options on issue, with 54,644,173 MFF 2017 options exercised to date. MFF 2017 options expire on 31 October 2017. Refer to note 8(d)(ii) of the financial report for further details on the options and section 3.6 in the Remuneration Report for the options issued to the Directors of the Company.

No option holder has any right, by virtue of the option, to participate in any share issue or interest issue of the Company.

2. Directors and Secretaries

2.1 Directors

The following persons were Directors of the Company during the year and up to the date of this report:

Name	Directorship	Appointed
Richard Warburton AO	Chairman & Independent Non-executive Director	19 October 2006
John Ballard	Independent Non-executive Director	19 October 2006
Andy Hogendijk	Independent Non-executive Director	19 October 2006
Chris Mackay	Managing Director ^(A)	29 September 2006

(A) Mr Mackay is also the Company's Portfolio Manager.

2.2 Secretary

The Company Secretary during the year and up to the date of this report was Geoffrey Stirton.

There are no other officers of the Company.

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DIRECTORS' REPORT

for the year ended 30 June 2017

2.3 Information on Directors and Secretary

The following information is current as at the date of this Report.

Richard Warburton AO

Independent Non-executive Director, Chairman of the Board and member of the Audit and Risk Committee.

Richard Warburton is one of Australia's most prominent company directors. Prior to becoming a professional director, he was the Chairman and Chief Executive Officer of DuPont Australia and New Zealand where he was responsible for DuPont's petro-chemical business operations in Australia and New Zealand.

Richard was previously Director and Chairman of Westfield Retail Trust and Tandou Limited, Chairman of David Jones Limited, Aurion Gold Limited, Caltex Australia Limited, Citigroup Pty Limited and The Board of Taxation, and a Director of Scentre Group Limited, Tabcorp Holdings Limited, Southcorp Limited, Nufarm Limited and the Reserve Bank of Australia. He is a Fellow (and former National President) of the Australian Institute of Company Directors.

During the last three financial years, Richard has held Listed company directorships in Westfield Retail Trust (from December 2010 to 30 June 2015); and Scentre Group Limited (from 30 June 2014 to 5 May 2016).

John Ballard

Independent Non-executive Director and member of the Audit and Risk Committee.

John Ballard has extensive senior executive experience across a wide range of industries. He was previously Chairman of Elders Limited, Managing Director and Chief Executive Officer of Southcorp Limited, Managing Director Asia Pacific at United Biscuits Limited and Managing Director Snack Foods for Coca-Cola Amatil Limited, a Director of Woolworths Limited and Email Limited, Chairman of Wattyl Limited, a Director of CSR Limited and subsequently Rinker Limited, a former Director of Fonterra Co-operative Group Limited and a Trustee of the Sydney Opera House Trust.

John is currently a director of International Ferro Metals Limited, Chairman of the Advisory Boards at Pacific Equity Partners and a Director of the Sydney Neuro Oncology Group. John is a Fellow of the Australian Institute of Company Directors and holds a MBA degree from Columbia University, New York.

Andy Hogendijk

Independent Non-executive Director and Chairman of the Audit and Risk Committee.

Andy Hogendijk has extensive senior management and finance experience having previously been Chief Financial Officer of Suncorp Metway Limited (1997 – 2000), Commonwealth Bank of Australia Limited (1991 – 1997) and John Fairfax Group (1989 – 1991). Andy has also held several senior positions with Shell Company Australia and Australian Paper Manufacturers. Andy is formerly a Director of AWE Limited and was previously the Chairman of Gloucester Coal Limited, a Director of Aditya Birla Minerals Limited, Hills Motorway Management Limited and Magnesium International Limited. Andy is a Fellow of both the Australian Society of Certified Practising Accountants and the Australian Institute of Company Directors.

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DIRECTORS' REPORT

for the year ended 30 June 2017

2.3 Information on Directors and Secretary (continued)

Chris Mackay

Managing Director and Portfolio Manager

Chris Mackay was appointed Managing Director and Portfolio Manager of the Company with effect from 1 October 2013. He is a Director of Seven Group Holdings Limited (appointed June 2010) and was a Director of Consolidated Media Holdings (formerly Publishing and Broadcasting) from 2006 until its takeover by News Corporation in November 2012.

Chris has considerable experience in business management, business assessment, capital allocation, risk management and investment. He became an investment banker in 1988, after being a corporate and banking lawyer, and has broad experience in the financial and corporate sectors.

Chris co-founded Magellan after retiring as Chairman of the investment bank UBS Australasia in 2006, having previously been its Chief Executive Officer. He was a member of the Federal Treasurer's Financial Sector Advisory Council and the Business Council of Australia, and a director of the International Banks & Securities Association.

Geoffrey Stirton

Company Secretary

Geoffrey Stirton was appointed the Company Secretary of the Company on 20 March 2014. Geoffrey was previously Group Company Secretary at The Trust Company and has also held Group Company Secretary roles at Investa Property Group and MLC Limited. He has over 30 years experience in financial services in various company secretarial, finance and management roles. Geoffrey holds a Bachelor of Commerce degree from the University of NSW, is a Chartered Accountant, a Fellow of the Governance Institute of Australia and a Fellow of the Australian Institute of Company Directors.

2.4 Directors' Meetings

The number of Board meetings, including meetings of Board Committees, held during the year ended 30 June 2017 and the number of those meetings attended by each Director is set out below:

Name	Board		Audit & Risk Committee	
	Held while a Director	Attended	Held while a Member	Attended
Richard Warburton AO	4	4	6	6
John Ballard	4	4	6	6
Andy Hogendijk	4	4	6	6
Chris Mackay	4	4	-	-

2.5 Directors' Interests

Magellan Asset Management Limited (MAM) provides investment research and administrative services to the Company under an agreement described in note 13 of the financial statements. On 1 October 2013, Mr Mackay was appointed as an Advisor to Magellan Financial Group Limited (MFG), MAM's parent entity and is paid consultancy fees of \$250,000 per annum under an indefinite term agreement which may be terminated by either Mr Mackay or MAM on 3 months notice. Mr Mackay is a substantial shareholder of MFG. Refer to section 3.5 of the Remuneration Report for further details.

Apart from the above, no other Director has or has had any interest in a contract entered into up to the date of this Directors' Report with the Company or any related party other than as disclosed in this report.

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DIRECTORS' REPORT

for the year ended 30 June 2017

3. 2017 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Company for the year ended 30 June 2017. It details the remuneration arrangements for key management personnel (KMP) who are defined as those persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly.

In the 2017 financial year, the KMP for the Company included the Independent Non-Executive Directors and its sole employee, the Managing Director and Portfolio Manager as listed in the table below.

Name	Position	Term as KMP
Independent Non-Executive Directors		
Richard Warburton AO	Chairman	Full Year
John Ballard	Director	Full Year
Andy Hogendijk	Director	Full Year
Executive Director		
Chris Mackay	Managing Director/Portfolio Manager	Full Year

The Board does not grant options or rights to Key Management Personnel under its remuneration policy. The Remuneration Report has been prepared and audited against the disclosure requirements of the Corporations Act 2001.

3.1 Remuneration of Independent Non-Executive Directors

The Independent Non-Executive Directors are remunerated by the Company. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Independent Non-Executive Directors. The remuneration of the Independent Non-Executive Directors is not linked to the performance or earnings of the Company.

Directors' Fees

The Independent Non-Executive Directors' base remuneration is reviewed annually and remained unchanged during the year ended 30 June 2017. The following table outlines the Independent Non-Executive Directors fees for the Board and Committee for the year ended 30 June 2017.

	Position	Fees (\$)
Board	Chairman	110,000
	Independent Non-Executive Director	70,000
Audit and Risk Committee	Chairman	25,000
	Member	12,500

The amount of base remuneration is not dependant on the satisfaction of a performance condition, or on the performance of the Company, the Company's share price, or dividends paid by the Company. The Chairman is not entitled to other committee fees.

Retirement Benefits

The Company does not provide retirement benefits (other than superannuation) to the Independent Non-Executive Directors.

Other Benefits (including termination) and Incentives

The Company does not provide other benefits and incentives to the Independent Non-Executive Directors.

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DIRECTORS' REPORT

for the year ended 30 June 2017

3.2 Remuneration of Managing Director

The Managing Director is remunerated by the Company. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne. The remuneration is not linked to the performance or earnings of the Company. Refer to Section 3.5 for further details on the employment agreement of Mr Mackay.

3.3 Details of Remuneration

The Independent Non-Executive Directors and Managing Director were remunerated by the Company for the years ended 30 June 2017 and 30 June 2016.

The total amount paid or payable to the Directors by the Company during the year is detailed below:

		Short Term Benefits	Post- employment Benefits	Total Benefits
		Salary	Superannuation	
		\$	\$	\$
Independent Non-Executive Directors				
Richard Warburton AO	2017	100,457	9,543	110,000
	2016	100,457	9,543	110,000
John Ballard	2017	75,342	7,158	82,500
	2016	75,342	7,158	82,500
Andy Hogendijk	2017	86,758	8,242	95,000
	2016	86,758	8,242	95,000
Managing Director				
Chris Mackay	2017	980,384	19,616	1,000,000
	2016	980,692	19,308	1,000,000
Total KMP remunerated by the Company	2017	1,242,941	44,559	1,287,500
	2016	1,243,249	44,251	1,287,500

The total amount paid or payable by the Company to the KMP (Independent Non-Executive Directors and Managing Director) for the year ended 30 June 2017 was \$1,287,500 (June 2016: \$1,287,500).

3.4 Service Agreements

Remuneration and other terms of employment for the Independent Non-executive Directors are formalised in service agreements with the Company.

Richard Warburton AO, Chairman, Independent Non-executive Director and member of the Audit and Risk Committee

- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2017 of \$110,000 .

John Ballard, Independent Non-executive Director and member of the Audit and Risk Committee

- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2017 of \$82,500 .

Andy Hogendijk, Independent Non-executive Director and Chairman of the Audit and Risk Committee

- Commenced on 19 October 2006
- No term of agreement has been set unless the Director is not re-elected by shareholders of the Company
- Base salary, inclusive of superannuation, for the year ended 30 June 2017 of \$95,000 .

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DIRECTORS' REPORT

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3.5 Employment Agreements

Remuneration and other terms of employment for the Managing Director is formalised in the employment agreement with the Company.

Chris Mackay, Managing Director and Portfolio Manager

On 1 October 2013, Mr Mackay was appointed Managing Director and Portfolio Manager of the Company. Mr Mackay entered into an employment contract. Under the terms of the contract, which would continue indefinitely until terminated, Mr Mackay:

- receives fixed compensation structured as a total employment cost package of \$1,000,000 per annum (inclusive of superannuation), which may be received as a combination of cash, non-cash benefits and superannuation contributions and is subject to annual review;
- is not entitled to receive short term incentive payments;
- is restrained from soliciting clients, employees or agents of the Company or related parties for a period of 6 months after termination of employment;

The contract may be terminated by the Company at any time without notice for cause. Mr Mackay may terminate the contract at any time by providing the Company with not less than 6 months written notice. The Company may terminate the contract at any time by providing 6 months written notice or providing payment in lieu of that notice.

Mr Mackay is also a substantial shareholder of MFG, the parent entity of MAM. Mr Mackay also remains as an Advisor to MFG for which he is entitled to consultancy fees of \$250,000 per annum, payable quarterly in advance under an agreement of indefinite term, unless terminated by either Mr Mackay or MAM on 3 months notice.

3.6 Options and Shareholdings

The number of ordinary shares and MFF 2017 Options held in the Company at 30 June 2017 by the KMP is below:

	Balance 30 June 2015	Additions/ (disposals)	Issued/ Exercised	Balance 30 June 2016	Additions/ (disposals)	Issued/ Exercised	Balance 30 June 2017
Richard Warburton AO							
- Ordinary shares	826,208	-	-	826,208	-	-	826,208
- MFF 2017 Options ^(A)	220,299	-	-	220,299	-	-	220,299
John Ballard							
- Ordinary shares	1,401,614	-	-	1,401,614	-	-	1,401,614
- MFF 2017 Options ^(A)	373,206	-	-	373,206	-	-	373,206
Andy Hogendijk							
- Ordinary shares	460,519	4,897	-	465,416	5,254	129,213	599,883
- MFF 2017 Options ^(A)	79,213	50,000	-	129,213	-	(129,213)	-
Chris Mackay							
- Ordinary shares	46,346,137	985,979	464,513	47,796,629	7,452,856	1,951,079	57,200,564
- MFF 2017 Options ^(A)	322,652	198,049	(464,513)	56,188	2,236,023	(1,951,079)	341,132

(A) all options on issue are vested (refer note 8(d)(ii) to the financial statements).

MFF CAPITAL INVESTMENTS LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2017

4. Other

4.1 Indemnification and Insurance of Directors and Officers

The Company insures the Directors and Officers of the Company in office to the extent permitted by law for losses, liabilities, costs and charges in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

During the year, the Company paid insurance premiums to insure the Directors and Officers of the Company. The terms of the contract prohibit the disclosure of the premiums paid.

4.2 Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporation Act 2001*.

4.3 Non-Audit Services

During the year, Ernst & Young, the Company's auditor, has performed other services in addition to its statutory duties. Details of the amounts paid or payable to the auditor are set out in note 10 to the financial report.

The Directors, in accordance with advice received from the Audit and Risk Committee, are satisfied that the provision of those non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied, considering the nature and quantum of the non-audit services that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

4.4 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

4.5 Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's *Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and consequently amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of the Directors.



Richard Warburton AO
Chairman



Chris Mackay
Managing Director and Portfolio Manager

Sydney, 28 July 2017

Auditor's Independence Declaration to the Directors of MFF Capital Investments Limited

As lead auditor for the audit of MFF Capital Investments Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Rita Da Silva
Partner
28 July 2017

MFF CAPITAL INVESTMENTS LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2017

Dear Shareholder,

MFF's portfolio market appreciation above 20% for the year resulted in the financial results detailed elsewhere. Strong markets lifted asset owners in financial year 2017 and patience (particularly in considering sales) benefitted MFF's portfolio positioning, with our large exposures to the ongoing economic recoveries and to markets. Overall, our processes were solid in the year (and many events that might have caused problems did not occur). We benefitted from the economic growth and from the sustained positive markets, as well as very solid business performances from the portfolio companies.

MFF's central approach requires disciplined buying, holding and selling of portfolio exposures to advantaged businesses operating with sizable, growing profitable opportunities. Overall, we continue to believe that underlying optimism about human nature and capitalism remain sensible, and conditions remain favourable for our focussed approach, combined with adequate processes, analysis and risk controls.

There has been no change in our positive outlook for MFF's portfolio companies, particularly for the large holdings. During the year, the business performances of the large portfolio holdings continued to be very strong and most produced significant cashflows and improved their competitive positions.

We consider that market prices for MFF's portfolio remain at least satisfactory having regard to medium term prospects, interest rates, risks and alternatives. However, market price appreciation above 20% for the year exceeded increases in underlying value, and at least some future benefits have been brought forward. Higher market prices, and another year of sustained low interest rates, mean that our expectations for future medium term returns are lower than at this time last year, when we were more positive about valuations (partly as a result of market declines in June 2016).

The financial reports include details of all holdings in the portfolio at any time in the year (see Note 6). The portfolio actions and the other inputs into the financial results are transparent. An objective is to give you an understanding of key outputs from aspects of our processes and thinking, as reflected in the details of our portfolio, risk positions and financial results.

Our processes continue to include consideration of business risks (the market impacts of disruption, digitalisation and globalisation required some 2017 portfolio changes in addition to those made in previous years). Our market and portfolio risk processes also continued to include emphasis on competitively advantaged, satisfactorily priced, liquid holdings with sufficient trading volumes to allow movement in response to changes. Our short term portfolio appreciation might have been better without these constraints, but they may prove valuable as market cycles progress.

These are not the times in market cycles when extremely advantaged companies are extremely out of favor and inexpensive. Our processes have constrained MFF from chasing performance, and alternatives with momentum from different geographies, expertise and industries, more dynamic smaller companies and some relatively cheaper companies where prices benefit from 'catch up'. Momentum and ETF/index impacts upon markets were discussed extensively at last year's AGM and they remain important.

During June the US Federal Reserve approved increased dividend and capital return plans for major US credit based financial companies, including banks in the MFF portfolio. They also increased benchmark short term interest rates. To date, disruption from the rate rises has been very limited in the bond, currency and equity markets and in broader economies.

MFF CAPITAL INVESTMENTS LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2017

Holdings at 30 June 2017 with market values of 1% or more of the portfolio (shown as percentages of total investment assets) are shown in the table below:

Holding	%	Holding	%
Visa	11.9	Lloyds Banking Group	3.3
Home Depot	10.3	S&P Global	2.4
Mastercard	10.1	BlackRock	2.3
Bank of America	9.8	Alphabet	2.3
Lowe's	9.1	Microsoft	2.2
Wells Fargo	7.7	Bank of New York Mellon	1.9
US Bancorp	5.2	Facebook	1.3
HCA Healthcare	5.0	United Overseas Bank	1.1
JP Morgan Chase	4.5	Oversea - Chinese Banking	1.0
CVS Health	4.1		

Directors maintained individual position risk limits at 10% except for Visa and Wells Fargo which are each at 12% (all measured at cost). Net borrowings as at 30 June 2017 were approximately 5.8% of investment assets (with AUD borrowings approximately 2.7 %, GBP borrowings 2.1% and USD borrowings 1.0% of investment assets) compared with net borrowings of approximately 10.7% of investment assets at 30 June 2016. The Chairman's Letter contains details relating to interest cover and balance sheet.

Dividend income was approximately \$3.6m higher this year than in the previous year. In 2017 the MFF portfolio had a higher proportion of regular dividend paying companies, paying moderately higher regular dividends than in previous years. We did not receive material benefits from special dividends in the year. We remain positive about the capital allocations by our portfolio companies, which have benefitted their business returns, focus and per share metrics as well as equity demand/supply dynamics.

Taxes on realised gains and transaction costs are real imposts for MFF, and increase with increased portfolio turnover [obviously both reduce pre-tax NTA figures]. Investment purchases of \$109.5 million compared with sales of \$136.1 million in the year (in cashflow terms). Sales from the portfolio during the year were low (approximately 12.3% of portfolio value), and were mostly portfolio adjustments based on risk/reward opportunity costs and valuations. The level of turnover will inevitably increase again. We continued to benefit from the sales in previous years of significant positions in anticipation of heightened competition, and challenges from globalisation and technology. Some key business cycles remained strong including technology spending and property investment.

Our investments include some businesses which have reasonable probabilities of sustaining well above economy average growth rates. In current markets, we continue to prefer market leading businesses providing vital services. Overconfidence appears dangerous and irrational in a low growth world with global overcapacity and technological disruption changing competitive dynamics, and artificially low interest rates distorting prices of most asset classes.

Market expectations (and hence market prices) are higher than 12 months ago. Higher market prices equate to lower future returns, higher capital risk, lower margins of safety and mean that benefits from deferred tax liabilities are relatively lower than when market prices were lower. In aggregate, poorer quality companies are staying in business longer and attracting mathematically challenged [venture] capital and politicians, usually spending other people's money.

When markets present more opportunities to buy freely at very attractive prices compared with perceived values, the market prices of our portfolio will also fall, and broad market falls likely will also reduce the cyclical business activity benefits we currently enjoy. Sales will be needed to have full capacity when compelling opportunities arrive. In the meantime, we have remained largely invested and search around the world for lower priced opportunities to compare with our holdings.

MFF CAPITAL INVESTMENTS LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2017

We do not manage MFF's investments for short term results as this approach may damage medium to longer term outcomes. Chasing positive momentum and/or attempting to eliminate well priced, advantaged companies because they are out of favour, require different risk controls beyond MFF's focus. Short term market price movements may or may not have predictive value for longer periods; for example the main negative for MFF in 2016 (lower market prices for banks) more than reversed in the latest 12 months.

Our base case risk controls allowed for significant [downward] fluctuations in market prices but this did not occur over the latest 12 months. Delayed is not eliminated, and risk controls and processes must remain prepared. At last year's AGM we noted that we had 'bought on the dips' in previous years. This may not continue to make sense, as prices and investor market participation are now both higher.

We do not offer broad market forecasts, or any forecasts for the share prices of our portfolio companies. Inexpensive asset prices can continue to decline for many reasons, whereas at other times and/or in other markets, they can rise too high for sustained periods. Equities are ranked lowest in capital markets structures, and returns to equity holders must fluctuate, and share market prices often fluctuate by greater amounts.

Interest rates increased modestly for very short term bonds and for US loans, but longer term interest rates/bond rates remain low compared with historic levels. Business prospects and challenges evolve for currently leading companies, and extend well beyond increased regulation and taxes, digitalisation, globalisation and easy finance for niche challengers and other disruptors. Low interest rates and freely available money are important business risks and globalisation/mercantilism/optimistic forecasts continue to add to overcapacity in major industries.

From time to time we are attracted to out of favour areas where investors have a range of concerns about individual companies and loss aversion for sector groupings. Even if our analysis is correct, negative marks to market almost always result, as investor momentum is unfavourable for the area which is out of favour. In recent years our main out of favour position was maintaining the bank financials. Out of favour sectors have less expensive fundamentals but often markets are right, and they should be out of favour. Some smaller positions bought when out of favour were sold for modest profits in strengthening markets in 2017.

We continue to struggle with our market assessments of political and regulatory/legal risks, geopolitics, inequality/demographic issues and populist/socialist movements, even whilst seeking historical and global precedents. Our portfolio includes financials which have been and remain easy targets for value transfers away from shareholders and this has impacted share prices. We attempt to weigh whether the risks, imposts and capricious regulation are worsening, and whether they are so draconian that the largest players face less competition due to their capacity to absorb more. We do not see any reversion to a less impacted, less regulated middle whereby businesspeople, entrepreneurs and citizens are more able to get on freely with their lives and create additional wealth and wider benefits. Growing concerns about unequal wealth and income distributions are being exacerbated by regulatory stifling of growth, and low interest rates reduce earnings for (mostly older) savers causing them to save more, reduce risks, increase self-reliance and reduce velocity of money and aggregate economic opportunity.

The EU post script to the Brexit vote has not been to examine whether their elite and bureaucracies were overreaching, nor to reassess actions against goals of co-operation and increasing peace and prosperity but (as history would predict) to redouble efforts to carry on seeking to enforce the pre-eminence of their regulations, office holders and their institutions, ostensibly to "level the playing field" for Europe. The current bounce off the economic floor in Europe has emboldened the out of touch elite, and their anti-business counterparts in much of the G20.

Currencies and Interest Rates

Our expectation remains that the AUD will trade materially lower for at least part of the next decade, even from its 30 June 2017 USD price. In our view, recent data are indicating that the so called "safe haven" currency argument for the AUD was fallacious. In time there will be a re-emergence of the banana republic arguments. Downside risks remain, particularly during wider crises (which are inevitable). Discussion has continued about the loss of the AAA rating and foreign debt levels continue to rise above \$1 trillion (before future commitments).

MFF CAPITAL INVESTMENTS LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2017

China increased its stimulus over the past 18 months and this again boosted commodity exports and prices. Governments have chosen to promise, tax and spend (some on infrastructure) beyond the increases, and maintain the domestic stimulus of strong housing and low interest rates. There are not many favourable ways in which the debt and other future commitments are met.

Already there has been some crossover between the US and Australia in some key economic variables including unemployment rates, balances of payments (as percentages of GDP), state and Federal budget deficits (as percentages of GDP) and GDP growth rates. If the US continues its recovery and Australia's terms of trade do not recover to previous cyclical highs, these crossovers become more pronounced and the interest rate differential narrower, taking away some of the causes of ongoing AUD strength. Counter arguments, relating to a successful re-emergence of Chinese stimulus offsetting commodity supply and the already high debt levels, occurred during fiscal 2017 but are expected to have finite lives. Continuing extremely low and negative interest rates in much of the world add to ongoing demand for AUD and portfolio (hot) money continues to flow to the relatively higher rates.

Although we continue not to be fans of various US policies, the US is the largest world economy, with excellent multinational companies and we have the USD as our largest investment currency. High quality equities (for example those with sustainably high returns on capital) at attractive valuations, are more likely to hold value over decades, and cash is a much less attractive long term asset.

Sustained low interest rates are perhaps the most important variable in considering the values of high quality companies, in current conditions. Very confident arguments are made on either side regarding interest rates. Our approach has been to invest whilst allowing plenty of room for increased rates. We are dubious of the 'lower for longer' arguments, but saw little over the latest twelve months to worry about the near term risks of a sudden spike in interest rates that would increase discount rates applied to investments and may materially reduce asset prices and markets (this equation is particularly relevant in considering cash versus investments). Our positions in banks would have benefitted if interest rates had increased moderately at both the short and long ends of interest rate curves.

There have also been ongoing debates on inflation and deflation in various parts of the world with articulate advocates on either side. Lower commodity prices (particularly for oil) are again influencing data and tighter supply likely will follow in due course and, inter alia, impact marginal pricing. The longer term implications of sustained/entrenched high promise, borrow, tax and spend Government policies extend well beyond interest rates and inflation. Crisis points must be anticipated.

As an equity portfolio investor, we realistically must accept that market risks are real, particularly from elevated levels, fluctuations are inevitable, and political risks continuous and increasing over time as promise, borrow, tax and spend remove sensible options. Economic/business risks are greatest for equity holders, at the bottom of capital structures. Although we wish for more growth and lower equity prices for our portfolio additions, we have been cautious about straying too far from areas where we perceive sustainable business leadership. Despite our overall optimism, our return expectations remain subdued, but positive, as we perceive some margins of safety in the valuations of our investments in varying interest rate scenarios (important given our ongoing purchases and the year end investment level).

We expect that we will need to make some more difficult trade-offs through the course of this and future years, and MFF's portfolio turnover (sales from the portfolio) might well be higher than the extremely low levels of recent years. In this case shareholders should expect that we will incur tax on realised net profits (substantially relating to market gains from previous years). Investors have few simple choices as there are no obviously under-priced low risk asset classes and the opportunity cost of cash has been expensive.

Articulate "experts" and salesmen have again stepped up their exploitation of the love of storied narratives to influence elite opinion, and exploit Governments, the public and investors (who transfer assets to promoters). Credible stories about new or emerging opportunities, markets and technologies appeal widely and are most dangerous over time, particularly if supported by strong favourable emotions, positive market action, perceived social benefits and celebrity. Some investment and venture capital disasters in recent years contain market

MFF CAPITAL INVESTMENTS LIMITED

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2017

warnings. Later stages of market cycles feature more companies issuing “pretend” results with regular “one-off” multi-billion accounting adjustments. We aim to avoid, or heavily discount, direct exposure, and are watching the market’s lack of scepticism for broader implications. However, a tiny number of unusual companies actually chose to remove accounting adjustments from their results in 2017.

Other

Investors can track the portfolio and the underlying price movements, as we report MFF’s net tangible asset backing to the ASX on a weekly basis and also advise changes to the portfolio and cash/borrowing levels regularly. Our monthly reports include commentary on risk factors and other matters.

I thank our Non-Executive Directors, who continue to provide excellent guidance, judgement and counsel. They understand the benefits of focus and limited distractions, and have also been very patient and supportive.

We look forward to seeing you at the Annual General Meeting in October.

Yours faithfully,



Chris Mackay
Portfolio Manager
28 July 2017

Important note

MFF Capital Investments Limited ABN 32 121 977 884 (**MFF**) has prepared the information in this Portfolio Manager’s Report (Report). This Report has been prepared for the purpose of providing general information only, without taking account of any particular investor’s objectives, financial situation or needs. It 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. To the extent any general financial product advice is provided in this Report, it is provided by MFF as a corporate authorised representative of Magellan Asset Management Limited ABN 31 120 593 946 AFSL 304 301. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

MFF CAPITAL INVESTMENTS LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2017

	Note	30 June 2017 \$'000	30 June 2016 \$'000
Investment income			
Dividend income		20,719	17,097
Interest income		8	137
Net change in fair value of investments		217,292	(24,026)
Net gains on foreign currency cash and borrowings		923	4,848
Net gains on foreign exchange settlements & contracts		(718)	840
Other income		8	321
Total net investment income		238,232	(783)
Expenses			
Research and services fees	13	7,536	9,863
Finance costs – interest expense		1,980	1,408
Managing Director's salary		1,000	1,000
Non-Executive Directors' fees		287	287
Transaction costs		38	33
Registry fees		136	240
ASX listing, clearing and settlement fees		115	116
Fund administration and operational costs		78	76
Auditor's remuneration	10	64	75
Employment related taxes		68	68
Other expenses		108	128
Total operating expenses		11,410	13,294
Profit/(loss) before income tax expense		226,822	(14,077)
Income tax (expense)/benefit	3(a)	(68,048)	4,222
Net profit/(loss) after income tax expense		158,774	(9,855)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		158,774	(9,855)
Basic earnings/(loss) per share (cents)	9	33.57	(2.06)
Diluted earnings/(loss) per share (cents)	9	31.59	(2.06)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.

MFF CAPITAL INVESTMENTS LIMITED
STATEMENT OF FINANCIAL POSITION
as at 30 June 2017

	Note	30 June 2017 \$'000	30 June 2016 \$'000
Current Assets			
Cash and cash equivalents	4(a)	658	314
Investments	6	1,216,293	1,004,446
Receivables	5	534	646
Prepayments		8	13
Current tax benefit		-	1,549
Total current assets		1,217,493	1,006,968
Total assets		1,217,493	1,006,968
Current Liabilities			
Payables	7	22,267	4,306
Current tax liability		6,681	-
Borrowings	4(b)	71,092	107,881
Total current liabilities		100,040	112,187
Non-current liabilities			
Deferred tax liability	3(d)	164,317	108,379
Total non-current liabilities		164,317	108,379
Total liabilities		264,357	220,566
Net assets		953,136	786,402
Equity			
Contributed equity	8	543,954	526,494
Retained profits		409,182	259,908
Total Equity		953,136	786,402

The above Statement of Financial Position should be read in conjunction with the accompanying notes to the financial statements.

MFF CAPITAL INVESTMENTS LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2017

	Note	30 June 2017 \$'000	30 June 2016 \$'000
Contributed equity			
Balance at beginning of year		526,494	517,237
Transactions with owners in their capacity as owners:			
Issue of securities:			
- on Dividend Reinvestment Plan	8(a)	1,778	1,607
- on exercise of MFF 2017 options	8(a)	15,682	7,720
Transaction costs:			
- on issue of MFF 2017 options	8(b)	-	(20)
- on issue of MFF 2017 options – tax effect	8(b)	-	6
- on issue of rights	8(c)	-	(80)
- on issue of rights – tax effect	8(c)	-	24
Balance at end of year		543,954	526,494
Retained profits			
Balance at beginning of year		259,908	279,047
Total comprehensive income/(loss) for the year		158,774	(9,855)
Dividends paid	2	(9,500)	(9,284)
Balance at end of year		409,182	259,908
Total equity		953,136	786,402

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes to the financial statements.

MFF CAPITAL INVESTMENTS LIMITED

STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	Note	30 June 2017 \$'000	30 June 2016 \$'000
Cash flows from operating activities			
Dividends received (after withholding tax)		20,803	14,873
Interest received		8	137
Payments for purchase of investments		(109,513)	(181,981)
Proceeds from sale of investments		136,123	15,723
Net realised gains on foreign exchange settlements & contracts		(718)	840
Research and services fee paid	13	(10,697)	(9,864)
Tax paid		(3,880)	(6,471)
Other income received		8	321
Other expenses paid		(1,922)	(1,858)
Net cash inflow/(outflow) from operating activities	4(e)	30,212	(168,280)
Cash flows from financing activities			
Net (repayment)/proceeds of borrowings		(35,848)	113,351
Interest paid		(1,980)	(1,408)
Proceeds from exercise of MFF 2017 options	8(a)	15,682	7,720
Payment of issue costs on MFF 2017 options	8(b)	-	(20)
Payment of issue costs of rights	8(c)	-	(80)
Dividends paid (net of DRP)	2	(7,722)	(7,677)
Net cash (outflow)/inflow from financing activities		(29,868)	111,886
Net increase/(decrease) in cash and cash equivalents		344	(56,394)
Effects of exchange rate movements on cash and cash equivalents		-	(621)
Cash and cash equivalents at the beginning of year		314	57,329
Cash and cash equivalents at the end of year	4(a)	658	314

The above Statement of Cash Flows should be read in conjunction with the accompanying notes to the financial statements

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

1. Summary of Significant Accounting Policies

This financial report is for MFF Capital Investments Limited, (MFF or the “Company”) for the year ended 30 June 2017. The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to the year presented, unless otherwise stated.

The Company is a for-profit entity limited by shares, incorporated and domiciled in Australia, whose securities are publicly traded on the Australian Securities Exchange

a) Basis of Preparation

This financial report for the year ended 30 June 2017 is a general purpose financial report and has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and other mandatory professional reporting requirements. It is presented in Australian dollars (\$) and was approved by the Board of Directors on 28 July 2017. The Directors have the power to amend and reissue the financial report.

Compliance with IFRS

This financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Historical Cost Convention

This financial report has been prepared on a going concern basis and under the historical cost convention except for assets which are measured at fair value.

New Accounting Standards

The accounting policies adopted are consistent with those of the previous financial year and corresponding reporting period except for the adoption of the new standards and amendments which became mandatory for the first time this reporting period commencing 1 July 2016. No new standards or amendment affected any of the amounts or the disclosures in the current or prior year.

Accounting Standards and Interpretations issued but not yet effective

The Australian and International Accounting Standards issued but not yet mandatory for the reporting period ended 30 June 2017 have not been adopted by the Company in the preparation of this financial report. The assessment of the impact of the new standards and interpretations, which may have a material impact on the Company, is set out below:

- **AASB 9: *Financial Instruments* (AASB 9), (effective 1 July 2018) (AASB 9)**

AASB 9 was issued in phases, with the phased approach reflecting a number of versions of the standard being issued. The Company early adopted the first version of AASB 9 (issued in 2010) on 1 July 2010, which provided guidance on the classification and measurement of financial assets and financial liabilities. On the adoption of AASB 9 (2010), the four current categories of financial assets and financial liabilities were replaced with two measurement categories: fair value and amortised cost. The Company’s accounting policy under AASB 9 are discussed at note 1 h).

The subsequent versions of AASB 9 incorporate AASB 9 (2010) which the Company had already adopted, and adds requirements for transition; guidance on general hedge accounting; and the new expected credit loss model for impairment. The final complete standard, AASB 9 (2014), is effective for the Company commencing 1 July 2018. The new hedge accounting requirements include changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. The new expected-loss impairment model requires credit losses to be recognised when financial instruments are first recognised, and results in full lifetime expected credit losses recognised on a more timely basis.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Accounting Standards and Interpretations issued but not yet effective (continued)

- **AASB 9: *Financial Instruments* (AASB 9) (continued)**

The key AASB 9 (2014) requirements that have not yet been adopted include hedge accounting and impairment of financial assets. These requirements are not expected to have a significant impact on the Company's financial statements on initial application as the Company does not apply hedge accounting, and the balance of financial assets scoped into AASB 9 (2014) impairment requirements are not material.

- **AASB 15 Revenue from Contracts with Customers (effective 1 July 2018) (AASB 15)**

AASB 15 supersedes the revenue recognition guidance in AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates. The core principle in AASB 15 is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for selling goods or services to customers. AASB 15 has also introduced specific criteria for determining whether to capitalise certain costs, distinguishing between those costs associated with obtaining a contract (e.g. sales commissions) and those costs associated with fulfilling a contract.

At 30 June 2017, there will be no material change to the timing or manner of recognition of its key revenues as interest revenue, dividend and distribution income and investment gains are excluded from the scope of AASB 15.

- **AASB 16: *Leases* (effective 1 July 2019) (AASB 16)**

AASB 16 supersedes the lease accounting guidance in AASB 117 *Leases* (and related interpretations). A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset.

AASB 16 will provide a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee recognises an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability.

The company does not have any leases, therefore AASB will have no impact.

There are no other pronouncements or accounting standards, not yet effective at this time, that are expected to have a material impact to the financial statements in future periods.

(b) Segment Reporting

An operating segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different to those of other segments.

The Managing Director and Portfolio Manager makes the investment decisions for the Company and the Company's operating segments are determined based on information reviewed by the Portfolio Manager to make investment decisions. The Portfolio Manager manages the Company's investments on a portfolio basis and considers the Company operates in a single operating segment.

(c) Foreign Currency Translation

The functional and presentation currency of the Company as determined in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates* is the Australian dollar. Transactions denominated in foreign currencies are translated into Australian currency at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian Dollars at the foreign currency closing exchange rate ruling at the balance date.

MF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

1. Summary of Significant Accounting Policies (continued)

(c) Foreign Currency Translation (continued)

Foreign currency exchange differences arising on translation, and realised gains and losses on disposals or settlements of monetary assets and liabilities, are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are presented separately in the Statement of Profit or Loss and Other Comprehensive Income.

(d) Investment Income

Dividend Income

Dividend income is recognised on the applicable ex-dividend date gross of withholding tax. Foreign dividends received are recognised net of withholding tax in the Statement of Cash Flows.

Net Changes in Fair Value of Investments

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Interest Income

Interest income is recognised on an accruals basis using the effective interest rate method.

If revenue is not received at balance date, it is included in the statement of financial position as a receivable and carried at amortised cost.

(e) Expenses

All expenses are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

Director's fees

Directors' fees (including superannuation) and related employment taxes are included as an expense in the Statement of Profit or Loss and Other Comprehensive Income as incurred. Information regarding the Directors' remuneration is provided in the Remuneration Report on page 12 of the Directors' Report.

Research and Services Fees

Research and services fees are set out in note 13.

Finance Costs

The basis on which finance costs incurred on borrowings are recognised is included in note 1(n).

Performance Fees

Performance fees are set out in note 13. During each measurement period, the Company will assess the likelihood of whether the respective performance fees will be payable. A performance fee in respect of a period is recognised in the Statement of Financial Position if the Company's total shareholder return exceeds 10% per annum, annually compounded, at the end of the relevant measurement period, which is the date where certainty exists that the criteria has been met and the liability has been crystallised.

(f) Income Tax

The income tax expense/benefit for the year is the tax payable/receivable on the current year's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

MF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

1. Summary of Significant Accounting Policies (continued)

(f) Income Tax (continued)

Deferred tax assets and liabilities are recognised for all deductible temporary differences and unused tax losses carried forward to the extent that it is probable that future taxable amounts will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of any deferred income tax assets is reviewed at each reporting date and recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Deferred tax assets and deferred tax liabilities are offset as there is a legally enforceable right to set off current tax assets and liabilities.

(g) Goods and Services Tax (GST)

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST, except when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of that purchase or as an expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the statement of financial position as receivable or payable.

Cash Flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(h) Financial Assets and Liabilities

The Company classifies and measures its financial assets and financial liabilities in accordance with AASB 9 *Financial Instruments*. Under AASB 9, all financial assets are measured at fair value.

Derecognition of Financial Instruments

Financial assets and financial liabilities are derecognised when the Company no longer controls the contractual rights that comprise the financial instrument which is normally the case when the instrument is sold.

(i) Cash and Cash Equivalents

Cash includes cash at bank and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(j) Receivables

Receivables are initially measured at fair value and include dividends, distributions and amounts due on investments sold but not settled at balance date. Receivables relating to the sale of investments are usually settled between two and five days after trade date. Collectability of receivables is reviewed on an ongoing basis, and non-recoverable amounts are written off by reducing the amount of the receivable in the Statement of Financial Position.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

1. Summary of Significant Accounting Policies (continued)

(k) Investments

The Company's investments comprise shares in listed entities and are recognised at fair value through profit or loss in accordance with AASB 9 *Financial Instruments*. Transaction costs directly attributable to the acquisition of investments are expensed in the Statement of Profit or Loss and Other Comprehensive Income as incurred. Changes in the fair value of investments are recognised in the Statement of Profit or Loss and Other Comprehensive Income. When investments are disposed, the net gain or loss on sale is recognised in the Statement of Profit or Loss and Other Comprehensive Income on the date of sale.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities as movements in the fair value of these securities represent the Company's main income generating activity.

(l) Payables

Payables are initially measured at fair value. Payables comprise trade creditors and accrued expenses owing by the Company at balance date which are unpaid. Payables relating to the purchase of investments are usually settled between two and five days after trade date. Trade creditors are unsecured and usually paid within 30 days of recognition.

A dividend payable to shareholders of the Company is recognised if it has been approved by the Directors on or before balance date but has not been paid.

(m) Employee Expenses and Entitlements **Wages, Salaries and Annual Leave**

Liabilities for wages, salaries and annual leave (including non-monetary benefits) and annual leave are recognised in payables within accrued employee entitlements and are measured at the amounts to be expected to be paid when the liabilities are settled. The employee entitlement liability expected to be settled within 12 months from reporting date is recognised in current liabilities. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Employee benefit on-costs are included in accrued employee entitlements in the Statement of Financial Position and employee costs in the Statement of Profit or Loss and Other Comprehensive Income when the employee entitlements to which they relate are recognised in liabilities.

(n) Borrowings

Borrowings are initially recognised at fair value. Any transaction costs directly related to the borrowings are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Borrowings are classified as current liabilities where the liability has been drawn under a financing facility which expires within one year. Finance costs include interest expense related to the borrowings which are expensed in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

(o) Contributed Equity

The Company's ordinary shares, MFF 2017 options and rights are classified as equity and recognised at the value of consideration received by the Company. Incremental costs directly attributable to the issue of new shares, options and rights are recognised in equity as a deduction, net of tax. Where the Company purchases its own issued shares under a buyback, the consideration paid, including any directly attributable transaction costs, is deducted from contributed equity.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

1. Summary of Significant Accounting Policies (continued)

(p) Earnings/(Loss) Per Share

Basic earnings per share is calculated as net profit / (loss) after income tax expense for the year divided by the weighted number of ordinary shares on issue. Diluted earnings per share is calculated by adjusting the basic earnings per share to take into account the effect of any costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary shares, namely the MFF 2017 options when the Company's average share price exceeds the exercise price over the period the MFF 2017 options are on issue. Refer to note 9 for further details.

(q) Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and consequently amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

(r) Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The Directors base their judgements and estimates on historical experience and various other factors they believe to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying values of assets and liabilities. As such, actual results could differ from those estimates.

Where listed equities have no active market the Directors determine fair value with reference to external observable information and conditions existing at balance date. Fair values may however move materially with movements in market prices (refer note 11(d)).

As most investments are valued with reference to listed quoted prices and the Company's cash and borrowing facility are provided by strongly rated financial institutions (refer to note 4 and 11(c)), the Company's financial assets are not subject to significant judgment or complexity nor are the Company's liabilities.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

2. Dividends

Dividends paid and payable by the Company during the year are:

	30 June 2017 \$'000	30 June 2016 \$'000
For the year ended 30 June 2017:		
85% franked interim dividend (1.0 cent per ordinary share)		
– paid 19 May 2017	4,796	-
Fully franked final dividend for June 2016 (1.0 cent per ordinary share)		
– paid 11 November 2016	4,704	-
For the year ended 30 June 2016:		
Fully franked interim dividend (1.0 cent per ordinary share)		
– paid 20 May 2016	-	4,659
Fully franked final dividend for June 2015 (1.0 cent per ordinary share)		
– paid 12 November 2015	-	4,625
Total dividends declared and paid during the year	9,500	9,284

Of the \$9,500,000 dividends paid during the year ended 30 June 2017, \$7,722,000 was paid in cash to ordinary shareholders that did not elect to participate in the Company's Dividend Reinvestment Plan (DRP) and \$1,778,000 of dividends were paid via the issue of 999,168 ordinary shares under the terms of the DRP (refer to note 2(b)).

(a) Dividend declared

In addition to the above dividends declared and paid during the year, on 28 July 2017 the Directors declared a fully franked dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2017. The amount of the proposed dividend, based on the number of shares on issue at 30 June 2017 is approximately \$4,837,000 .

The DRP will operate in conjunction with this dividend and no discount will be applied to the DRP.

(b) Dividend reinvestment plan (DRP)

The Company's DRP was available to eligible shareholders during the year ended 30 June 2017

Under the terms of the DRP, eligible shareholders are able to elect to reinvest their dividends in additional MFF shares, free of any brokerage or other transaction costs. Shares are issued and/or transferred to DRP participants at a predetermined price, less any discount that the directors may elect to apply from time to time. No discount has been applied to shares issued under the DRP during the year ended 30 June 2017. The DRP issue price is equal to the average of the daily volume weighted average market price of all Company shares sold in the ordinary course of trading on the Australian Securities Exchange during the 5 trading day period commencing from the day the Company's shares go ex-dividend or other dates as determined by the Board.

During the year ended 30 June 2017, the following ordinary shares were issued under the terms of the DRP (refer note 8(a)):

- on 19 May 2017: 491,883 ordinary shares were issued at a reinvestment price of \$1.8607 ; and
- on 11 November 2016: 507,285 ordinary shares were issued at a reinvestment price of \$1.6999 .

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

3. Dividends (continued)

(c) Imputation credits

	30 June	30 June
	2017	2016
	\$'000	\$'000
Total imputation credits available in subsequent financial years based on a tax rate of 30% (June 2016: 30%)	1,286	3,785

The above amount, based on a tax rate of 30% represents the balance of the imputation credits at balance date adjusted for income tax paid/payable, franked dividend receivables and declared franked dividends.

3. Income Tax

	30 June	30 June
	2017	2016
	\$'000	\$'000
(a) The income tax (expense) attributable to the year, payable on the operating profit, is as follows:		
Profit/(loss) before income tax expense	226,822	(14,077)
Prima facie income tax (expense)/benefit on net profit at 30%	(68,048)	4,222
(b) The major components of income tax (expense) are:		
Current income tax (expense)	(12,108)	(3,390)
Deferred income tax (expense)/benefit		
– origination and reversal of temporary differences	(55,940)	7,612
	(68,048)	4,222
(c) Income tax (expense) charged directly to equity:		
Costs associated with the issue of shares from options and rights	-	(30)
	-	(30)
(d) Deferred tax (liability)/assets relate to the following:		
Deferred tax asset		
Unrealised loss on investments	5,929	6,276
Costs associated with the issue of shares and options	102	156
Other temporary differences	14	18
Total deferred tax asset	6,045	6,450
Deferred tax liability		
Unrealised gain on investments	(170,250)	(114,694)
Other temporary differences	(112)	(134)
Total deferred tax liability	(170,362)	(114,828)
Net deferred tax liability	(164,317)	(108,378)

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

4. Cash and Cash Equivalents, and Net Interest Bearing Borrowings

	30 June 2017 \$'000	30 June 2016 \$'000
(a) Cash and cash equivalents		
Cash at bank - denominated in Australian Dollars	658	314
(b) Set-off cash and borrowings - net cash:		
Cash - denominated in Singapore Dollars	-	1,289
	-	1,289
Set-off cash and borrowings - net borrowings:		
Borrowings - denominated in Australian Dollars	(33,402)	(91,128)
Borrowings - denominated in British Pounds	(25,677)	(803)
Borrowings - denominated in US Dollars	(11,558)	(15,570)
Borrowings - denominated in Singapore Dollars	(438)	-
Borrowings - denominated in Canadian Dollars	(9)	(1,356)
Borrowings - denominated in Euros	(8)	(313)
Total borrowings	(71,092)	(109,170)
Net cash/borrowings	(71,092)	(107,881)

The Company holds cash at bank, which is at call and subject to floating interest rates, with an Australian bank. The foreign currency cash balances, which are held with Merrill Lynch International (MLI), a wholly owned subsidiary of Bank of America, are demand deposits and also subject to floating interest rates.

(c) Set-off arrangement

The foreign currency cash balances held with MLI are set-off against the borrowings drawn under the multi-currency financing facility provided by Merrill Lynch Markets (Australia) Pty Limited (MLMA), which is discussed in detail at note 4(d). The Company and MLI intend to net settle and are permitted to do so under the terms of the facility. As a result, at 30 June 2017, the Company's borrowings with MLI totalling \$71,092,000 (June 2016: \$109,170,000) have been presented net of the total cash deposits held with MLI of nil (June 2016: \$1,289,000). As a result, the net borrowing position of \$71,092,000 (June 2016: net borrowings \$107,881,000) is included within borrowings in the Statement of Financial Position.

(d) Multi-currency financing facility

The Company has a multi-currency credit facility with MLMA. Amounts drawn as borrowings are repayable on written demand. The credit facility, is a service provided under the International Prime Brokerage Agreements (IPBA) between the Company and MLI. The IPBA provides MLI with a fixed charge over the Company's right, title and interest in the assets held in custody with MLI (refer note 6), as security for the performance of its obligations under the IPBA.

MFF CAPITAL INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2017

4. Cash and Cash Equivalents, and Net Interest Bearing Borrowings (continued)

(e) Reconciliation of net profit after income tax to net cash from operating activities

	30 June	30 June
	2017	2016
	\$'000	\$'000
Net profit/ (loss) after income tax expense	158,774	(9,855)
Net gains on foreign currency cash and borrowings	(941)	(4,848)
Net (gain)/loss on foreign exchange settlements & contracts	(35)	3
Finance costs - interest expense	1,980	1,408
(Increase) in investments at market value	(211,847)	(142,248)
Decrease in receivables	112	99
Decrease in prepayments	5	3
Increase in payables	17,996	33
Increase/(decrease) in deferred, current and withholding taxes	64,168	(12,875)
Net cash inflow/(outflow) from operating activities	30,212	(168,280)

Non-cash financing and investing activities

Dividends satisfied by the issue of shares under the DRP are shown in note 2.

5. Receivables

	30 June	30 June
	2017	2016
	\$'000	\$'000
Dividends receivable	368	444
Foreign tax recoverable	52	60
GST receivable	114	142
	534	646
Denomination of current receivables by currency:		
Australian Dollars	113	138
US Dollars	369	438
Euro	39	55
Canadian Dollars	13	15
	534	646

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

6. Investments

Details of the Company's investments are set out below:

Company Name		30 June 2017 Holding	31 December 2016 Holding	30 June 2016 Holding	30 June 2017 Value \$'000	30 June 2016 Value \$'000
	Domicile					
Visa	i	1,186,944	1,186,944	1,186,944	145,132	118,251
Home Depot	i	624,231	629,231	601,512	124,838	103,152
Mastercard	i	777,244	777,244	790,756	123,064	93,550
Bank of America	i	3,784,550	3,978,377	3,989,577	119,696	71,047
Lowe's	i	1,097,841	1,097,841	1,017,351	110,951	108,170
Wells Fargo	i	1,293,173	1,414,312	1,384,312	93,433	88,030
US Bancorp	i	942,357	946,557	999,124	63,798	54,116
HCA Healthcare	i	540,326	756,628	754,628	61,397	78,037
JP Morgan Chase	i	457,235	445,935	437,935	54,489	36,559
CVS Health	i	474,097	435,812	335,274	49,743	43,105
Lloyds Banking Group	ii	35,456,699	35,081,699	34,068,535	39,713	33,059
S&P Global	i	152,556	190,816	282,036	29,033	40,639
BlackRock	i	51,846	67,233	79,328	28,560	36,487
Alphabet	i	23,527	-	-	27,870	-
Microsoft	i	295,371	295,371	295,371	26,539	20,298
Bank of New York Mellon	i	352,514	418,291	495,044	23,447	25,836
Facebook	i	82,350	-	-	16,207	-
United Overseas Bank	iii	611,300	-	-	13,377	-
Oversea - Chinese Banking	iii	1,200,200	-	-	12,262	-
DBS Group	iii	596,600	-	-	11,710	-
CapitaLand	iii	3,427,300	2,496,600	1,191,700	11,326	3,651
Qualcomm	i	127,999	119,900	119,900	9,213	8,625
Schroders	ii	193,432	261,696	255,290	7,242	8,937
State Street	i	49,413	142,738	201,276	5,780	14,570
Singapore Technologies						
Engineering	iii	1,109,600	1,097,800	1,033,100	3,867	3,237
SIA Engineering	iii	620,400	620,400	674,000	2,398	2,468
SATS	iii	250,000	29,900	577,800	1,208	2,370
Tenet Healthcare	i	-	106,213	-	-	-
Viacom	i	-	67,009	-	-	-
Power Corporation of Canada	iv	-	29,900	17,500	-	497
IGM Financial	iv	-	29,300	8,100	-	294
Power Financial Corporation	iv	-	32,600	12,600	-	386
Edgewell Personal Care	i	-	14,326	-	-	-
MLP AG	v	-	13,764	81,865	-	389
Axalta Coating Systems	i	-	-	158,060	-	5,627
Fraport	v	-	-	42,797	-	3,059
Total investments					1,216,293	1,004,446

Domicile

- i United States
- ii United Kingdom
- iii Singapore
- iv Canada
- v Germany

MFF CAPITAL INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2017

6. Investments (continued)

Foreign Exchange Rates

The Australian dollar exchange rates against the following currencies (London 4.00pm rates) are:

	30 June 2017	30 June 2016
US Dollar	0.76705	0.74460
British Pound	0.59052	0.55700
Singapore Dollar	1.05611	1.00216
Canadian Dollar	0.99617	0.96701

7. Payables

	30 June 2017 \$'000	30 June 2016 \$'000
Outstanding settlements	21,198	-
Research and services fees payable	1,025	4,186
Accrued expenses	44	120
	22,267	4,306
Denomination of current payables by currency:		
Australian Dollars	1,069	4,306
US Dollars	21,198	-
	22,267	4,306

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

8. Contributed equity

	30 June 2017 Number	30 June 2016 Number	30 June 2017 \$'000	30 June 2016 \$'000
(a) Ordinary Shares				
Opening balance	466,980,633	458,380,042	527,132	517,805
Shares issued under DRP - 12 Nov 15	-	432,289	-	809
Shares issued under DRP - 20 May 16	-	419,934	-	798
Shares issued under DRP - 11 Nov 16	507,285	-	862	-
Shares issued under DRP - 19 May 17	491,883	-	916	-
Shares issued under DRP	999,168	852,223	1,778	1,607
Total Shares issued from exercise of options	15,738,126	7,748,368	15,682	7,720
Total ordinary shares	483,717,927	466,980,633	544,593	527,132
(b) MFF 2017 options				
Opening balance	75,610,110	83,358,478	(109)	(95)
Shares issued from exercise of options	(15,738,126)	(7,748,368)	-	-
Transaction costs	-	-	-	(20)
Transaction costs - tax effect	-	-	-	6
Total MFF 2017 options	59,871,984	75,610,110	(109)	(109)
(c) Rights				
Opening balance	-	-	(529)	(473)
Transaction costs	-	-	-	(80)
Transaction costs - tax effect	-	-	-	24
Total rights issued	-	-	(529)	(529)
Total contributed equity			543,955	526,494

(d) Terms and conditions

(i) Ordinary shares

Fully paid ordinary shares entitle the holder to receive dividends as declared and the proceeds on winding up the Company in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person, or by proxy, at a meeting of the Company.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

8. Contributed equity (continued)

(d) Terms and conditions (continued)

(ii) Options

Each eligible shareholder of the Company received one MFF 2017 option for every 3 ordinary shares held at 10 October 2012 for nil consideration. A total of 114,516,157 options were issued by the Company on 17 October 2012. The MFF 2017 options are listed on the ASX (ASX code: MFFO) and expire on 31 October 2017.

MFF 2017 options entitle the holder to the right to acquire one ordinary share in the Company and are exercisable at any time on or prior to 31 October 2017, at which time they will lapse. The exercise price of each MFF 2017 option is \$0.9964 (June 2016: \$0.9964) to reflect the entitlement value of the Company's rights issue announced in March 2016.

The MFF 2017 options are not entitled to dividends, and ordinary shares issued on exercise of the options rank equally with all other ordinary shares from the date of exercise and entitle the holder to receive dividends on or prior to the applicable record date.

(iii) Rights

In March 2015, the Company invited its shareholders to subscribe to a rights issue of new fully paid ordinary shares on the basis of 1 new share for every 4 ordinary shares held, at an issue price of \$1.60 per share, which resulted in 79,778,586 new shares issued on 13 May 2015.

(iv) Share buy-back

On 26 August 2009, the Company announced its intention to undertake a second on-market buyback of up to 20,000,000 shares after completion of the first buyback. Under this buyback, the Company has bought back and cancelled 13,155,651 shares at a total cost of approximately \$8,276,000. On 30 July 2016, the Company authorised a further extension to the on-market share buyback period to 9 September 2017. No shares were acquired under the buybacks during the year ended 30 June 2017.

(v) Dividend reinvestment plan (DRP)

Refer to note 2(b) for details on the DRP.

MFF CAPITAL INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2017

9. Earnings/(Loss) per Share

	30 June 2017	30 June 2016
Basic earnings/(loss) per share (cents)	33.57	(2.06)
Diluted earnings/(loss) per share (cents)	31.59	(2.06)
Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue used in calculating basic EPS	472,968,252	463,398,209
add: equivalent number of unexercised options for the purposes of calculating diluted EPS	29,670,078	38,099,276
Weighted average number of ordinary shares on issue used in calculating diluted EPS	502,638,330	501,497,485
Earnings reconciliation		
Net profit/(loss) after income tax expense used in the calculation of basic and diluted EPS (\$'000)	158,774	(9,855)

The MFF 2017 options granted on 17 October 2012 and which remain unexercised at 30 June 2017 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. Details of the MFF 2017 options are set out in note 8(d)(ii).

10. Auditor's Remuneration

Amounts received or due and receivable by the auditor of the Company, Ernst & Young:

	30 June 2017	30 June 2016
	\$	\$
Audit services		
Statutory audit and review of the financial reports	56,200	63,500
Non-audit services		
Taxation services	8,000	11,500
Total auditor's remuneration	64,200	75,000

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

11. Capital and Financial Risk Management

(a) Financial risk management

The Company's investing activities expose it to various types of risk including: price risk, currency risk, credit risk and liquidity risk.

The Company has investment restrictions designed to reduce some risks. These restrictions are determined from time to time by the Board and currently include requirements that:

- individual investments comprising the investment portfolio will not exceed 10% at cost (or higher amount authorised by the board, with a 12% limit in respect of two holdings currently) of the investment portfolio value of the Company at the time of the investment; and
- at time of borrowing, total borrowings must not exceed 20% of the Company's investments at market value.

The Company did not use derivatives or undertake short selling during the year ended 30 June 2017. The use of derivatives and short selling has never been used by MFF since inception. The circumstances of their use are subject to Board approval and currently derivatives are permitted only where the Portfolio Manager considers that a derivative is preferable to purchasing ordinary share capital, in accordance with the investment objectives and philosophy and short selling is permitted only in relation to implementing hedges of underlying investments or merger arbitrage relating to a portfolio investment. The Portfolio Manager and Board periodically consider whether derivatives might potentially offer some hedging protection for the portfolio. To date, MFF's potential partial offsets to some portfolio risks have included MFF's currency positions to the extent that they have been inversely correlated.

(b) Capital management

The Company's primary objective in managing capital is to seek to have capital available in a manner consistent with seeking to maximise compound after-tax returns for shareholders, from the company's investment portfolio.

The Company recognises that its capital position and market prices will fluctuate in accordance with market conditions and, in order to adjust the company's capital structure, it may vary the amount of dividends paid, issue new shares or options from time to time, or buy back its own shares.

At 30 June 2017, the Company's capital consists of shareholder equity. The Company issued 114,516,157 MFF 2017 Options to ordinary shareholders on 17 October 2012. The Company continues to have an active on-market share buy-back program (refer to note 8(d)(iv) for further details).

A breakdown of the Company's equity and changes in equity during the current year is provided in note 8. The Company's approach to capital management remains unchanged and it is not subject to any externally imposed capital requirements.

(c) Credit Risk

Credit risk represents the financial loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and the risk of loss is implicitly provided for in the carrying value of financial assets and liabilities when valued at fair value. The maximum exposure to credit risk at balance date is therefore the carrying amount of financial assets recognised in the Statement of Financial Position.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

11. Capital and Financial Risk Management (continued)

(c) Credit Risk (continued)

The Company's key credit risk exposure is to Merrill Lynch Markets (MLI) and Merrill Lynch Markets (Australia) Pty Limited (MLMA). The services provided by MLI under the International Prime Brokerage Agreement (IPBA) include clearing and settlement of transactions, securities lending and acting as custodian for the Company's assets. Under an addendum to the IPBA, MLMA may also provide financing services to the Company. The IPBA with MLI is in a form that is typical of prime brokerage arrangements and each of the Company's investment securities held by MLI may be used by MLI for its own purposes, whereupon such investment securities will become the property of MLI and the Company will have a right against MLI for the return of equivalent securities. These securities are set out in note 6.

The Company has granted MLI a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA.

In the event of MLI becoming insolvent, the Company would rank as an unsecured creditor and the Company may not be able to recover such equivalent securities in full. Cash which MLI holds or receives on behalf of the Company (refer to note 4) is not segregated from MLI's own cash and therefore may be used by MLI in the course of its business.

The credit quality of Bank of America / Merrill Lynch's senior debt is rated, as at 30 June 2017, by Standard & Poor's as being BBB+, and by Moody's as being Baa1 (BBB+ and Baa1 respectively at 30 June 2016). MLI and MLMA are wholly owned subsidiaries of Bank of America which disclosed net assets attributable to common stockholders as at 30 June 2017 of approximately US\$246 billion. Bank of America does not guarantee the obligations in respect of MFF.

The Company also minimises credit risk by investing and transacting with counterparties that are reputable and have acceptable credit ratings determined by a recognised rating agency, and regularly monitoring receivables on an ongoing basis.

Ageing analysis of receivables

At 30 June 2017, all of the Company's receivables are due within 0 to 30 days (June 2016: 0 to 30 days). No amounts are impaired or past due at 30 June 2017 or 30 June 2016.

(d) Fair Value Measurement

The Company classifies the fair value measurements of financial assets and financial liabilities using the three level fair value hierarchy set out below, to reflect the source of valuation inputs used when determining the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The Company invests in securities and rights in listed entities. The fair value of these investments is based on the closing bid price for the security as quoted on the relevant exchange;
- Level 2: valuation techniques using market observable inputs, either directly or indirectly. The fair value of asset and liabilities with short-term maturities are valued at the amount at which the asset or liability could be exchanged in a current transaction between willing parties. The fair value of variable-rate receivables/borrowings are based on parameters such as interest rates and individual creditworthiness of the investee company; and
- Level 3: valuation techniques using non-market observable market data with the fair value for investments based on a Director's valuation.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

11. Capital and Financial Risk Management (continued)

(d) Fair Value Measurement (continued)

The table below presents the fair value measurement hierarchy of the Company's financial assets and liabilities:

	Note	30 June 2017 \$'000	30 June 2016 \$'000
Assets			
Level 1: Investments - valued using quoted price		1,216,293	1,004,446
Level 2: Receivables ^(A)		534	659
Level 3: Investments - directors' valuation as no quoted price	(i)	-	-
Total financial assets		1,216,827	1,005,105
Liabilities			
Level 2: Payables ^(A)		22,267	4,306
Level 2: Borrowings ^(B)		71,092	107,881
Total financial liabilities		93,359	112,187

(A) Given the short-term maturities, the fair value of the assets and liabilities are recognised at the face value on the invoice.

(B) Given the short-term maturities of borrowings, the fair value equates to principal plus accrued interest.

(i) Level 3 Investment

At 30 June 2016, the Level 3 investment comprised the Company's share in China Metals Recycling (Holdings) Limited (CMR). The Directors adopted a valuation of zero as at 30 June 2016 as there was no active market as the shares were halted from trading since 28 February 2013 and a liquidator had been appointed. During the current year, the CMR investment has been deemed to be disposed for nil consideration, being the carrying value. As a result, the level 3 investment of nil has been transferred out of level 3 during the year ended 30 June 2017 (June 2016: no movements or transfers within level 3).

There have been no other transfers between any of the three levels in the hierarchy during the year and the Company's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year.

(e) Liquidity and Refinancing Risk

Liquidity risk refers to the risk that the Company will not have sufficient funds to settle liabilities or obligations on the due date or will be forced to sell financial assets at a value which is less than they are worth.

A key component of liquidity risk is refinancing risk, which may arise in the unlikely event that MLMA demanded repayment of the borrowings at short notice under the terms of the multi-currency facility (refer to note 8 for further details on borrowings). The Directors are confident that the net borrowings could be repaid via settlement proceeds from the sale of part of the Company's highly liquid investment portfolio, even in the unlikely event that the Company was unable to achieve satisfactory terms for refinancing elsewhere. Net borrowings repayable on demand at 30 June 2017 were \$71,092,000 (June 2016: \$107,881,000).

Maturities of financial liabilities

At 30 June 2017, the Company's financial liabilities comprise payables which mature in 0 to 30 days (June 2016: 0 to 30 days).

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

11. Capital and Financial Risk Management (continued)

(f) Price Risk

Price risk is the risk that the value of the Company's investment portfolio will fluctuate as a result of changes in market prices of individual investments and / or the market as a whole. The Company's investments are carried at market value with changes recognised in the Statement of Profit or Loss and Other Comprehensive Income. Price risk is managed by ensuring that all activities are transacted in accordance with the Company's investment policy and within approved limits.

Over the past 10 years, the annual movement in the major global share indices (MSCI and S&P 500) has varied between +35.11% and -23.42% (in AUD) and +30.69% and -29.50% (in USD). This range of yearly performances of markets may not be a reliable guide to future performances, and the Company's investment portfolio does not attempt to mirror the global indices, but this very wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that might reasonably be expected within the portfolio over the next twelve months. The impact of equity price movements, expressed in percentage terms, on the net profit reported by the Company, is linear. Each 5% incremental increase in the market prices of the Company's portfolio compared to 30 June 2017 would increase the total equity and net profit by approximately \$42,570,000 (June 2016: \$35,156,000) and each 5% incremental decrease would have an equal and opposite impact.

(g) Currency Risk

The Company has exposure to foreign currency denominated cash and borrowings (refer to note 4) and also other assets and liabilities denominated in foreign currencies as it invests in listed international and Australian companies. Therefore the Company is exposed to movements in the exchange rate of the Australian dollar relative to foreign currencies.

At reporting date, had the Australian dollar strengthened by 10% against the foreign currencies in which the Company holds foreign currency denominated monetary assets and liabilities (cash and borrowings), with all other variables held constant, the impact of monetary assets and liabilities on the Company's equity and net profit after tax would have been:

30 June 2017			30 June 2016		
Australian dollar strengthens against:	by:	Net increase / (decrease) in net profit	Australian dollar strengthens against:	by:	Net increase / (decrease) in net profit
		A\$'000			A\$'000
US Dollars	10%	809	US Dollars	10%	1,090
Euros	10%	1	Euros	10%	22
British Pounds	10%	1,797	British Pounds	10%	56
Singapore Dollars	10%	31	Singapore Dollars	10%	(90)
Canadian Dollars	10%	1	Canadian Dollars	10%	95
		2,639			1,173

A 10% decline in the Australian dollar against these foreign currencies would have an equal and opposite impact on the Company's equity and net profit. Currency movements may not be correlated.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

11. Capital and Financial Risk Management (continued)

(g) Currency Risk (continued)

Had the Australian dollar strengthened by 10% against the foreign currencies in which the Company holds total foreign currency denominated monetary and non-monetary assets and liabilities with all other variables held constant, total equity and net profit after tax would have decreased by \$81,045,000 (2016: \$69,174,000). A 10% decline in the Australian dollar would have had an equal and opposite impact.

The Company's total net exposure to fluctuations in foreign currency exchange rates at the Statement of Financial Position date is:

	30 June 2017	30 June 2016
	\$'000	\$'000
<i>All amounts stated in AUD equivalents</i>		
Assets and liabilities at fair value ^(A)		
US Dollars	1,080,915	930,965
Euros	31	3,190
British Pounds	21,278	41,194
Singapore Dollars	55,566	13,015
Canadian Dollars	4	(164)
	1,157,794	988,200

Foreign currency cash balances held with MLI are netted against foreign currency borrowings provided by MLMA (refer note 4).

Assets and liabilities in the Statement of Financial Position exposed to foreign currencies:

	30 June 2017	30 June 2016
	\$'000	\$'000
<i>All amounts stated in AUD equivalents</i>		
Assets - exposed to foreign currencies ^(A)		
Assets - exposed to foreign currencies ^(A)	1,216,716	1,004,953
Assets - not exposed to foreign currencies	769	2,015
Assets - as per Statement of Financial Position	1,217,485	1,006,968
Liabilities - exposed to foreign currencies ^(A)		
Liabilities - exposed to foreign currencies ^(A)	(58,922)	(16,753)
Liabilities - not exposed to foreign currencies	(34,437)	(203,813)
Liabilities - as per Statement of Financial Position	(93,359)	(220,566)
Net assets - exposed to foreign currencies	1,157,794	988,200
Net assets - not exposed to foreign currencies	(33,668)	(201,798)
Net assets - as per Statement of Financial Position	1,124,126	786,402

(A) Foreign currency cash and borrowings, where applicable, are subject to set-off (refer note 4).

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

11. Capital and Financial Risk Management (continued)

(h) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk relates primarily to cash balances and net interest bearing borrowings as follows:

	Interest rate	30 June	Interest rate	30 June
	Cash & cash equivalents	2017	Cash & cash equivalents	2016
	/(Borrowings)		/(Borrowings)	
	%	\$'000	%	\$'000
Australian Dollars	1.23	658	1.48	314
Singapore Dollars	n/a	-	0.49	1,289
		-		1,289
Australian Dollars	(2.37)	(33,402)	(3.10)	(91,128)
British Pounds	(1.01)	(25,677)	(1.23)	(803)
US Dollars	(1.98)	(11,558)	(1.19)	(15,570)
Singapore Dollars	(1.48)	(438)	0.49	1,289
Canadian Dollars	(1.66)	(9)	(1.62)	(1,356)
Euros	(0.75)	(8)	(0.75)	(313)
		(71,092)		(107,881)
		(70,434)		(106,278)

Sensitivity analysis

The sensitivity of the Company's net profit and equity of a reasonably possible upwards or downwards movement in interest rate risk, assuming all other variables remain constant is set out below:

	Impact on profit increase / (decrease)		Impact on equity increase / (decrease)	
	+1%	-1%	+1%	-1%
30-Jun-17	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	-	-	-	-
Borrowings	(704)	704	(704)	704
	(704)	704	(704)	704
30-Jun-16				
Cash and cash equivalents	13	(13)	13	(13)
Borrowings	(1,089)	1,089	(1,089)	1,089
	(1,076)	1,076	(1,076)	1,076

Interest rate movements may not be correlated.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

12. Related Parties

(a) Key Management Personnel

The Key Management Personnel (KMP) of the Company comprise the Independent Non-Executive Directors and the Executive Director for the years ended 30 June 2017 and 30 June 2016.

(b) Remuneration of Key Management Personnel

The following remuneration was paid or payable by the Company to the KMP, during the year:

	2017	2016
	\$	\$
Short term benefits	1,242,941	1,243,249
Post-employment benefits	44,559	44,251
Total paid by the Company	1,287,500	1,287,500

Further details of remuneration paid to the Directors is disclosed in the Remuneration Report in the Directors' Report.

13. Research and Services Fees

During the year, the terms of the Services Agreement with Magellan Asset Management Limited (MAM) were amended with effect from 1 January 2017.

The arrangements from 1 July 2016 to 31 December 2017 can be summarised as follows:

- Research and services fees were calculated at 1.25% per annum (plus GST), payable quarterly in arrears, of the market value of all assets less total indebtedness of the Company divided by the weighted average number of the MFF shares on issue during the quarter and multiplied by the lesser of (i) the number of shares on issue at 30 June 2013 or (ii) the weighted average number of shares on issue during the relevant quarter;
- The research and service fees were reduced by an amount equivalent to Mr Mackay's remuneration and associated payroll related costs, travel and incidental expenses; and
- A performance fee was payable if the Company's total shareholder return exceeds 10% per annum, annually compounded, the final payment period being 1 July 2013 to 31 December 2016. A performance fee of \$2,000,000 (June 2016: \$2,000,000) (plus GST) was paid by the Company for this period.

The arrangements from 1 January 2017 can be summarised as follows:

- Research And Services Fees are \$1,000,000 per quarter payable in arrears;
- Performance Fees are \$1,000,000 per annum payable, in arrears, should MFF's total shareholder return exceed 10% per annum compounded annually. The calculation period is from 1 January 2017 to 31 December each year for three years (based off the Company's closing price as at 31 December 2016). Performance fees are non-cumulative; and
- The amended fee arrangements are for a period of three years and the Services Agreement may be terminated at any time upon six months' notice by either party.

Performance fees are included in Research and service fees in the Statement of Profit or Loss and Other Comprehensive Income.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

14. Segment Information

The Company's investments are managed on a single portfolio basis, and in one business segment being equity investment, and in one geographic segment, Australia. The Company continues to have foreign exposures as it invests in companies which operate internationally.

15. Contingent Assets, Liabilities and Commitments

Under the Services Agreement effective 1 January 2017 (refer note 13), MAM is entitled to a performance fee if the Company's total shareholder's return exceeds 10% per annum, annually compounded, with respect to three remaining measurement periods, 1 January 2017 to 31 December 2017, 1 January 2017 to 31 December 2018 and 1 January 2017 to 31 December 2019. The performance fee that may be payable, in respect to each period, is \$1,000,000 and each is non-cumulative. The maximum total performance fees payable over the remaining periods are capped at \$3,000,000.

Performance fees have been disclosed as a contingent liability on the basis that markets are subject to fluctuations and therefore uncertainty exists as to whether the criteria of the performance fee will be achieved.

The Company has no other material commitments, contingent assets or contingent liabilities as at 30 June 2017 (June 2016: nil).

16. Events Subsequent to the End of the Financial Year

On 28 July 2017, the Directors declared a final fully franked dividend of 1.0 cent per ordinary share in respect of the year ended 30 June 2017 (refer to note 2(a) for further details).

In the latest release to the ASX on 24 July 2017, the Company reported Net tangible assets (NTA) values as at 21 July 2017 as follows:

	21 July 2017	30 June 2017 ^(A)
	\$	\$
Pre-tax NTA	2.277	2.324
Net tax liabilities	0.342	0.354
Post-tax NTA	1.935	1.970

The above NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 options.

Pre tax NTA if all of the MFF 2017 options had been exercised	\$ 2.138	\$ 2.178
Post tax NTA if all of the MFF 2017 options had been exercised	\$ 1.834	\$ 1.863

(A) Audited NTA (refer note 17 of the financial statements)

Other than the above matters, the Directors are not aware of any matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future years.

MFF CAPITAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

17. Net Tangible Assets (NTA) Value Per Share

The following table reconciles the NTA values presented in the Statement of Financial Position as at 30 June 2017 to the NTA per share reported to the ASX on 3 July 2017.

	30 June 2017 \$	30 June 2017 \$	30 June 2016 \$	30 June 2016 \$
	Pre-tax	Post-tax	Pre-tax	Post-tax
ASX Reported NTA Value ^(A)	2.324	1.978	1.914	1.672
NTA Value ^(B)	2.324	1.970	1.913	1.684

The above NTA values have not been adjusted for the expected dilution from the exercise of the MFF 2017 options.

ASX reported NTA value if all of the MFF 2017 options had been exercised^(A)

	2.178	1.870	1.786	1.578
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NTA if all of the MFF 2017 options had been exercised^(B)

	2.178	1.863	1.785	1.588
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(A) The NTA values reported on the ASX on 3 July 2017 includes estimates for accrued expenses and tax liabilities.

(B) The NTA value refers to the net assets of the Company including the net current and deferred tax liabilities/assets presented in the Statement of Financial Position.

MFF CAPITAL INVESTMENTS LIMITED

DIRECTORS' DECLARATION

for the year ended 30 June 2017

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 21 to 48 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of MFF Capital Investments Limited as at 30 June 2017 and of its performance, as represented by the results of its operations and its cashflows, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards, International Financial Reporting Standards (IFRS) as disclosed in Note 1(a), the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- (b) there are reasonable grounds to believe that MFF Capital Investments Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2017.

Signed in accordance with a resolution of the Directors.



Richard FE Warburton AO
Chairman



Chris Mackay
Managing Director and Portfolio Manager

Sydney
28 July 2017

INDEPENDENT AUDITOR'S REPORT

To the members of MFF Capital Investments Limited

Report on the Audit of the Financial Report Opinion

We have audited the financial report of MFF Capital Investments Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of MFF Capital Investments Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Investment existence and valuation

Why significant	How our audit addressed the key audit matter
<p>As a listed investment company, the Company has a significant investment portfolio consisting primarily of listed equities and cash accounts. As at 30 June 2017, the value of these listed equities, per Note 6 to the financial report was \$1,216,293,000 which equates to 99% of the total assets held by Company.</p> <p>As detailed in Company's accounting policy, as described in Note 1k to the financial report, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standard - AASB 9: <i>Financial Instruments</i> (AASB 9).</p> <p>Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report, therefore valuation of the investment portfolio is considered a key area of focus.</p>	<p>We assessed the design and operating effectiveness of the relevant controls in place around the recognition and valuation of investments, through assessment of the audited internal controls report prepared under ASAE 3402 <i>Assurance Reports on Controls at a Service Organisation</i>, of the Company's administrator. We relied on these controls to gain assurance over the recognition and valuation of the investment balances.</p> <p>We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2017.</p> <p>We checked the valuation of all positions in the investment portfolio held at 30 June 2017. To validate the fair value in accordance with AASB 9, we agreed the listed securities to independent pricing sources.</p> <p>We assessed the adequacy of the disclosures in Note 11 to the financial report in accordance with the requirements of AASB 9, AASB 7: <i>Financial Instruments Disclosures</i> and AASB 13: <i>Fair Value Measurement</i>.</p>

2. Research and Services Fees including Performance Fees

Why significant	How our audit addressed the key audit matter
<p>Research and services fees, including performance fees, paid to the service provider, Magellan Asset Management Limited, are the most significant expense for the Company.</p> <p>The Company's accounting policy for research, services and performance fees is described in Note 1e and Note 13 to the financial report. All expenses are recognised on an accruals basis, with performance fees recognised in the financial report if the performance hurdles for the Company have been met at the end of the relevant measurement period, which is the date that the criteria have been met and the liability has been crystallised.</p> <p>As at 30 June 2017, research and services fees totalled \$7,536,200 which equates to 66% of total expenses. Of this amount, performance fees (excluding GST recovered) totalled \$2,000,000 which equates to 18% of total expenses.</p> <p>The assessment of performance fee arrangements can be complex and judgmental due to uncertainty around future performance.</p> <p>The quantum of these expenses and the impact that volatility in the market can have on the recognition and payment of performance fees results in this being a key area of audit focus. The disclosure of these amounts is included in Note 13 to the financial report.</p>	<p>We assessed the design and operating effectiveness of the relevant controls in place in relation to the calculation of research, services and performance fees, through review of the internal controls of the Service Provider, Magellan Asset Management Limited.</p> <p>We performed a recalculation of research, services and performance fees, in accordance with the relevant Services agreement, including agreeing the fee rate to the calculation.</p> <p>We assessed the performance fee eligibility calculations including checks on the inputs into the Total Shareholder Return calculation model and assessed whether the calculation was in line with the relevant Services agreement.</p> <p>We assessed the adequacy of the disclosures in Note 13 to the financial report.</p>

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 13 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of MFF Capital Investments Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Rita Da Silva
Partner

Sydney
28 July 2017

MFF CAPITAL INVESTMENTS LIMITED

SHAREHOLDER INFORMATION

for the year ended 30 June 2017

Distribution of Shareholders

The distribution of shareholders of the Company as at 23 July 2017 is presented below:

Distribution Schedule of Holdings	Holders	Number of Ordinary Shares	Percentage of Shares in Issue
1-1,000	872	379,121	0.08
1,001-5,000	1,993	5,933,540	1.22
5,001-10,000	2,111	15,722,252	3.24
10,001-100,000	6,920	205,235,511	42.33
100,001 and over	592	257,620,084	53.13
Total	12,488	484,890,508	100.00
Number of holders with less than a marketable parcel	273	20,873	0.00

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company as at 23 July 2017 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares in Issue
HSBC Custody Nominees (Australia) Limited	24,229,686	5.00
Magellan Equities Pty Limited	21,431,306	4.42
Christopher John Mackay	20,674,406	4.26
Naumov Pty Ltd	13,697,696	2.82
Mutual Trust Pty Ltd	6,114,579	1.26
J P Morgan Nominees Australia Limited	5,315,633	1.10
Citicorp Nominees Pty Limited <Dpsl A/C>	4,958,626	1.02
Citicorp Nominees Pty Limited	4,065,985	0.84
Mr Victor John Plummer	4,000,000	0.82
Netwealth Investments Limited <Wrap Services A/C>	3,905,951	0.81
Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	3,709,397	0.76
Netwealth Investments Limited <Super Services A/C>	2,963,674	0.61
Navigator Australia Ltd <Mlc Investment Sett A/C>	2,713,136	0.56
Nota Bene Investments Pty Ltd <Nota Bene Investment A/C>	2,469,969	0.51
Rogand Superannuation Pty Ltd <Rogand Super Fund A/C>	2,101,569	0.43
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	1,834,945	0.38
Midas Touch Investments Pty Ltd	1,761,535	0.36
Anberton Pty Ltd	1,444,042	0.30
Glenn Bates Consulting Pty Ltd <Bates Ballard Super A/C>	1,401,614	0.29
Marshstoke Pty Ltd	1,277,417	0.26
Total shares held by the twenty largest shareholders	130,071,166	26.82
Total shares in issue	484,890,508	

MFF CAPITAL INVESTMENTS LIMITED

SHAREHOLDER INFORMATION

for the year ended 30 June 2017

Substantial Shareholders

The names of the substantial shareholders appearing on the Company's Register of Substantial Shareholders as at 23 July 2017 are listed below:

Shareholder	Number of Ordinary Shares
Christopher Mackay and Associates	57,200,564

Ordinary Share Capital

All issued ordinary shares carry one vote per share and carry the rights to dividends.

Stock Exchange Listing

The Company's ASX code is "MFF" for its ordinary shares and "MFFO" for its options.

MFF CAPITAL INVESTMENTS LIMITED

CORPORATE INFORMATION

for the year ended 30 June 2017

Directors

Richard Warburton AO
John Ballard
Andy Hogendijk
Chris Mackay

Company Secretary

Geoffrey Stirton

Registered Office

Level 36, 19 Martin Place
Sydney NSW 2000
Telephone: +61 2 9235 4888
Fax: +61 2 9235 4800
Email: info@magellangroup.com.au

Auditor and Taxation Adviser

Ernst & Young
200 George Street
Sydney NSW 2000

Share Registrar

Boardroom Pty Limited
Level 12, Grosvenor Place
225 George Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Securities Exchange Listing

Australian Securities Exchange (ASX)
ASX code (ordinary shares): MFF
ASX code (options): MFFO

Website

<http://www.mffcapital.com.au>