



Hearts and Minds Investments Limited

2019 AGM Chairman's Letter

Dear fellow Shareholders,

On behalf of the Board and management we would like to thank you for your support of Hearts and Minds Investments Limited ("HM1") and invite you to our first Annual General Meeting (AGM) to be held in Sydney on 26 November 2019 at 2:30pm. Details of the location and dial in facilities are included in the Notice of Meeting which can be viewed here: http://bit.ly/NoM_HM1

Performance Update

As you know, HM1 is a listed investment company that was born out of the investment and philanthropic vision of the Sohn Hearts & Minds Investment Leaders Conference. HM1 was established with the combined objective of providing a concentrated securities portfolio of the highest conviction ideas from leading Fund Managers, whilst also supporting Australian medical research institutes.

Since listing on 14 November 2018, HM1 has had a strong performance, with its pre-tax net tangible assets increasing 20% from \$2.50 at listing to \$3.00 as at 30 September 2019, outperforming the MSCI World Net TR (AUD), a global equity investment benchmark. While we are proud of this early performance resulting from the underlying stock recommendations of our participating Fund Managers, we also recognise we have been supported by favourable market conditions.

Charity Update

In line with its philanthropic objective, HM1 provides financial support to leading Australian medical research organisations in order to help the development of new medicines and treatments and drive a new generation of medical research in Australia. HM1 and its participating Fund Managers forego any investment fees and instead an amount equivalent to 1.5% of net tangible assets per annum is donated to designated charities. HM1 made its first payment of \$4.9 million in June 2019 to Victor Chang Cardiac Research Institute, representing a reimbursement of the offer costs of the initial public offer (IPO).

We would like to thank our Fund Managers and service providers for their support and generosity in the establishment and ongoing operations of HM1. We would also like to thank you, our shareholders, for supporting HM1's combined objective of providing a compelling and attractive investment proposition whilst also supporting the advancement of medical research in Australia.

Notice of Meeting

We look forward to welcoming you at our first AGM. Please see the accompanying Notice of Meeting for the Agenda and the proposed resolutions and explanatory memorandum. In particular, I would like to draw your attention to Resolution 10: Variation of Investment Allocation. Resolution 10 proposes a variation in our investment allocation to allow the inclusion of an additional Core Fund Manager for HM1. I provide some background to this resolution below.

Proposed new Core Fund Manager

Recently HM1 was approached by TDM Growth Partners (TDM), a global investment firm, who expressed a desire to become one of our Core Fund Managers, adding their expertise to that of our existing group of five Core Fund Managers. TDM has a deep belief that it has a responsibility to give back to the community and feel deeply aligned to HM1's mission.

Our initial reaction was to, somewhat reluctantly, say no. We have five outstanding Core Fund Managers who are doing an outstanding job. Further, we had been quite explicit during the IPO that we wouldn't tap our shareholders for additional capital. As we got to further understand TDM's investment approach and track record however, we concluded that our initial negative response may have been too hasty.

TDM invests in fast growing companies run by passionate management teams. Their unique and flexible mandate allows them to invest in public and private companies globally. TDM operates on long-term time horizons, fully aligned incentives, and a commitment to help scale businesses they are proud of. They have a highly focused approach to investing, with a portfolio of no more than 15 investments globally.

Over the last 14 years, they have provided returns for their clients that are well in excess of the market. It is also true that it is quite hard to become a client of TDM. They only have 20 clients and will only take funds from like-minded, long term investors.

It is the view of the Board that TDM meets the criteria to be engaged as a Core Fund Manager and would assist the Company to implement its investment strategy. In reaching this conclusion, the Board has considered TDM's skill and expertise, performance, investment style, and willingness to provide recommendations without any investment fees. It is clear to the Board that engaging TDM as the sixth Core Fund Manager would be favourable in implementing the Company's investment strategy.

To add TDM as a Core Fund Manager to HM1, Resolution 10 proposes that the Company vary its investment allocation in relation to its Core Fund Managers as follows:

(a) Conference Fund Managers: approximately 35% of the Portfolio will be held in securities based on the annual recommendations of Fund Managers who present at the Conference.

*(b) Core Fund Managers: approximately 65% of the Portfolio will be held in securities based on the quarterly recommendations of **six** leading Fund Managers selected by the Company.*

*The definition of Core Fund Managers be amended to mean Caledonia (Private) Investments Pty Limited (ACN 003 977 115), Cooper Investors Pty Limited (ABN 26 100 409 890), Magellan Asset Management Limited (ABN 31 120 593 946), Paradise Investment Management Pty Ltd (ABN 64 090 148 619) and Regal Funds Management Pty Limited (ABN 30 107 576 821), and **TDM Growth Partners Pty Limited (ABN 91 133 246 330)**;*

Proposed Renounceable Entitlement Offer

If Shareholders approve the proposed variation to the Company's investment allocation (Resolution 10), the Company proposes to raise additional funds to allocate to TDM. The existing core portfolio has been performing very well and we do not believe it would be prudent to sell any portion of it to fund TDM's allocation. Selling from the existing portfolio would result in the potential crystallisation of taxation liabilities, and it would reduce the allocation of funds to the current Core Fund Managers who have been providing strong returns.

Accordingly, if Resolution 10 is duly passed, the Company proposes to raise an additional \$62,500,000 by completing a 1 for 8 renounceable entitlement offer of 25,000,000 ordinary shares at the original IPO price of \$2.50 per share ("Renounceable Entitlement Offer"). As mentioned, the proceeds from the Renounceable Entitlement Offer will be allocated to TDM to invest on behalf of HM1.

The proposed Renounceable Entitlement Offer will be fully renounceable, and should you not wish to invest more money in the Company, you can trade your entitlements ("rights") on the ASX or let your rights lapse and be sold through the Shortfall Bookbuild and therefore realise value for your rights. If Resolution 10 is approved, the record date for the proposed Renounceable Entitlement Offer will be announced after the AGM.

Please note that the Company is not required to seek Shareholder approval for the variation of investment allocation or the proposed Renounceable Entitlement Offer but the Board has decided to seek this approval for transparency and good governance.

The Board recommends Resolution 10 as it provides access to a very credible fund manager in TDM in a tax efficient way. It also provides the benefit of increasing the size of the Portfolio and therefore help the Company's philanthropic purpose of generating funds for medical research.

A handwritten signature in black ink, appearing to read "Chris Cuffe". The signature is written in a cursive, flowing style.

Chris Cuffe AO
Chairman

25 October 2019