



Hearts and Minds Investments Limited

ABN 61 628 753 220

Appendix 4D Half Year Report for the half year ended 31 December 2019

The comparative period for the results is from 12 September 2018 (the date of incorporation) to 31 December 2018. The comparative for the Net tangible asset backing per share is at 30 June 2019.

Results for announcement to the market

	% Change	Half Year ended 31 Dec 2019 \$	12 Sep 2018 to 31 Dec 2018 \$
Revenue from ordinary activities	438%	4,156,478	772,567
Profit/(Loss) from ordinary activities after tax attributable to members	186%	330,141	(382,067)
Other comprehensive income/(loss), net of tax	414%	37,462,776	(11,920,243)
Total comprehensive income/(loss), net of tax	407%	37,792,917	(12,302,310)

Dividend Information

There were no dividends paid or proposed for the period. The Company has announced a dividend reinvestment plan.

Net Tangible Asset Backing

	As at 31 Dec 2019	As at 30 Jun 2019
Net tangible asset backing (after tax) per share	\$2.98	\$2.85

This report is based on the Interim Financial Report which has been subject to independent review by the Auditors, Pitcher Partners. All the documents comprise the information required by Listing Rule 4.2A. The information should be read in conjunction with the 30 June 2019 Annual Financial Report.



Hearts and Minds Investments Limited

ACN 628 753 220

Interim Financial Report for the period ended 31 December 2019

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Corporate Directory

Directors <i>(Pro bono)</i>	Christopher Cuffe AO Lorraine Berends Guy Fowler Matthew Grounds AM Michael Traill AM Gary Weiss AM Geoffrey Wilson AO David Wright	Chairman and Independent Director Independent Director Independent Director Independent Director Independent Director Independent Director Independent Director
Company Secretary <i>(Pro bono)</i>	Tom Bloomfield	
Investment Committee <i>(Pro bono)</i>	David Wright Christopher Cuffe AO Lorraine Berends Brett Paton Paul Rayson	Chairman
Core Fund Managers <i>(Pro bono)</i>	Caledonia (Private) Investments Pty Limited Cooper Investors Pty Limited Magellan Asset Management Limited Paradice Investment Management Pty Limited Regal Funds Management Pty Limited	
2018 Conference Fund Managers <i>(Pro bono)</i>	Airlie Funds Management Auscap Asset Management Cooper Investors Cota Capital Elephant Asset Management Firetrail Investments Montaka Global Investments	Munro Partners Paradice Investment Management Pengana Capital Group Tekne Capital Management Tribeca Investment Partners Wilson Asset Management
Registered Office	Boardroom Pty Limited Level 12, 225 George Street Sydney NSW 2000	
Auditor	Pitcher Partners Level 16, Tower 2 Darling Park 201 Sussex Street, NSW 2000 Telephone: (02) 9221 2099	
Administrator <i>(Pro bono)</i>	Citco Fund Services (Australia) Pty Limited Level 22, 45 Clarence Street Sydney NSW 2000 Telephone: (02) 9005 0400	
Share Registrar <i>(Pro bono)</i>	Boardroom Pty Limited Level 12, 225 George Street Sydney NSW 2000 Telephone: (02) 9290 9600	
Stock Exchange	Australian Securities Exchange The home exchange is Sydney ASX code: HM1 Ordinary Shares	

Directors' Report to Shareholders

The Directors present their report together with the financial report of Hearts and Minds Investments Limited ("HM1" or "the Company") for the half year ended 31 December 2019. Comparative figures shown below are for the date of incorporation on 12 September 2018 to 31 December 2018.

Directors

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

Christopher Cuffe AO	Chairman and Independent Director
Lorraine Berends	Independent Director
Guy Fowler	Independent Director
Matthew Grounds AM	Independent Director
Michael Traill AM	Independent Director
Gary Weiss AM	Independent Director
Geoffrey Wilson AO	Independent Director
David Wright	Independent Director

Investment Objectives and Principal Activity

HM1 was established with the combined objective of providing a concentrated portfolio of the highest conviction ideas from leading fund managers, whilst also supporting Australian medical research institutes.

HM1 seeks to provide shareholders with a compelling and attractive investment proposition by creating a concentrated portfolio of long positions in 25 to 30 Australian and international listed securities based on the highest conviction ideas from two groups of fund managers.

- a) HM1 has allocated 35% of its investment portfolio based on the annual recommendations of fund managers who present at the Sohn Hearts & Minds Investment Leaders Conference (Conference Fund Managers).
- b) HM1 has allocated 65% of its investment portfolio based on the highest conviction ideas of six leading fund managers (Core Fund Managers). These fund managers are Caledonia (Private) Investments Pty Limited, Cooper Investors Pty Limited, Magellan Asset Management Limited, Paradise Investment Management Pty Limited, Regal Funds Management Pty Limited and TDM Growth Partners.

No change in this activity took place during the period or is likely in the future.

Operating and Financial Review

For the half year ended 31 December 2019, the Company reported total comprehensive income after tax of \$37,792,917 (2018: total comprehensive loss after tax of \$12,302,310). The half year result comprises net income after tax from ordinary activities of \$330,141 (2018: net loss of \$382,067) and other comprehensive income after tax of \$37,462,776 (2018: other comprehensive loss after tax of \$11,920,243). The result for the period reflects the investment portfolio's performance over the six months to 31 December 2019. The investment portfolio returned 8.8% over the period net of expenses. Over the same period the MSCI World Net TR (AUD) index, a global equity investment benchmark, increased 9.0%. The benchmark is measured before expenses and tax.

The result for the half year includes net realised gains from the disposal of our 2018 Conference Portfolio and the movement in the market value over the period of our Core Portfolio and new 2019 Conference Portfolio. The financial result for each financial period is reflective of the performance of our investment portfolio over that period and may be volatile over any financial period. Our investment portfolio performance since inception on 14 November 2018 is set out below.

Investment Portfolio Performance

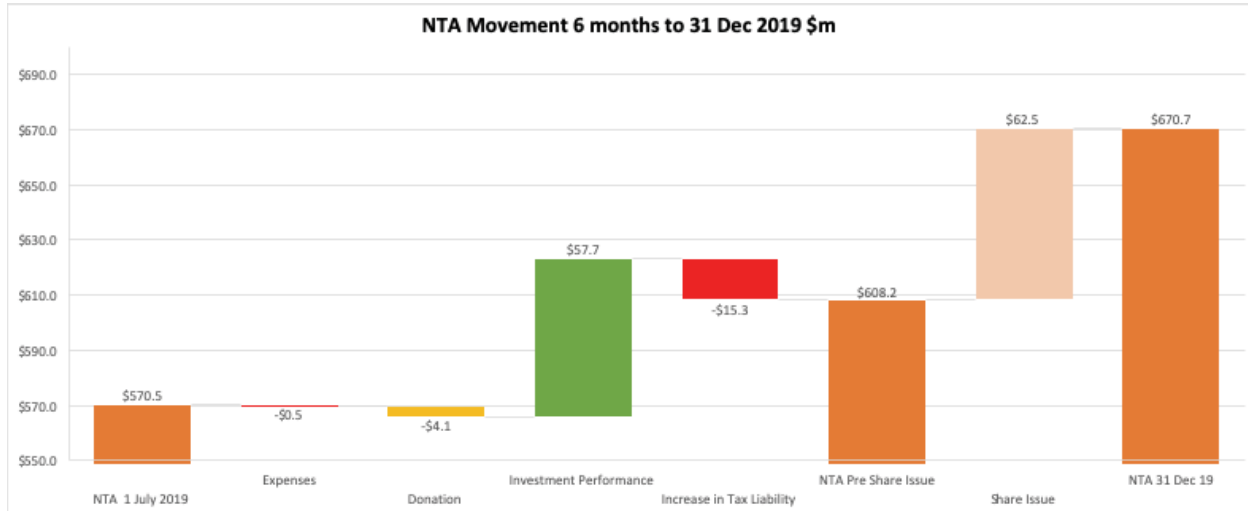
Investment Performance as at 31 December 2019	Six Months	1 Year	Since inception (14 Nov 2018)
HM1 Investment Portfolio Performance	8.8%	35.2%	30.5%
MSCI World Net TR (AUD) Index	9.0%	27.9%	22.8%
Out/(Under) performance	(0.2)%	7.3%	7.7%

HM1 investment portfolio performance is calculated based on a before tax basis and after all expenses. Index returns are before expenses and before tax.

Since inception on 14 November 2018, HM1's investment portfolio has delivered a return of 30.5%, which is well in excess of the benchmark performance of 22.8%. The strong investment performance is partly attributable to favourable global markets and a slight fall in the Australian dollar over the period. However, the outperformance to the index is largely due to the stock selection of our participating fund managers and the concentrated nature of the portfolio.

Change in Net Tangible Assets (NTA)

The Net Tangible Assets (NTA) of the Company increased from \$570,453,028 at 30 June 2019 to \$670,745,945 at 31 December 2019. The chart below shows the components of the change in NTA over this period. Pre-tax investment returns added \$57,674,730 in value over the six months. After expenses and tax, NTA increased 6.6% for the six months (prior to the new share issue). The provision for tax liabilities is the primary difference between the investment performance of 9.2% and the NTA performance of 9.2%. Payment of tax liabilities will generate franking credits that will be available for future distribution to shareholders.



In December 2019, HM1 raised \$62,500,000 from the issue of 25,000,000 new ordinary shares issued at \$2.50 pursuant to a fully renounceable rights issue to existing shareholders. The funds raised were used to invest in the three highest conviction investment recommendations from our new Core Fund Manager, TDM Growth Partners. TDM Growth Partners have a strong performance record for their clients and we are pleased to have them as our sixth Core Fund Manager.

Total Shareholder Return

Total Shareholder Return (TSR) measures the change in share price plus dividends paid (if any). HM1's share price increased 14% over the half year from \$2.86 on 28 June 2019 to \$3.27 on 31 December 2019. Since inception on 14 November 2018 the HM1 share price has increased 30.8%. No dividends have yet been declared or paid by HM1.

Medical Research

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 and service providers forego any fees and instead an amount equivalent to 1.5% of net tangible assets per annum is donated to designated charities.

The current designated charities are Victor Chang Cardiac Research Institute, Black Dog Institute, Brain and Mind Centre at Sydney University, Charlie Teo Foundation, The Children's Hospital at Westmead – Paediatric Intensive Care Unit, The Florey Institute of Neuroscience and Mental Health, Multiple Sclerosis Research Australia Limited, Orygen, Centre of Human Psychopharmacology at Swinburne University and Royal Prince Alfred Hospital Emergency Research.

In the half year to 31 December 2019 the Company has accrued \$4.1m in donations based on 1.5% of the Company's net tangible assets over the period. This amount will be paid to the above named charities during March 2020 to fund medical research.

We would like to thank our participating fund managers and service providers for their outstanding and continued generosity since listing.

Corporate Tax Rate

The Company is taxed at the corporate rate of 30.0% The Company maintains a franking account and may declare franked dividends to shareholders.

Dividends

HM1 provides shareholders with exposure to a concentrated portfolio of Australian and international securities. As such, returns to shareholders are predominantly delivered through capital growth. The Board is committed to paying fully franked dividends to shareholders provided the Company has sufficient profit reserves and franking credits and it is within prudent business practice. The Board has not declared a dividend in respect to the half year to 31 December 2019. The Board will consider a dividend payment for the full financial year ending 30 June 2020.

Rounding of Amounts to Nearest Dollar

In accordance with ASIC Corporations (rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report and Interim Financial Statements have been rounded to the nearest dollar, unless otherwise indicated.

Auditors Independence Declaration

A copy of the Auditor's independence declaration as required under Section 307C of the Corporations Act 2001 in relation to the review for the half year is set out on page of this Financial Report.

Signed in accordance with a resolution of the Board of Directors.



Christopher Cuffe AO
Chairman and Independent Director

Sydney
27 February 2020



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**Auditor's Independence Declaration
To the Directors of Hearts and Minds Investments Limited
ABN 61 628 753 220**

In relation to the independent auditor's review of Hearts and Minds Investments Limited for the half-year ended 31 December 2019, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor's independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'S M Whiddett'.

S M Whiddett
Partner

Pitcher Partners
Sydney

27 February 2020

		For the period from 1 July 2019 to 31 December 2019	For the period from 12 September 2018 (date of incorporation) to 31 December 2018
	Notes	\$	\$
Investment income from ordinary activities			
Net realised and unrealised gains on foreign exchange transactions		233,197	275,808
Interest income		36,648	50,515
Dividend income, net of withholding tax of \$298,073 (31 December 2018: \$44,317)		3,869,771	441,617
Sundry income		16,862	4,627
Total investment income		4,156,478	772,567
Expenses			
Donations	4	(4,100,000)	–
Offer costs	4	–	(997,306)
Interest expense		(4,094)	–
Employee costs		(202,020)	(69,388)
Other expenses		(297,823)	(316,866)
Total expenses		(4,603,937)	(1,383,560)
Loss before income tax		(447,459)	(610,993)
Income tax benefit	3	777,600	228,926
Net income/(loss) for the period		330,141	(382,067)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Net realised gains/(losses) on investments taken to equity, net of tax	7	46,736,392	(334,763)
Net unrealised losses on investments taken to equity, net of tax		(9,273,616)	(11,585,480)
Net realised and unrealised gains/(losses) on investments taken to equity, net of tax		37,462,776	(11,920,243)
Other comprehensive income for the period, net of tax		37,462,776	(11,920,243)
Total comprehensive income for the period		37,792,917	(12,302,310)
		Cents	Cents
Earnings/(loss) per share attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings/(loss) per share	8	0.0016	(0.0045)

The accompanying notes form part of these interim financial statements.

	Notes	31 December 2019 \$	30 June 2019 \$
Assets			
Current assets			
Cash and cash equivalents		62,452,675	7,052,020
Other receivables		13,287	53,498
Total current assets		62,465,962	7,105,518
Non-current assets			
Financial assets at fair value through other comprehensive income	10	670,078,903	593,088,374
Deferred tax assets	3	1,162,487	1,290,040
Total non-current assets		671,241,390	594,378,414
Total assets		733,707,352	601,483,932
Liabilities			
Current liabilities			
Current tax liability		21,069,701	1,929,264
Amounts due to brokers		13,043,075	–
Donation provision		4,100,000	–
Other payables		–	362,895
Total current liabilities		38,212,776	2,292,159
Non-current liabilities			
Deferred tax liabilities	3	24,748,631	28,738,745
Total non-current liabilities		24,748,631	28,738,745
Total liabilities		62,961,407	31,030,904
Net assets		670,745,945	570,453,028
Equity			
Share capital	6	562,500,001	500,000,001
Reserves	7	108,245,944	71,199,327
Accumulated losses	7	–	(746,300)
Total equity		670,745,945	570,453,028

The accompanying notes form part of these interim financial statements.

	Notes	Share capital \$	Investment portfolio revaluation reserve \$	Profits reserve \$	Retained earnings/ accumulated losses \$	Total \$
Balance at 12 September 2018		1	–	–	–	1
Net loss for the period	7	–	–	–	(382,067)	(382,067)
Other comprehensive loss, net of tax		–	(11,920,243)	–	–	(11,920,243)
Transfer to accumulated losses	7	–	334,763	–	(334,763)	–
Transactions with equity holders in their capacity as owners:						
Shares issued under Initial Public Offering (“IPO”)	6	500,000,000	–	–	–	500,000,000
Balance at 31 December 2018		500,000,001	(11,585,480)	–	(716,830)	487,697,691
Balance at 30 June 2019						
		500,000,001	67,020,422	4,178,905	(746,300)	570,453,028
Net income for the period	7	–	–	–	330,141	330,141
Other comprehensive income, net of tax		–	37,462,776	–	–	37,462,776
Transfer to profits reserve	7	–	(46,736,392)	46,736,392	–	–
Transfer from profits reserve		–	–	(416,159)	416,159	–
Transactions with equity holders in their capacity as owners:						
Shares issued	6	62,500,000	–	–	–	62,500,000
Balance at 31 December 2019		562,500,001	57,746,806	50,499,138	–	670,745,945

The accompanying notes form part of these interim financial statements.

	Notes	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 31 December 2018 \$
Cash flows from operating activities			
Interest received		36,648	50,515
Dividends received		3,922,131	347,311
Other income received		11,482	–
Interest paid		(3,939)	–
Offer costs paid		(280,908)	–
Payments for other expenses		(588,753)	(78,004)
Net cash provided by operating activities	9	3,096,661	319,822
Cash flows from investing activities			
Proceeds from sales of investments		300,195,198	2,250,559
Payments for purchases of investments		(310,624,401)	(492,180,651)
Net cash used in investing activities		(10,429,203)	(489,930,092)
Cash flows from financing activities			
Proceeds from issuance of shares		62,500,000	500,000,001
Net cash provided by financing activities		62,500,000	500,000,001
Net increase in cash and cash equivalents		55,167,458	10,389,731
Cash and cash equivalents at the beginning of the period		7,052,020	–
Effect of foreign currency exchange rate changes on cash and cash equivalents		233,197	275,808
Cash and cash equivalents at the end of the period		62,452,675	10,665,539

The accompanying notes form part of these interim financial statements.

1 General information

Hearts and Minds Investments Limited (the “Company”) is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded. The registered office is Level 12, 225 George Street, Sydney NSW 2000.

The Company was incorporated on 12 September 2018. Its shares were admitted for quotation on the Official List of ASX Limited (“ASX”) on 9 November 2018 and commenced operations on 14 November 2018. The interim financial statements of the Company are for the period from 1 July 2019 to 31 December 2019.

The interim financial statements were authorised for issue on 27 February 2020 by the Board of Directors.

2 Summary of significant accounting policies

(a) Basis of preparation

These general purpose financial statements for the interim period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year.

In accordance with ASIC Corporations Instrument 2016/191, the amounts in the interim financial report have been rounded to the nearest dollar, unless otherwise indicated.

(b) Revenue recognition

(i) Investment gains and losses

Profits and losses realised from the sale of investments and unrealised gains and losses on securities held at fair value are included in the Statement of Comprehensive Income in the period they are incurred, in accordance with the policies described in Note 2(c).

(ii) Dividends

Dividends are recognised as revenue in the Statement of Comprehensive Income when the right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues in the Statement of Comprehensive Income based on nominated interest rates available on the bank accounts held.

(c) Investments and other financial assets

Classification

The Company has classified its investments as long-term in nature and has elected to recognise investments at fair value through other comprehensive income. All gains and losses on long-term investments and tax thereon are presented in other comprehensive income as part of the Statement of Comprehensive Income.

2 Summary of significant accounting policies (continued)

(c) Investments and other financial assets (continued)

Recognition and derecognition

Purchases and/or sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has substantially transferred all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value in the Statement of Financial Position. Transaction costs for financial assets carried at fair value through other comprehensive income are included as part of the initial measurement.

The fair value of financial assets is based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Usually, the quoted market prices on a recognised exchange or, in its absence, the most advantageous market to which the Company has access at that date. The Company's accounting policy on fair value is disclosed in Note 10.

Changes in the fair value for financial assets at fair value through other comprehensive income are recognised through the Investment portfolio revaluation reserve after deducting a provision for the potential deferred tax liability.

When a financial asset held at fair value through other comprehensive income is disposed, the cumulative gain or loss, net of tax thereon, is transferred from the Investment portfolio revaluation reserve to the profits reserve.

(d) Amounts due from/to brokers

Amounts due from/to brokers comprise sales or purchase transactions awaiting settlement. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the broker used.

(e) Other receivables

Other receivables are non-derivative financial assets and are stated at their amortised cost. At each reporting date, the Company reviews the carrying values of its non-financial assets to determine whether there is any indication that those assets may be impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and the value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable value is expensed to the Statement of Comprehensive Income.

(f) Donation Provision

In line with the Company's philanthropic objectives, the Company donates a percentage of the Company's net tangible assets to leading Australian medical research organisations every six months. The donations are equal to 1.5% per annum of the average monthly net tangible assets for the previous half-year. The Donation Provision represents the amount provided for donations at the reporting date.

(g) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Australian dollars ("AUD" or "\$") which is the Company's functional and presentation currency.

2 Summary of significant accounting policies (continued)

(g) Foreign currency translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of fair value gain or loss.

(h) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and deferred tax liabilities attributable to temporary differences and unused tax losses, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amounts of recognised and unrecognised deferred tax assets are reviewed at each reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the Company has a legally enforceable right to offset and intends to settle on a net basis.

Current and deferred tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity as appropriate.

(i) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, unless GST incurred is not recoverable from the Australian Taxation Office. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the Statement of Financial Position.

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2 Summary of significant accounting policies (continued)

(k) Issued capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares have been recognised in the Statement of Comprehensive Income, net of any tax effects.

(l) Profits reserve

A profits reserve is made up of amounts transferred from current and retained earnings and realised gains on disposal of financial assets that is preserved for future dividend payments and to cover any net losses incurred in the period.

(m) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period. In accordance with the Corporations Act 2001, the Company may pay a dividend where the Company's assets exceed its liabilities, the payment of the dividend is fair and reasonable to the Company's shareholders as a whole and the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

(n) Earnings/(loss) per share

(i) Basic earnings/(loss) per share

- the profit/(loss) attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial period.

(ii) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(o) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data.

The investments of the Company are managed by fund managers who provide their expertise and stock recommendations to the Company on a pro bono basis. Therefore, the investment portfolio of the Company does not incur any fund management fees. It is estimated that the investments fees forgone by the fund managers based on normal commercial terms for the period to 31 December 2019 equates to \$3,950,000 (31 December 2018: \$800,000). This notional benefit to the Company is not included in the financial statements of the Company. Other than this estimate, there are no estimates or judgements that have a material impact on the Company's financial results for the period ended 31 December 2019.

3 Income tax

(a) Income tax expense

	For the period from 1 July 2019 to 31 December 2019	For the period from 12 September 2018 (date of incorporation) to 31 December 2018
	\$	\$
The prima facie tax on loss before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax expense on the net profit at 30%	(134,238)	(183,871)
Imputation credits and foreign tax credits claimed at 100%	(821,374)	(58,350)
Imputation credits gross up on dividends received	196,041	–
Foreign tax credits gross up dividends received	50,371	13,295
Non-assessable income	(68,400)	–
Income tax benefit recognised in profit or loss	(777,600)	(228,926)
Deferred tax benefit on net unrealised losses on investments	(3,974,407)	(4,965,206)
Income tax on net realised gains on investments	20,029,882	(143,470)
Income tax expense recognised in other comprehensive income	16,055,475	(5,108,676)
Total income tax expense	15,277,875	(5,337,602)

(b) Total income tax expenses results in a:

	For the period from 1 July 2019 to 31 December 2019	For the period from 12 September 2018 (date of incorporation) to 31 December 2018
	\$	\$
Current income tax liability	(889,446)	(229,153)
Deferred tax assets	127,553	227
Deferred tax liabilities	(15,707)	–
Income tax benefit recognised in profit or loss	(777,600)	(228,926)
Deferred tax benefit on net unrealised losses on investments	(3,974,407)	(4,965,206)
Current income tax liability on net realised gains on investments	20,029,882	(143,470)
Income tax expense recognised in other comprehensive income	16,055,475	(5,108,676)
Total income tax expense	15,277,875	(5,337,602)

3 Income tax (continued)

(c) Movement in deferred tax assets relate to the following:

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 30 June 2019 \$
Beginning balance	1,290,040	–
Costs associated with the issue of shares	(157,722)	1,261,778
Provisions	(24,596)	24,596
Net unrealised losses on foreign exchange transactions	54,765	3,666
	1,162,487	1,290,040

(d) Movement in deferred tax liabilities relate to the following:

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 30 June 2019 \$
Beginning balance	28,738,745	–
Net unrealised (losses)/gains on investments	(3,974,407)	28,723,038
Dividend receivable on shares	(15,707)	15,707
	24,748,631	28,738,745

4 Offer costs and donations

In line with the Company's philanthropic objectives, the Company donates a percentage of the Company's net tangible assets to leading Australian medical research organisations every six months. The donations are equal to 1.5% per annum of the average monthly net tangible assets for the previous half-year and roughly equivalent to the value of the investment management fees foregone by participating fund managers. The donations accrue monthly and regardless of the performance of the Company, and may vary month-to-month in proportion to the net tangible asset value. The accrual of the donation amount each month increases expenses and decreases the Company's net tangible assets.

For the period from 1 July 2019 to 31 December 2019, the amount recognised in the Statement of Comprehensive Income as a donation expense was \$4,100,000. This amount will be paid to designated medical research organisations in the first quarter of 2020.

5 Dividends

Dividend franking account

	For the period from 1 July 2019 to 31 December 2019	For the period from 12 September 2018 (date of incorporation) to 31 December 2018
	\$	\$
Beginning balance	619,398	–
Franking credits on dividends received	653,470	–
Ending balance	1,272,868	–

There were no dividend payments for the periods from 1 July 2019 to 31 December 2019 and from 12 September 2018 (date of incorporation) to 31 December 2018.

6 Share capital

(a) Issued capital

	31 December 2019	31 December 2019
	No. of shares	\$
Ordinary shares	225,000,001	562,500,001
	30 June 2019	30 June 2019
	No. of shares	\$
Ordinary shares	200,000,001	500,000,001

(b) Movements in share capital

	For the period from 1 July 2019 to 31 December 2019	For the period from 1 July 2019 to 31 December 2019
	No. of shares	\$
Opening balance	200,000,001	500,000,001
Shares issued at \$2.50 per share	25,000,000	62,500,000
Closing balance	225,000,001	562,500,001

6 Share capital (continued)
(b) Movements in share capital (continued)

	For the period from 12 September 2018 (date of incorporation) to 31 December 2018 No. of shares	For the period from 12 September 2018 (date of incorporation) to 31 December 2018 \$
Opening balance	1	1
Shares issued under IPO at \$2.50 per share	200,000,000	500,000,000
Closing balance	200,000,001	500,000,001

On 27 December 2019, the Company issued 25,000,000 fully paid ordinary shares at \$2.50 per share pursuant to a fully renounceable rights issue to existing shareholders.

7 Reserves and retained earnings
(a) Reserves

	31 December 2019 \$	30 June 2019 \$
Investment portfolio revaluation reserve	57,746,806	67,020,422
Profits reserve	50,499,138	4,178,905
Total reserves	108,245,944	71,199,327

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 30 June 2019 \$
Investment portfolio revaluation reserve		
Opening balance	67,020,422	–
Net realised gains on investments	66,766,274	5,969,864
Income tax on net realised gains on investments	(20,029,882)	(1,790,959)
Net unrealised (losses)/gains on investments	(13,248,023)	95,743,460
Deferred income tax on net unrealised (losses)/gains on investments	3,974,407	(28,723,038)
Transfer to profits reserve	(46,736,392)	(4,178,905)
Closing balance	57,746,806	67,020,422

7 Reserves and accumulated losses (continued)

(a) Reserves (continued)

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 30 June 2019 \$
Profits reserve		
Opening balance	4,178,905	–
Transfer from investment portfolio revaluation reserve	46,736,392	4,178,905
Transfer to accumulated losses	(416,159)	–
	50,499,138	4,178,905

There were no transfers from investment portfolio revaluation reserve to profits reserve for the period from 12 September 2018 (date of incorporation) to 31 December 2018.

(b) Accumulated losses

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 30 June 2019 \$
Opening balance	(746,300)	–
Net income/(loss) for the period	330,141	(746,300)
Transfer to profits reserve	(416,159)	–
	–	(746,300)

8 Earnings/(loss) per share

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 31 December 2018 \$
Net income/(loss) for the period used in the calculation of basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company	330,141	(382,067)

8 Earnings/(loss) per share (continued)

(a) Basic and diluted earnings/(loss) per share

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 31 December 2018 \$
Basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company	0.0016	(0.0045)

(b) Weighted average number of shares used as denominator

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 31 December 2018 \$
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company	201,177,132	84,108,806

The weighted average number of shares used as the denominator in calculating basic and diluted earnings/(loss) per share is based on the average number of shares from 1 July 2019 to 31 December 2019 and for the comparative from 12 September 2018 (date of incorporation) to 31 December 2018.

As the end of the period, there are no outstanding securities that are potentially dilutive in nature for the Company.

9 Reconciliation of net income/(loss) for the period to net cash provided by operating activities

	For the period from 1 July 2019 to 31 December 2019 \$	For the period from 12 September 2018 (date of incorporation) to 31 December 2018 \$
Net income/(loss) for the period	330,141	(382,067)
Effects of foreign currency exchange rate changes on cash and cash equivalents	(233,197)	(275,808)
Change in operating assets and liabilities:		
Decrease/(increase) in other receivables	40,211	(98,933)
Increase in deferred tax assets	–	(228,926)
Increase in amounts due to brokers	182,318	–
Decrease in current tax liability	(944,210)	–
Increase in Donation provision	4,100,000	
(Decrease)/Increase in other payables	(362,895)	1,305,556
Decrease in deferred tax liabilities	(15,707)	–
Net cash provided by operating activities	3,096,661	319,822

10 Financial Assets

Fair value measurements

(a) Fair value estimation

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset takes place either in the principal market for the asset or, in the absence of a principal market, in the most advantageous market for the asset. The principal or the most advantageous market must be accessible to the Company. The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted closing price, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

For assets that are measured at fair value on a recurring basis, the Company identifies transfers between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole), and deems transfers to have occurred at the beginning of each reporting period.

10 Financial Assets (continued)

(b) Fair value hierarchy

AASB 13 *Fair Value Measurement* requires the disclosure of fair value information using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following tables present the Company's assets measured and recognised at fair value:

31 December 2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets at fair value through other comprehensive income				
Listed equity securities on major exchanges	670,078,903	–	–	670,078,903
Total financial assets at fair value through other comprehensive income	670,078,903	–	–	670,078,903
30 June 2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets at fair value through other comprehensive income				
Listed equity securities on major exchanges	593,088,374	–	–	593,088,374
Total financial assets at fair value through other comprehensive income	593,088,374	–	–	593,088,374

There were no transfers between levels for recurring fair value measurements during the period ended 30 June 2019 and 31 December 2019.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

The carrying amounts of other receivables and other payables are assumed to approximate their fair values due to their short-term nature.

11 Segment information

The Company has only one reportable segment. The Company is engaged solely in investment activities, deriving revenue from dividend income, interest income and from the sale of its investments.

12 Contingencies and commitments

Per the Prospectus dated 28 September 2018, the Company contributes a percentage of its assets to Designated Charities to support leading Australian medical research organisations. The contribution is accrued monthly and is equal to 1.5% of the Company's average monthly net tangible assets. As at 31 December 2019, the six month accrued commitment is \$4,100,000.

13 Events occurring after the reporting period

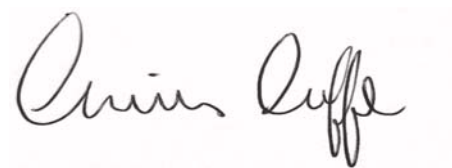
No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

Directors' Declaration

In accordance with a resolution of the Directors of Hearts and Minds Investments Limited (the "Company"), the Directors of the Company declare that:

- (a) The financial statements and notes as set out in pages 6 to 22, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting*, which, as stated in Note 2 to the interim financial statements, constitutes compliance with International Financial Reporting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the financial position of the Company as at 31 December 2019 and of its performance, as represented by the results of the operations and the cash flows, for the interim period ended on that date.
- (b) At the date of this declaration, in the Director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.



Christopher Cuffe AO
Chairman and Independent Director

Sydney
27 February 2020

**Independent Auditor's Review Report
To the Members of Hearts and Minds Investments Limited
ABN 61 628 753 220**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Hearts and Minds Investments Limited ("the company"), which comprises the statement of financial position as at 31 December 2019, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: "*Review of a Financial Report Performed by the Independent Auditor of the Entity*", in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: "*Interim Financial Reporting*" and the *Corporations Regulations 2001*. As the auditor of Hearts and Minds Investments Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the half-year financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

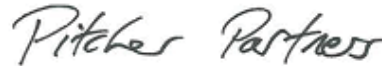
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hearts and Minds Investments Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.



S M WHIDDETT
Partner



PITCHER PARTNERS
Sydney

27 February 2020