

6 April 2020

The Manager
ASX Market Announcements
ASX Limited
Exchange Centre
Level 4, 20 Bridge Street
Sydney NSW 2000

Dear Shareholders,

Please find attached Hearts and Minds Investments Limited's March Investment Update.

If you would like to receive these monthly investment updates via email please [click here](#).

For and on behalf of the board,



Tom Bloomfield
Company Secretary

Investment objective

Provide a concentrated portfolio of long-only positions in 25-35 Australian and globally listed securities based on the highest conviction ideas from leading fund managers. The Company will forego any investment fees and instead donate to leading Australian medical research institutes.

Portfolio Commentary

During March, the portfolio delivered an investment loss of 14.2%, compared to a loss of 8.6% in the MSCI World Net Total Return Index (AUD). Developed Market (DM) indices were all down between 10-21% over the month (S&P 500 -12.5%; ASX 200 -21%; Nasdaq -10%). The 5.9% decline in the Australian dollar against the US dollar mitigated the losses in our portfolio, as we hold roughly 75% of our portfolio in offshore companies. Since inception (November 2018), the investment portfolio is up 17.1% compared to 11.4% for the benchmark. Our Net Tangible Asset value decreased by 10.8% during March and is now up 11.1% since inception. The share price at the end of March was \$2.40, down 4% since inception.

US stocks had the worst quarter since the Global Financial Crisis in 2008, with the S&P losing $\frac{1}{5}$ th of its value. The volatility was unprecedented, with the average daily move in the index during March over 5% per day. COVID-19 cases have increased 10-fold in the last month, with over 1,000,000 positive cases now confirmed. On top of this, in what has been described as the Double Black Swan, we have seen an oil price war erupt between Russia and Saudi Arabia. For the month, oil fell 54%. Late last week the oil price bounced 25% in a day, on hopes of a truce between the warring nations and production cuts of up to 10m barrels per day. We shall see. Governments around the world have made emergency interest rate cuts, slashing already low rates to next to zero, in a hope of freeing up credit markets. The US Government also announced a \$2T stimulus package. The US 10 year bond rate fell to just 0.69%. In the words of former ECB boss Mario Draghi back in 2012, it seems that Governments and Central banks will do "whatever it takes" to save the economies and livelihoods of their people.

Companies around the world continue to withdraw or downgrade the profit guidance given to investors. This has further increased uncertainty in markets. Some have suggested the stock markets close until companies can inform investors about their sustainability.

We cannot hide from our underperformance in this period. Both the Core portfolio and the Conference portfolio performed poorly this month.

In our Core portfolio, materials stocks were hit very hard this month, as were the consumer discretionary and communications sectors. Oil prices halved, marketing spend has been slashed, and many consumer discretionary companies have been forced to close their doors. As per our sector allocation chart, we have exposure to these sectors. We have been in contact with all of our managers, and asked for confirmation as to whether each of the investment theses remains intact given the changed outlook for the next 12 months. In response to this we have made some changes to our portfolio. We have reduced exposures to companies where it looks like recovery will be difficult. We have increased exposure to companies that are less impacted by COVID-19 but have been dragged down by across-the-board selling that equity markets have experienced. There will always be opportunities in markets, and a disciplined risk management approach is the only way to take advantage of such times.

The Conference portfolio also underperformed. We have spoken before about the incredible performance of [Tesla](#) in the first two months of 2020. In March, Tesla fell 22%. So whilst it remains almost 50% above our purchase price, the 22% fall had a significant impact on our monthly performance. Floor and Decor (-37%); The Trade Desk (-33%) and Wizz Air (-32%) also fell far more than the market, and were the major detractors to our performance. A2 Milk had a good month and is up 7.7%. You can read about A2 Milk over the page in this month's stock profile. As with the Core managers, we have spoken with all of our Conference managers during this time, and have also made some changes to this part of the portfolio.

Even the highest conviction ideas from the best managers are not immune from market crashes. We are in unprecedented times. Fear has gripped the world's population. No one knows how long this pandemic will last, or how many lives will be lost. Good stocks have been sold down with bad stocks in a rush to safety. Many companies will not survive the upcoming economic downturn. Our managers have analysed their companies, and where they do not see a meaningful recovery, they have communicated that to us, and we have acted on it swiftly. Capital preservation is at the heart of every decision we make.

Thanks for your support



Rory Lucas
Chief Investment Officer

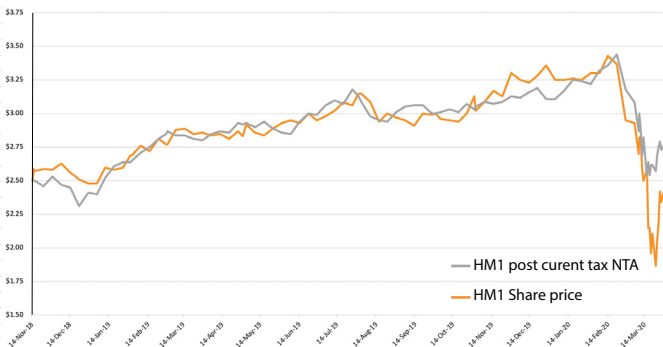
Investment Performance	1 month	6 months	12 months	Since Fund Inception
Investment Performance	-14.2%	-2.9%	4.4%	17.1%
MSCI World Net TR Index (AUD)	-8.6%	-5.6%	4.0%	11.4%

Investment Performance is calculated on a before tax basis. Index returns are before expenses and taxes. Source: Citco Fund Services and www.msci.com. Fund inception 14 Nov 2018.

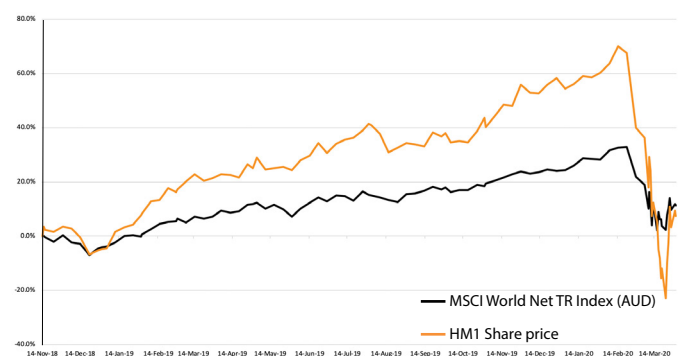
Net Tangible Asset (NTA) Performance	1 month	6 months	12 months	Since Fund Inception
Post Tax NTA Performance*	-10.8%	-3.0%	2.3%	11.1%

Source: Hearts and Minds Investments Limited and Citco Fund Services. Fund inception 14 Nov 2018.

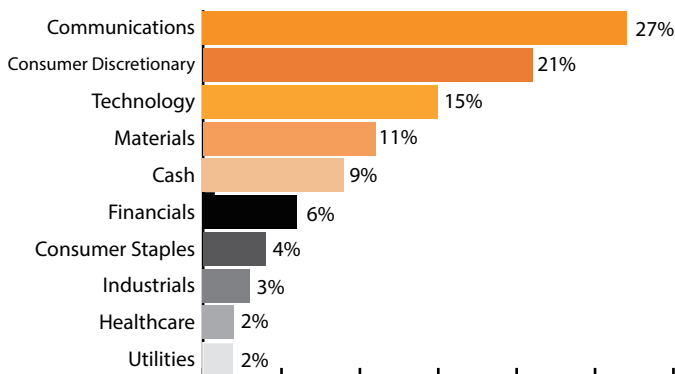
HM1 share price vs post current tax NTA backing



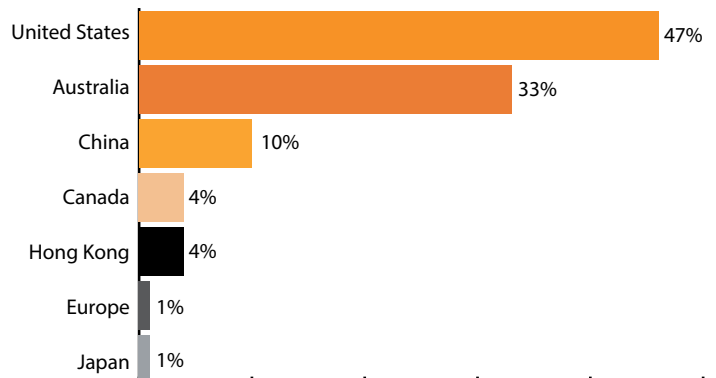
HM1 share price vs MSCI World Net TR Index (AUD)



Sector allocation



Business domicile⁴

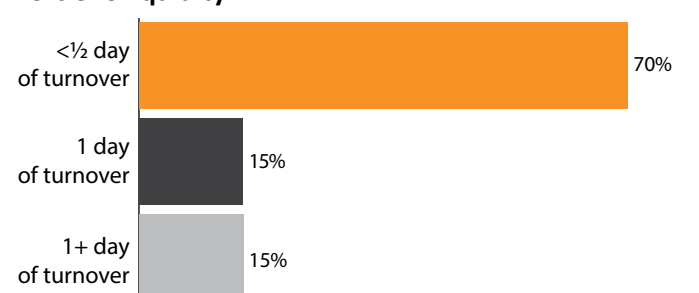


Key details

Pre Tax NTA ¹	\$2.85
Post current tax NTA ²	\$2.78
Post tax NTA ³	\$2.75
ASX code	HM1
Share price	\$2.40
Percent invested	91%
Listing date	14 Nov 2018

All numbers as at 31 March 2020 unless otherwise stated.

Portfolio liquidity⁵



¹Pre tax NTA is the NTA of the company before the provision for current or deferred tax. ²Post current tax NTA includes a provision for tax on operating profits, a provision for tax on realised gains and losses on the Total investment portfolio and a provision for tax on unrealised gains and losses on the Conference investment portfolio. ³Post tax NTA includes the provision for tax on operating profits, and a provision for tax on both realised and unrealised gains and losses on the Total investment portfolio. ⁴Determined by location where primary business takes place. ⁵Based on 20 day average daily turnover. The performance figures quoted are historical, calculated using end of month prices. Performance can be volatile and future returns can vary from past returns. *All NTA figures are unaudited and prepared by Citco Fund Services. All numbers as at 31 March 2020 unless otherwise stated.

Stock Profile: A2 Milk Company Ltd

Jun Bei Liu, from [Tribeca Investment Partners](#) presented A2 Milk at the 2019 Sohn Hearts & Minds Investment Conference. Last year she presented [New Oriental Education](#), which proved to be one of the outstanding picks for HM1, delivering the fund a return of 60% in 4 months. Needless to say, we were excited to have Jun Bei back and have her pitch her latest high conviction idea.

Most people will have seen, heard or tried A2 Milk at some stage. It's in all of our supermarkets and corner stores, and many new mums have given their babies one of the A2 Protein Infant formulas. The difference between A2 milk and regular cows milk is the presence of the A1 protein in regular milk, which may cause adverse digestive symptoms in certain individuals.

The A2 Milk Company is the successor of A2 Corporation Limited, a New Zealand company founded in 2000 by Dr Corran McLachlan, who was researching the health effects of A1 beta-casein, and Howard Paterson, a significant dairy farmer, and a stakeholder in Fonterra, a dairy cooperative. The company commercialised a genetic test to determine whether a cow will produce milk without the A1 protein, and to market A1 protein-free milk.

Ok, so I get that A2 milk is probably healthier than regular milk, but why does Jun Bei think it is such a great investment proposition?

China.

Jun Bei told the audience that A2 is taking advantage of a multi decade thematic to leverage off the world's largest consumer market. With a population of 1.4 billion people, she sees 250 million (10x the entire Australian population) people moving into the upper middle income bracket, with families spending more and more on children's education (New Oriental) and their nutrition.

15 million babies are born in China each year, and the majority of them are fed infant formula from birth to 5 years of age, which is very different to Western culture. Infant formula is a \$24b market already, and Jun Bei is seeing an increased shift towards premium brands. The infant formula premium brands have doubled their market share in the past 2 years. A2 is one of the top ten online selling brands in China.

Revenue has grown eleven-fold in the last 5 years, and earnings (based on EBITDA) have grown from \$3m to \$400m during that same period, and its balance sheet is extremely strong.

Even with recent broker upgrades, she still thinks there is 30% upside to the share price over the next 12 months.

How?



A2 are already doing well in their online business in China, but they are also one of the few Australian companies to have a licence to physically sell their products in Chinese stores. They currently sell in over 16,500 stores across China, and she believes this will grow to over 30,000 stores within 5 years. If A2 can replicate the success of their online business in the physical stores, and the US business continues to grow, she believes that revenue could easily triple again.

She concluded by explaining that while on some of the more traditional metrics A2 may appear expensive, when you price the stock relative to its earnings growth, it remains one of the most attractive investment opportunities in the Australian market.

Company information

Ticker code	A2M AU
Market capitalisation	\$12.3bn
Average daily volume	4.6 million shares / day
52-week range	\$11.28 - \$17.30
Bloomberg consensus	9 Buys, 4 Holds, 2 Sells
Average price target	\$17.09

As at 31 March 2020

A2M AU: Share price history



Core fund managers



Conference fund managers



Designated charities



Pro-bono service providers

