

12 October 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 September Investment Update.

If you would like to receive these monthly investment updates via email please [subscribe 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

For the month of September, the HM1 portfolio generated an investment return of -0.4%, in line with a decline of -0.4% in the MSCI World Net Total Return Index (AUD). Leading indices around the world were also weaker, with the S&P 500 registering a 3.9% fall, the technology focused NASDAQ down 5.2%, the FTSE-100 down 1.6%, while the local S&P ASX 200 was down 4%. The Australian dollar was weaker, falling almost 3% to 71.5c against the US dollar. Since inception (November 2018) the investment portfolio has gained 68.5% compared to 22.5% for our benchmark, while the post-tax net tangible asset value of the portfolio increased by 0.3% during September and is now up 48.1% since inception.

Continued nervousness around the potentially destabilising US Presidential election, and a further flare up of the coronavirus pandemic in Europe saw investors jump to the sidelines and take profits in many of the stocks that have experienced super-normal returns over the past 6 months.

As we mentioned last month, the HM1 portfolio does have a relatively high exposure to the technology sector. We remain disciplined in our risk management and have locked in substantial gains on many of the technology stocks in the portfolio. With the selloff in September, where the highly visible 'FAANG' stocks all fell by around 10%, and indeed many of the lesser known tech names fell by even more, the relatively flat return (-0.4%) for the HM1 portfolio demonstrates the value of our investment management methodology.

In portfolio news this month, more than half of our stocks registered negative returns, with Tesla retreating 14% after a disappointing Battery Day presentation failed to meet investor expectations. Spotify was also weaker, falling 14%, even though no stock specific news was released to the market. Such short-term gyrations should not come as a surprise to investors, as we have seen equally sizeable, indeed larger monthly gains registered in most of the stocks we mention. A2 Milk was another stock to give back previous gains this month, with the company reporting that the daigou market (the market for buying things on behalf of residents in mainland China) had collapsed due to COVID-19 concerns.

The Trade Desk company, listed in the US, which runs a self-service cloud-based platform for digital advertising campaigns was a notable outlier, rallying almost 8% for the month in what was a far weaker landscape. Within the core portfolio, our two largest positions delivered positive returns which offset the declines seen in most of the other names.

We continue to urge caution in this environment. The rally from the lows in March has been incredible. Markets are at or near all time highs in many countries. Yet the pandemic is not fully under control, there is no vaccine available, and an extremely controversial Presidential campaign still has five weeks to run. Markets continue to exhibit larger than normal volatility, and September's moves demonstrate the need for active management of a portfolio, especially in these uncertain times. We are pleased with the performance of our portfolio during September, even though the investment return was a slight negative one.

The next Sohn Hearts and Minds Investment Leaders Conference will be held virtually on November 13. [Tickets can be bought here.](#) This is when and where the next set of Conference Portfolio stocks will be pitched to ticket holders, and then implemented into the HM1 portfolio shortly afterwards. At the same time, the remaining holdings in the current suite of Conference Portfolio stocks will be closed out. We are extremely excited to have secured many returning [speakers](#), including Cathie Wood from ARK Invest (2019 pick: Tesla) and Hamish Corlett from TDM Growth Partners (2019 pick: Spotify), as well as legendary investor Bill Ackman, of Pershing Square Capital Management as keynote, with more to be announced soon.

Investment Performance	1 month	6 months	12 months	Since Fund Inception
Investment Performance	-0.4%	43.6%	39.8%	68.5%
MSCI World Net TR Index (AUD)	-0.4%	10.0%	3.9%	22.5%

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

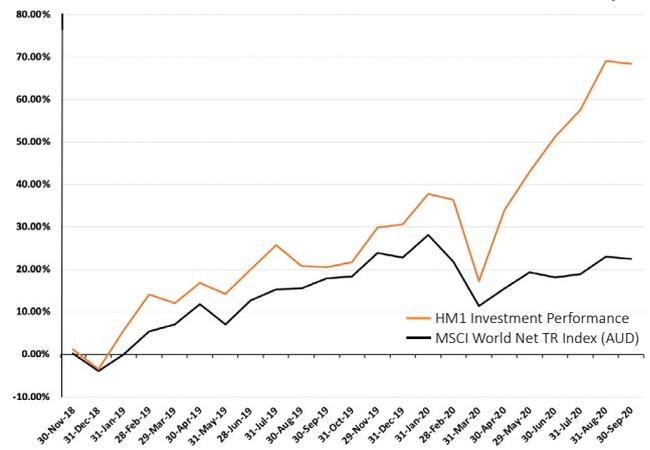
Net Tangible Asset (NTA) Performance	1 month	6 months	12 months	Since Fund Inception
Post Tax NTA Performance*	0.3%	31.7%	29.3%	48.1%

NTA Performance is calculated after all expenses and taxes. Source: Hearts and Minds Investments Limited and Citco Fund Services. Fund inception 14 Nov 2018.

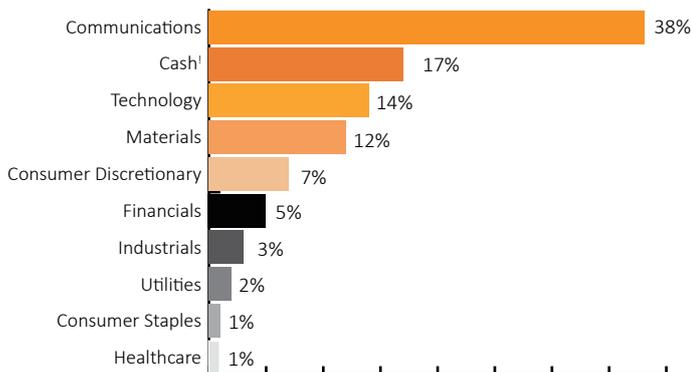
HM1 Share Price vs Post Tax NTA



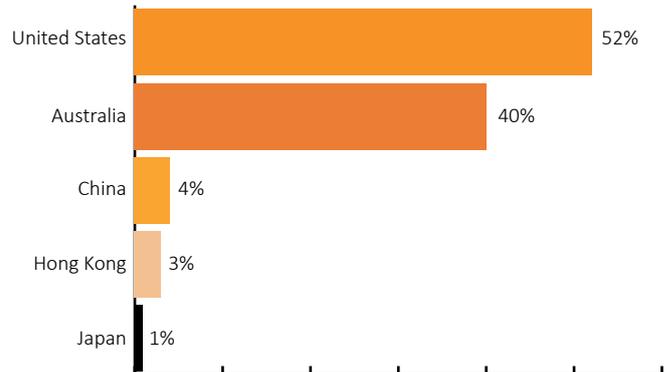
Investment Performance vs MSCI World Net TR Index (AUD)



Sector allocation



Business domicile⁴

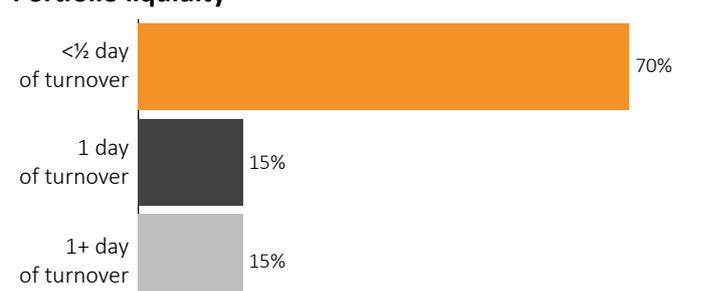


Key details

Pre Tax NTA ¹	\$4.01
Post current tax NTA ²	\$3.82
Post tax NTA ³	\$3.63
ASX code	HM1
Share price	\$3.63
Percent invested	83%
Listing date	14 Nov 2018

All numbers as at 30 September 2020 unless otherwise stated.

Portfolio liquidity⁵



¹Cash allocation includes 5% cash set aside for operating expenses, donation accrual and tax liability ²Pre tax NTA is the NTA of the company before the provision for current or deferred tax. ³Post 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 ⁴Post 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. ⁵Determined by location where primary business takes place. ⁶Based on 20 day average daily turnover. ⁷The performance figures quoted are historical, calculated using end of month prices. Performance can be volatile and future returns can vary from past returns. ⁸All NTA figures are unaudited and prepared by Citco Fund Services. ⁹All numbers as at 30 September 2020 unless otherwise stated.

News from our **Managers & Beneficiaries**

Beneficiary Profile: Victor Chang Cardiac Research Institute

Cardiovascular disease is the number one cause of death globally and costs the Australian economy \$12 billion each year. This is projected to increase to \$22 billion over the next decade. Cardiovascular disease has reached pandemic proportions with one Australian dying from the disease every 12 minutes. This is why scientists and doctors at the Victor Chang Cardiac Research Institute, Australia’s home of heart research, are dedicated to finding cures through their world class research.

2019 was a landmark year with the Victor Chang Cardiac Research Institute celebrating 25 years of scientific achievements. Over the last 25 years, the Victor Chang Cardiac Research Institute has made a multitude of major advances in heart research, many revolutionising our understanding of disease causes, treatment, and prevention in the areas of heart attack, cholesterol, heart arrhythmia, cardiomyopathy, congenital heart disease and genetic analysis.

A new era for the Institute began in March 2020 as they welcomed Professor Jason Kovacic. A highly respected cardiologist and researcher, Professor Kovacic relocated from Mount Sinai Hospital in New York to take the reins as the Executive Director of the Victor Chang Cardiac Research Institute, and is the inaugural Robert Graham Professor of Cardiovascular Research. Named in honour of the Institute’s Founding Executive Director, this prestigious Chair position is generously supported by HM1 and provides critical ongoing funding to foster scientific excellence for the Institute.

Helped by partners like HM1 and Magellan, the Institute’s Innovation centre is heralding a research revolution in our search to solve the unsolved. It is pushing the boundaries of knowledge by transforming the landscape of cardiovascular research around Australia and the Asia Pacific. The Institute’s world class technology is accelerating the opportunities of discovering cures for heart disease and bringing us closer to realising “personalised” medicine of the future and improving health outcomes for patients suffering from heart disease in Australia and around the world.

As part of our impact video series, we spoke with **Founding Executive Director Professor Robert Graham and Professor Sally Dunwoodie, Head of Embryology**, discussing the importance of medical research and their recent breakthroughs. You can [watch the video here](#).



CEO Paul Rayson discussed our unique model with Tom Piotrowski on CommSec Executive Series, highlighting our strong FY20 performance, support of Australian medical research, and our upcoming virtual Sohn Hearts & Minds Investment Leaders Conference on November 13. [Watch his interview on our website here.](#)



Nick Griffin from Munro Partners talks to Alicia Barry on ABC’s The Business to discuss how the COVID-19 pandemic has fast-tracked digital disruption. Nick also shares his insights on the unpredictable ebbs and flows of ecommerce and tech companies on equities markets. [Watch the interview here.](#)



Hamish Douglass, CIO of Magellan speaks with Bell Potter Market Analyst Jessica Amir about the global opportunities amidst COVID-19, the gap between the US economy and share market, the upcoming US presidential election and the biggest risks to stock selection, among other topics. [Watch the discussion on our website here.](#)



Qiao Ma, Portfolio Manager of Asian Equities discusses **Cooper Investors’** unique way of thinking about value and the heavy focus on quality of management and the culture they create. [Watch her presentation on our website here.](#)



Jun Bei Liu of Tribeca Investment Partners spoke with CommSec’s Tom Piotrowski about her year-end outlook for the Australian economy and share market, and shares her thoughts on market volatility and the opportunities she is currently seeing, particularly in the travel and banking sector. [Watch her interview on our website here.](#)



In episode two of **Magellan’s In the Know Podcast**, Hamish Douglass chats to Kevin Johnson, Starbucks President & CEO about a range of topics including how Starbucks’ 4000+ stores in China are faring in the face of ongoing US / China tensions. [Listen to the episode on our website here.](#)



We regularly update our News and Insights section on the [HM1 website](#) with interesting articles from our fund managers, beneficiaries and general good reads.

Core fund managers



Conference fund managers



Designated charities



Pro-bono service providers

