



August 2021

10 September 2021

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 August Investment Update.

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

For and on behalf of the board,

A handwritten signature in blue ink, appearing to read "T. Bloomfield", is positioned above the printed name.

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

The HM1 portfolio increased by 3.3% for the month of August, compared to increases in the MSCI World Net TR Index (AUD) of 3.1%, the S&P 500 of 2.9%, the NASDAQ Composite of 4% and the ASX 200 of 1.9%. The Australian dollar weakened slightly (-0.4%) to US0.7315 dollars.

Since inception (November 2018) the compound annual investment return stands at 27.5%, compared to 18.4% for the MSCI World Net TR Index (AUD). The post-tax Net Tangible Asset value increased by 2.6% in August and has increased at a compound rate of 20.2% since inception.

Equity markets around the world continue to trade at or around all-time highs, despite the pandemic. It appears investors are looking through the next few months of local lockdowns and ongoing supply chain disruptions into the near fully vaccinated world where people can once again enjoy the freedoms of pre-COVID life. Interest rates look likely to remain low for the next couple of years at least, headline unemployment rates continue to decline, and corporate profitability appears to be robust. The latest quarterly reporting season in the US and the semi-annual local reporting season provided updates that were generally better than expected. The local ASX 200 index has now notched up 11 consecutive monthly gains.

The investment portfolio had a solid month in terms of absolute performance up 3.3% and performed slightly ahead of the benchmark MSCI World TR Index (AUD) which was up 3.1%. Whilst it is common industry practice to compare performance of an investment portfolio to a relevant market index, it is worth remembering the differences in the composition of the portfolio and the market index. The HM1 portfolio is made up of 30 to 35 stocks that are predominantly classified as growth stocks and are concentrated in certain industry sectors. A snapshot of how the HM1 portfolio differs from the broader market is set out in our recent [Annual Report](#). The MSCI World TR Index (AUD) by comparison, is a market cap weighted index that represents the performance of over 2,900 large and mid-cap stocks across developed markets. Given that the HM1 portfolio is highly concentrated in a relatively small number of stocks, its performance will exhibit more volatility than broader market indices. Despite this expected volatility on a month to month basis, we are pleased that, since inception of the HM1 portfolio in November 2018, it has comfortably outperformed the broader market index.

For the month of August, the core portfolio, which represents 65% of HM1's investments, increased 2% for the month which in aggregate was slightly below the market. Pleasingly, most positions increased by more than 5% over the month, however this was largely offset by declines in two of our larger positions which retraced in value after strong increases earlier in the year. We increased the position size of one of our locally held companies as an institutional sell-down was executed during the month. We also opened a fresh position late in the month.

The conference portfolio, which represents 35% of the investments, performed very well increasing 6.5% for the month, with many stocks posting large moves after reporting earnings. Bill.com, the US stock recommended by Babak Poushanchi from Cota Capital gaining 34% in August alone after delivering an earnings report that far exceeded expectations. The position was closed at the end of the month for an overall AUD gain of 180% since investing in November 2020. Hello Fresh Group also had a strong month gaining 15%, while local stock, Temple and Webster, which engages in the online retail of furniture, homewares, and other lifestyle products, rallied 23%. CSL Limited and Fisher & Paykel Health were also strong, increasing by 8% and 6% respectively. On the downside, Ping An Healthcare and Technology had a difficult month, on news of China's new data protection laws and general China/tech sector pressure. The share price declined by 21% for the month. Smaller declines were made in Nintendo (-6%), Twitter (-7%) and T-Mobile (-4%).

Markets trading at or around their all-time highs seems to be at odds with the current economic and market uncertainty. The ongoing pandemic, rolling lockdowns curtailing economic activity and discretionary spending, and no real certainty on the nature of post vaccine life, all suggest that equity markets should perhaps not be at boom time levels. However, in difficult times, quality companies tend to keep delivering solid earnings. As Warren Buffet said, "only when the tide goes out do you discover who has been swimming naked". We remain comfortable that our portfolio of companies can continue performing satisfactorily in the event of a share market correction or worsening business conditions.

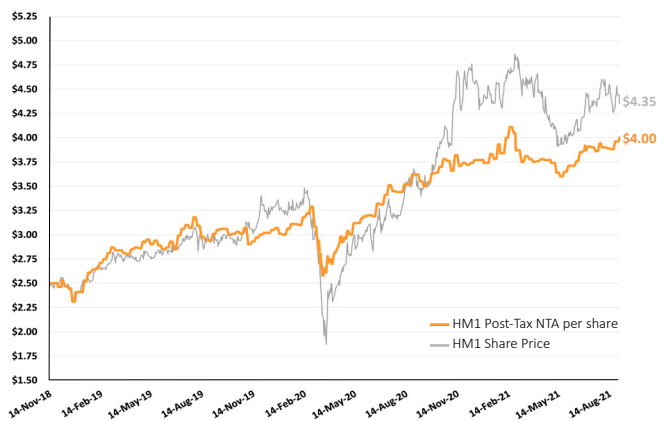
Investment Performance	1 month	6 months	12 months	Since Inception Compound p.a.
Investment Performance	3.3%	8.4%	17.6%	27.5%
MSCI World Net TR Index (AUD)	3.1%	23.0%	31.3%	18.4%

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.

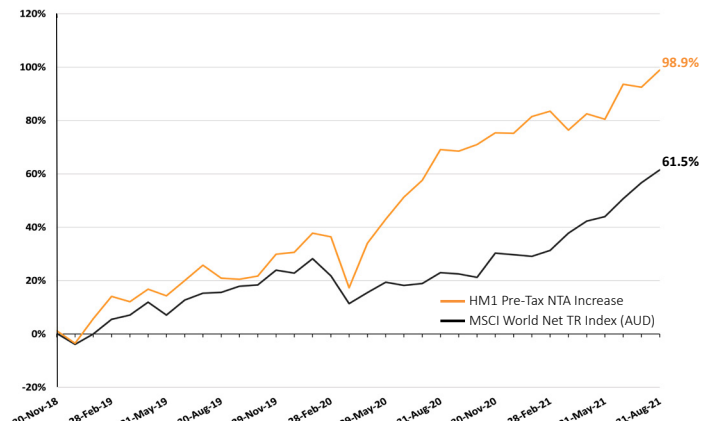
Net Tangible Asset (NTA) Performance	1 month	6 months	12 months	Since Inception Compound p.a.
Post Tax NTA Performance*	2.6%	6.4%	13.4%	20.2%

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

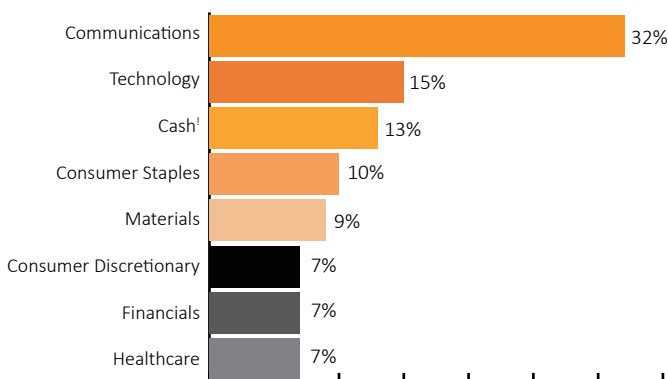
HM1 Post-Tax NTA per share vs Share Price



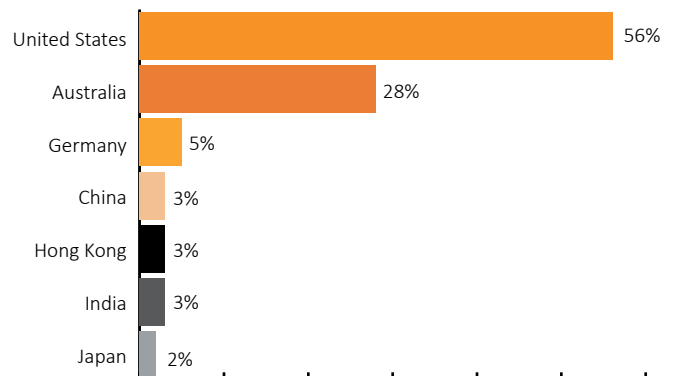
HM1 Pre-Tax NTA Increase vs Benchmark



Sector Allocation



Business Domicile⁴

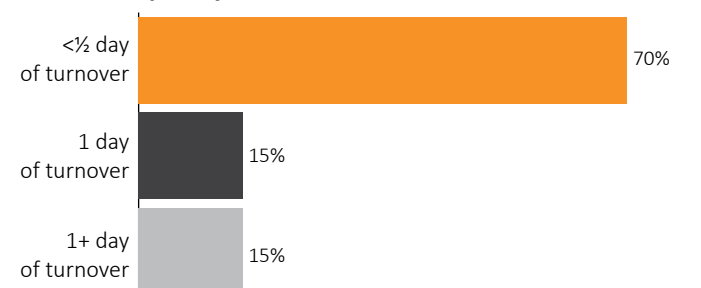


Key details

Pre Tax NTA ¹	\$4.41
Post current tax NTA ²	\$4.19
Post tax NTA ³	\$4.00
ASX code	HM1
Share price	\$4.35
Percent invested	87%
Listing date	14 Nov 2018

All numbers as at 31 August 2021 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 31 August 2021 unless otherwise stated.

News from our **Managers**



Hamish Douglass, Magellan Chairman and Chief Investment Officer, joined David Clark for their 100th episode of the *Inside the Rope* podcast. Hamish references some of the world's greatest investors such as Warren Buffett, Benjamin Graham and Peter Lynch and discusses the impact these legends have had on his own approach to investing. The episode also covers investing in China, Hamish's views on bitcoin and cryptocurrency as well as his general market outlook for both the short and long term. [Listen to the conversation here.](#)

MUNRO PARTNERS

One of **Munro Partner's** key Areas of Interest for 2021 is Climate. Munro's James Tsinidis talks to the *Australian Financial Review* about how the three tailwinds of Companies, Governments and Countries are converging for the race to net zero, stating climate change is "the biggest investment opportunity since the internet". [Read the interview here.](#)



Conference Fund Manager and Executive Chairman of **VGI Partners, Rob Luciano** shared an update on VGI Partners Global Investments (ASX:VG1) and VGI Partners Asian Investments (ASX:VG8) in a recent webinar. [You can register to watch the replay here.](#)



In a fun four-minute video, **Core Manager TDM Growth Partners** explains how they think about valuation when investing in public and private companies and give some insight into how they look at compounding capital at high rates of return and 'fair value'. [Watch the video here.](#)



Core Fund Manager **Paradice Investment Management's** Nick Varcoe discussed ESG investing in an episode of *The Alpha Females Invest* podcast and explained some of the frameworks and tools that Paradice uses to integrate socially responsible investing within the business. [Listen to the conversation here.](#)



In this *Australian Financial Review* article, **Jun Bei Liu of Tribeca Investment Partners** shares her learnings from the latest reporting season. Despite the latest lockdown across many parts of Australia, corporate Australia seems in good shape, but she asks 'what are we actually paying for those blue chip COVID-19 winners?'. [Read her views here.](#)



Rory Lucas, HM1's Chief Investment Officer, writes a weekly jargon-free update providing educational insight into what's happening in the portfolio. You can view past updates on our [website here](#), and subscribe to receive these straight to your inbox each [Monday here](#).



In the latest episode of **Magellan's In The Know podcast**, **Hamish Douglass** spoke to Jay Brown, CEO of Crown Castle, America's largest provider of communications infrastructure. Jay discussed the expansion and rise of the business, the risks and opportunities in new communications technology and Crown Castle's unique business model. [Listen to the episode here.](#)

More news from the HM1 network

Don't forget we regularly update our News and Insights section on the [HM1 website](#) with interesting articles from our fund managers, beneficiaries and general good reads.



Previous Conference Fund Manager, **Emma Fisher of Airlie Funds Management** speaks with David Clark on the *Inside the Rope* podcast. The pair discussed a range of topics including Emma's investment journey, how she approaches investing and her market outlook for Australian Equities. [Listen to the episode here.](#)

Core fund managers



Conference fund managers



Designated charities



Pro-bono service providers

