



September 2021

11 October 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 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,

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 decreased by -3.9% for the month of September, compared to decreases in the MSCI World Net TR Index (AUD) of -3.0%, the S&P 500 of -4.8%, the NASDAQ Composite of -5.3% and the ASX 200 of -2.7%. The Australian dollar weakened -1.2% to US\$0.7227.

Since inception (November 2018) the compound annual investment return stands at 24.8% p.a., compared to 16.6% p.a. for the MSCI World Net TR Index (AUD). The post-tax Net Tangible Asset value decreased by -3.0% in September and has increased at a compound rate of 18.3% p.a since inception.

The COVID pandemic continues to dominate world headlines, and speculation about whether recent inflation is transitory or not, is increasing market volatility (as measured by the VIX Index). However, a new event was behind much of the global market weakness this month. The Chinese conglomerate, Evergrande, experienced difficulties in meeting interest repayments on their bonds during the month, sparking investor fears that it could turn into China's Lehman Brothers moment. Asset sales announced late in the month helped calm investors somewhat, but many seem content to sit on the sidelines until more is known about whether a Beijing-backed bailout may be needed, a re-structuring, or a possible default on the bonds.

The US 10-year bond, often seen as the bellwether indicator for the direction of market interest rates, climbed to 1.49% at the end of September, up from 1.3% a month ago. Whilst still below the highs of 1.74% reached in March this year, the recent move has concerned investors, who fear that recent inflation may not be transitory and will lead to a tightening of the current monetary policy settings.

Both the core and conference portfolio experienced declines in value over the month. With bond yields increasing, valuations of growth stocks are often marked down, which generally leads to short term weakness in share prices. With both portfolios having a growth 'tilt', this decline is not unexpected.

The core portfolio, which represents 65% of HM1's investments, declined by 3.7% for the month. Despite this there were some positive gains made, with a recent addition to the portfolio rising by over 15% for the month. An earnings upgrade and some positive company news saw gains of 5-7% in some of the other stocks, which, considering the overall market weakness, was pleasing. The falling iron ore price, which fell over 50% from its peak a few months ago, impacted two mining exposures in the core portfolio resulting in significant price falls. The relevant managers believe that the selloff is overdone and remain committed to their recommendations.

The conference portfolio, which represents 35% of HM1's investments, declined by 6% for the month, erasing the gains made in August. The loss was marginally more than the S&P 500 & NASDAQ indices, which have similar growth stock biases due to relatively high weightings to the technology sector. The weakest stocks were Temple and Webster (-14.5%), HelloFresh (-13%), Ping An Healthcare and Technology (-13%) and Teladoc Health (-12%). HelloFresh remains one of the top performers for the portfolio this year and is up 76% since being recommended by Nick Griffin at the 2020 conference. Similarly, Temple and Webster is up 24% since Todd Guyot pitched his thesis last year. Teladoc Health and Ping An Healthcare and Technology have been detractors to the overall returns of the conference portfolio.

September is traditionally the weakest month of the year, and the ebbs and flows of pandemic news clearly increases short term market volatility, as we have seen over the past 18 months. All stocks derive some of their gains or losses from overall market strength and weakness, and the remainder from the comparative strengths/weaknesses they hold over their industry competitors. When markets are weak, we generally expect our portfolio to be somewhat weak also, just as it should perform well in rising markets. The outperformance generated by high-quality stocks often only becomes apparent over a longer period, rather than on a month-to-month basis. The investment return of HM1 since inception is 24.8% per annum compared to the broad market index returns of 16.6% per annum. We remain confident that our investment model will continue to outperform the market index over a 3-5 year time horizon.

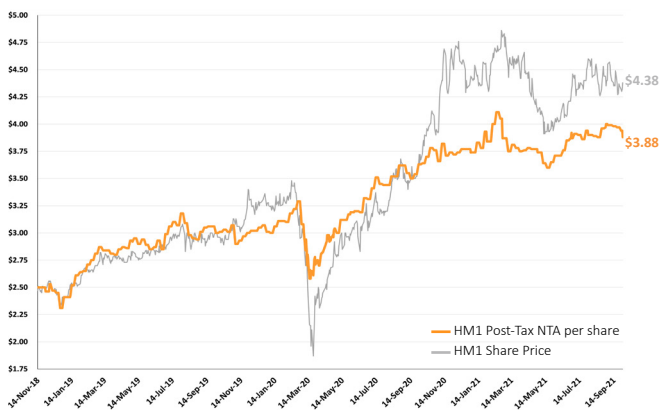
Investment Performance	1 month	6 months	12 months	Since Inception Compound p.a.
Investment Performance	-3.9%	8.3%	13.4%	24.8%
MSCI World Net TR Index (AUD)	-3.0%	13.6%	27.8%	16.6%

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.

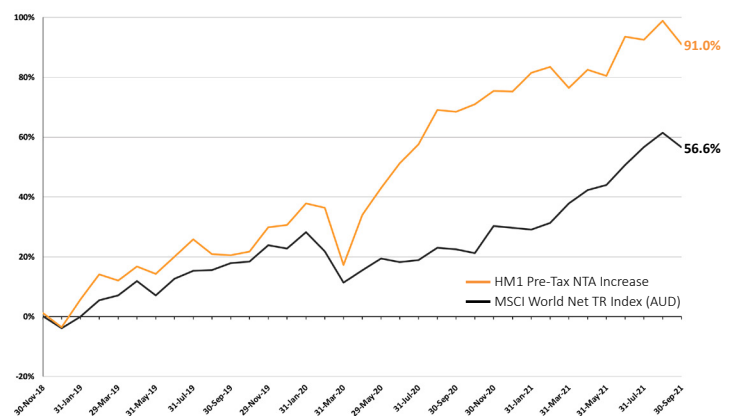
Net Tangible Asset (NTA) Performance	1 month	6 months	12 months	Since Inception Compound p.a.
Post Tax NTA Performance*	-3.0%	6.3%	10.3%	18.3%

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

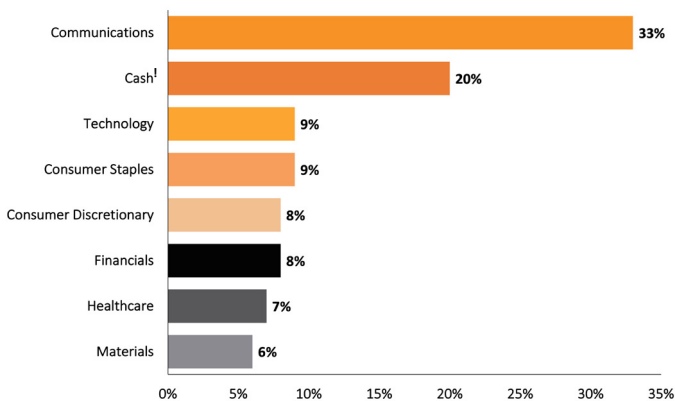
### HM1 Post-Tax NTA per share vs Share Price



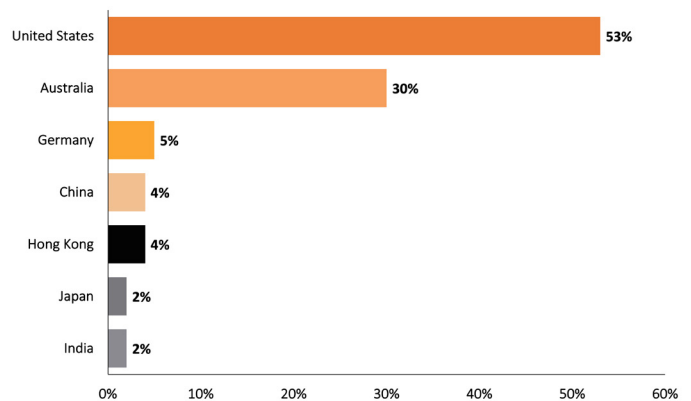
### HM1 Pre-Tax NTA Increase vs Benchmark



### Sector Allocation



### Business Domicile<sup>4</sup>

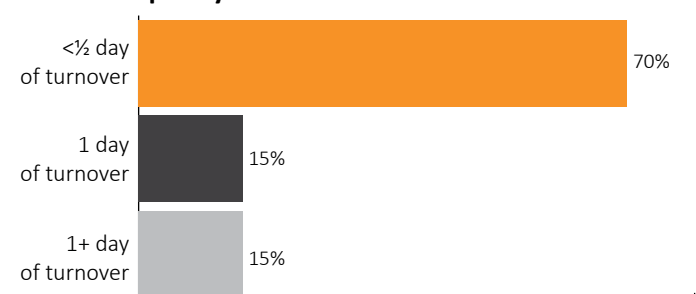


### Key details

Pre Tax NTA <sup>1</sup>	\$4.24
Post current tax NTA <sup>2</sup>	\$4.04
Post tax NTA <sup>3</sup>	\$3.88
ASX code	HM1
Share price	\$4.38
Percent invested	80%
Listing date	14 Nov 2018

All numbers as at 30 September 2021 unless otherwise stated.

### Portfolio liquidity<sup>5</sup>



<sup>1</sup>Cash allocation includes 5% cash set aside for operating expenses, donation accrual and tax liability <sup>2</sup>Pre tax NTA is the NTA of the company before the provision for current or deferred tax. <sup>3</sup>Post 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 <sup>4</sup>Post 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. <sup>5</sup>Determined by location where primary business takes place. <sup>6</sup>Based on 20 day average daily turnover. <sup>7</sup>The performance figures quoted are historical, calculated using end of month prices. Performance can be volatile and future returns can vary from past returns. <sup>8</sup>All NTA figures are unaudited and prepared by Citco Fund Services. <sup>9</sup>All numbers as at 30 September 2021 unless otherwise stated.

## News from our **Managers**



**Paradice Investment Management's Julia Weng** spoke with *Equity Mates on Ausbiz* about Paradice's large-cap investment portfolio, how to integrate ESG into your investments and her equities outlook for FY2022. Julia also shared some of the industries that she is excited about and how she forms her investment thesis. [Watch the interview here.](#)



In a new episode of Magellan's *In The Know Podcast*, **Hamish Douglass** spoke to fast food company Yum! (NYSE: YUM) CEO David Gibbs about the brand's 51,000 restaurants and how they managed the global shutdown. David also discussed the rise of brands under Yum! such as KFC, Pizza Hut and Taco Bell, and its enduring focus on people, culture and growth. [Listen to the episode here.](#)



Former Conference Fund Manager, **Emma Fisher of Airlie Funds Management** speaks with Alicia Barry on *ABC's The Business* about Airlie's market outlook and finding value in times of risk and uncertainty. [Watch the interview here.](#)



In this *Livewire* article, learn key insights from Core Fund Manager **Regal Funds Management** and the fund's positioning, including two big Aussie themes and four stocks on Regal's radar. [Read the article here.](#)



In an interview with *Ausbiz*, **Tribeca Investment Partners' Jun Bei Liu** discusses her market outlook post reporting season and looks towards the recovery and reopening plays, sharing a handful of stocks that she's buying at cheap multiples. Jun Bei also shares why she still loves Treasury Wine Estates (TWE), her 2020 Conference Recommendation. [Watch the interview here.](#)



Small and emerging uranium-focused mining companies have surged in value this year, driven by a combination of clean energy demand and uranium's carbon free status. **Paradice Investment Management** has taken advantage of the sector opportunities through its investments. [Read the article here.](#)



When former Sohn Hearts & Minds Conference keynote presenter, Founder of **Bridgewater, Ray Dalio**, speaks, investors listen, especially when the world can't seem to decide what sort of year it's having, much less what next year holds. Learn about the six themes Dalio thinks will dominate the next few years in this *Livewire* article. [Read 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](#).

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