



29 November 2021

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

Dear Shareholders,

Please find attached the Chief Investment Officer's Report and Investment Presentation to be presented at today's Annual General Meeting of Hearts and Minds Investments Limited.

For and on behalf of the board,

A handwritten signature in blue ink, appearing to read "T. Bloomfield", is written over a light blue horizontal line.

Tom Bloomfield  
Company Secretary



## **HEARTS AND MINDS INVESTMENTS LIMITED**

### **2021 AGM Chief Investment Officer's Report**

Good Afternoon, my name is Rory Lucas the Chief Investment Officer for Hearts and Minds Investments Limited (HM1). I will give a brief update on the performance of HM1 through to October 31 this year. I will be referring to information that was included in our October monthly performance update.

#### **Slide 3 - HM1 Portfolio Construction**

First, a reminder on how the HM1 investment portfolio is constructed. The slide on your screen shows a high level view of the HM1 portfolio construction. Our investment portfolio comprises two parts – Our Core Portfolio and our Conference Portfolio.

For our Core Portfolio, which makes up 65% of our investments, we invest in the highest conviction stock ideas that are recommended by our six Core Fund Managers. Our Core Fund Managers are Caledonia Investments, Cooper Investors, Magellan, Paradise, Regal and TDM Growth Partners. Generally, we expect to hold these investments for 3 to 5 years.

For our Conference Portfolio, which makes up 35% of our investments, we invest in the highest conviction stock ideas that are presented by leading fund managers at the annual Sohn Hearts & Minds Investment Leaders conference. We expect to hold these stock recommendations for a period of 12 months.

As you may know, the next conference will be held on Friday, where the new stock recommendations for our Conference Portfolio will be presented. We have now sold the previous years' conference stocks and we will invest in the new stock recommendations presented at the conference.

#### **Slide 4 – HM1 Performance to 31 October 2021**

Now turning to our most recent performance update. This slide shows our performance since inception up to 31 October 2021.

The table shows our pre-tax investment performance compared to our investment benchmark. Our pre-tax performance is measured as the increase in the net asset value of the company after all expenses have been met but before tax.

Over the year to October 31, 2021, HM1 has generated a pre-tax return of 12.6% compared to the global benchmark return of 31.3%. Since our IPO in November 2018, HM1 has generated an annualised pre-tax return of 24.4% compared to the benchmark return of 16.7%. The next slide shows the same information but in chart form.

### **Slide 5 – HM1 Performance vs Benchmark**

Global share markets soared over the last financial year rebounding from the lows of the pandemic induced recession and posting returns well in excess of long term averages. In the first part of the year market returns were largely driven by the continuing growth in new economy sectors that benefited from the accelerated shift to online commerce and behaviour. As economic recovery gained traction, propelled by massive monetary and fiscal stimulus, the latter part of the financial year saw very strong market gains in more traditional sectors such as financials, industrials, resources, and property sectors.

Over the year to 30 June 2021, the HM1 portfolio posted a high return in line with the broader market largely driven by our portfolio holdings that were overweight in new economy sectors.

However over the last 9 months, HM1 has underperformed broader global stock indices as traditional sectors gained favour. For the year to 31 October 2021 the portfolio still posted a respectable return of 12.6%. We have analysed this slowing of performance in the following slide.

### **Slide 6 – HM1 Investment Performance 1 year to October 2020 vs 2021**

This slide shows HM1's investment returns compared to benchmark over the last two years through to October 2021. With a concentrated investment portfolio that has a bias to growth stocks we expect to have greater volatility in our performance compared to broad market indexes. In the year to 31 October 2020, HM1 recorded an exceptional investment performance of 40.5% compared to the global benchmark which was broadly flat over that year. In the most recent year to 31 October 2021, HM1's performance has tempered to 12.6% over the year as global markets rotated from growth stocks to values stocks. This mostly occurred from February 2021 through to August 2021 and HM1 underperformed the broader market. At a stock specific level, a couple of factors drove the underperformance.

Firstly, we saw a couple of our very strong performers from last year (Zillow and Min Resources) give up some of their price gains in the last 6 months. Fortunately, we realised profits on a portion of our holdings of these stocks prior to the price decline. We have maintained a substantial holding in these names and the relevant Core fund managers retain their conviction in the long term prospects of these stocks.

Secondly, our 2020 Conference stocks had a mixed performance compared to previous years. Whilst the overall portfolio returns were still very good returning 24% for the 12 month holding period, we had 3 growth oriented recommendations, Ping An Healthcare, Yext and Twitter that performed poorly which impacted our returns compared to the broader market.



Despite the recent underperformance, the annualised investment return of the portfolio for the first 3 years of operation of 24.4% per annum remains comfortably above the global market index. We remain confident that our investment model will deliver attractive absolute returns and will outperform the global equity benchmark over the medium term.

### **Slide 7 – HM1 NTA per share and Share Price**

This last chart shows the appreciation in the net asset value per share of the Company over the past 16 months through to October 2021 and the daily HM1 share price. The net pre-tax net asset value per share of HM1 has increased 16% since July 2020. The HM1 share price has increased 36% since July 2020, rebounding off the lows that occurred in the depth of the pandemic in March 2020.

While share prices fluctuate on a daily basis based on liquidity and market sentiment, over the last year the HM1 share price has traded, on average, at about a 4% premium to the pre-tax net asset value per share. A reminder that we publish our pre-tax and post-tax NTA per share every Monday on the ASX and on our website.

**Rory Lucas**  
**Chief Investment Officer**  
29 November 2021



**HEARTS  
& MINDS**  
INVESTMENTS

# HM1 Performance to 30 June 2021

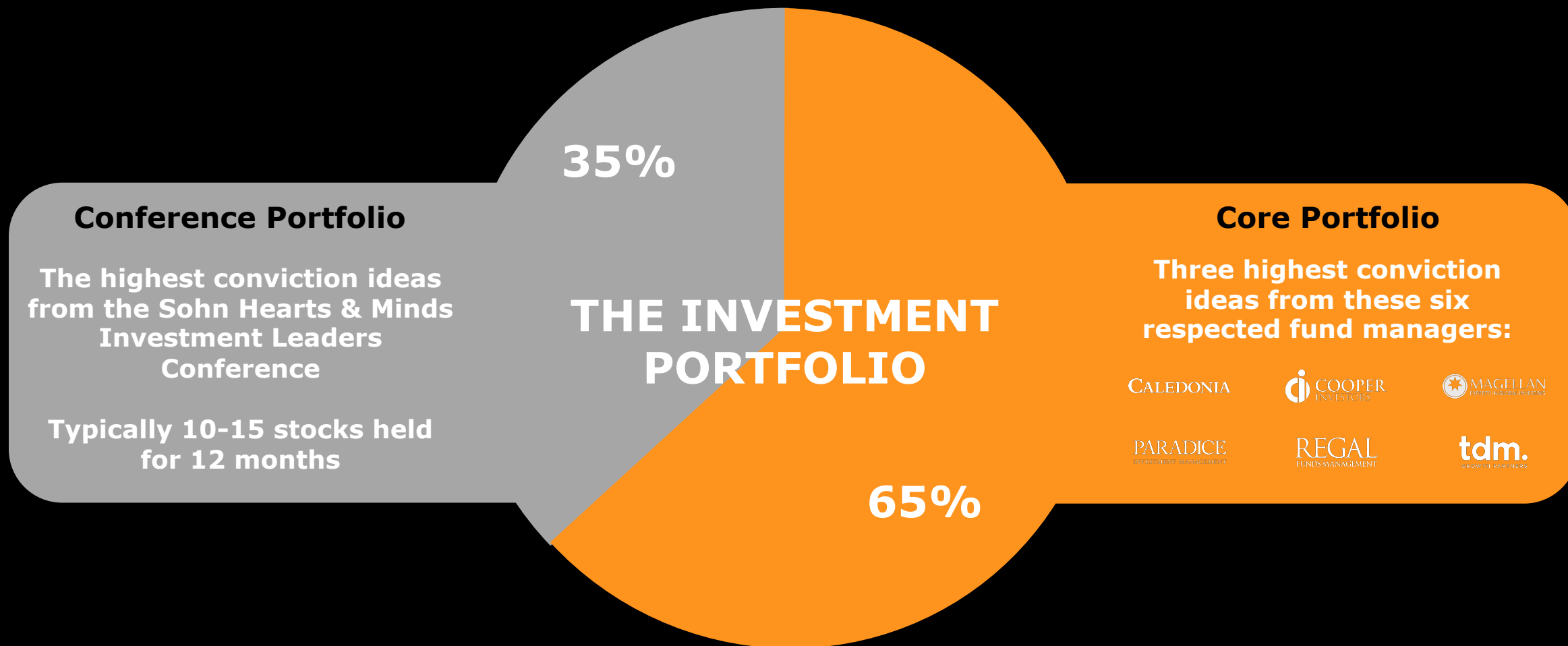
HM1 Investment Performance	6 Months	1 Year	Since IPO Compound p.a.
Pre-Tax Performance	10.5%	28.0%	28.1%
MSCI World Net TR Index (AUD)	16.2%	27.5%	16.6%

*Investment Performance is calculated after expenses and before taxes. Index returns are calculated before expenses and taxes. Source Citco Fund Services and MSCI. IPO Nov 2018.*

- Inaugural fully franked dividend of 12c per share paid.
- Medical research funding of \$11.3m in FY21.
- Total research funding to date of \$27m.
- Share price increased 70% from IPO of \$2.50 to \$4.24 (to 29 Oct 2021).



# HM1 Portfolio Construction



Generally we expect to hold 25-35, global and Australian listed stocks

# HM1 Performance to 31 October 2021

HM1 Investment Performance	6 Months	1 Year	Since IPO Compound p.a.
Pre-Tax Performance	5.5%	12.6%	24.4%
MSCI World Net TR Index (AUD)	11.9%	31.3%	16.7%

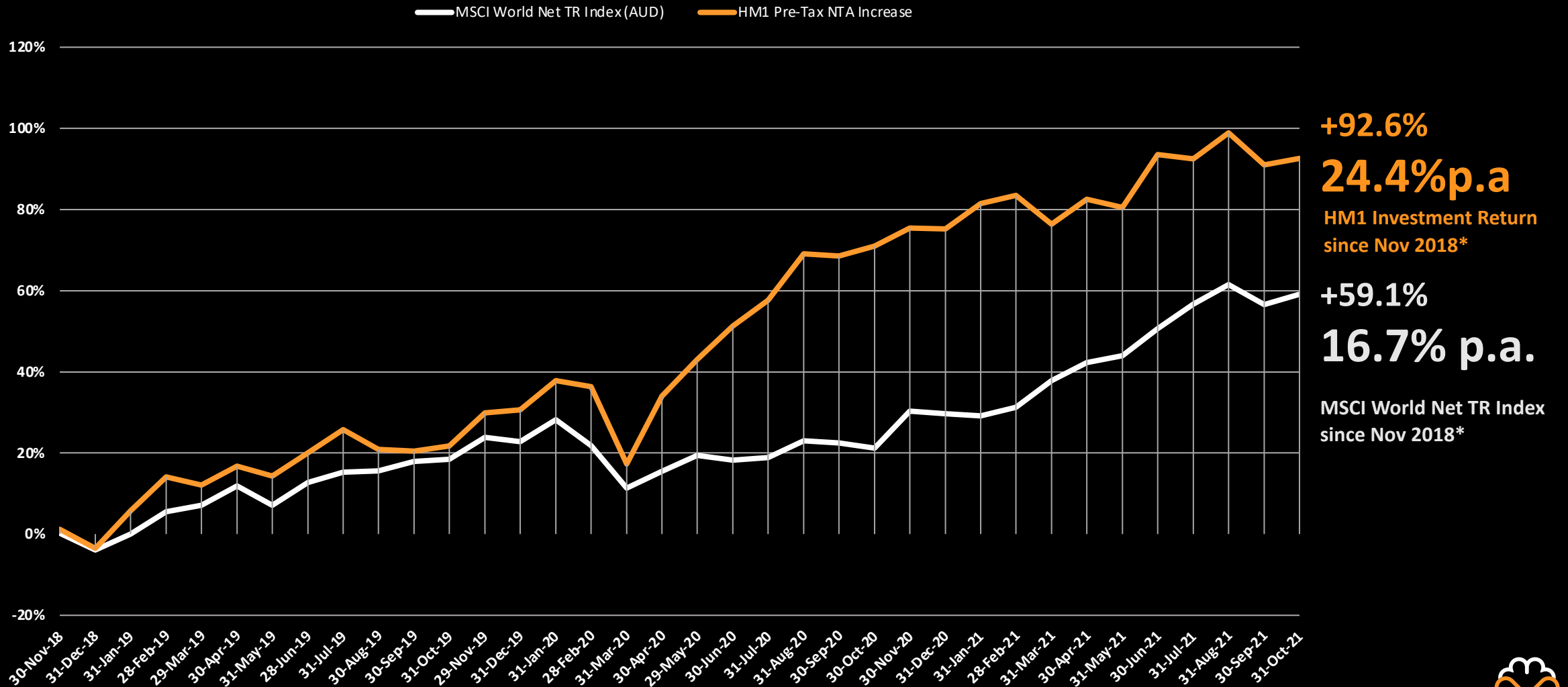
*Investment Performance is calculated after expenses and before taxes. Index returns are calculated before expenses and taxes. Source Citco Fund Services and MSCI. IPO Nov 2018.*





# HM1 Investment Performance vs Benchmark

## Since Inception to 31 October 2021



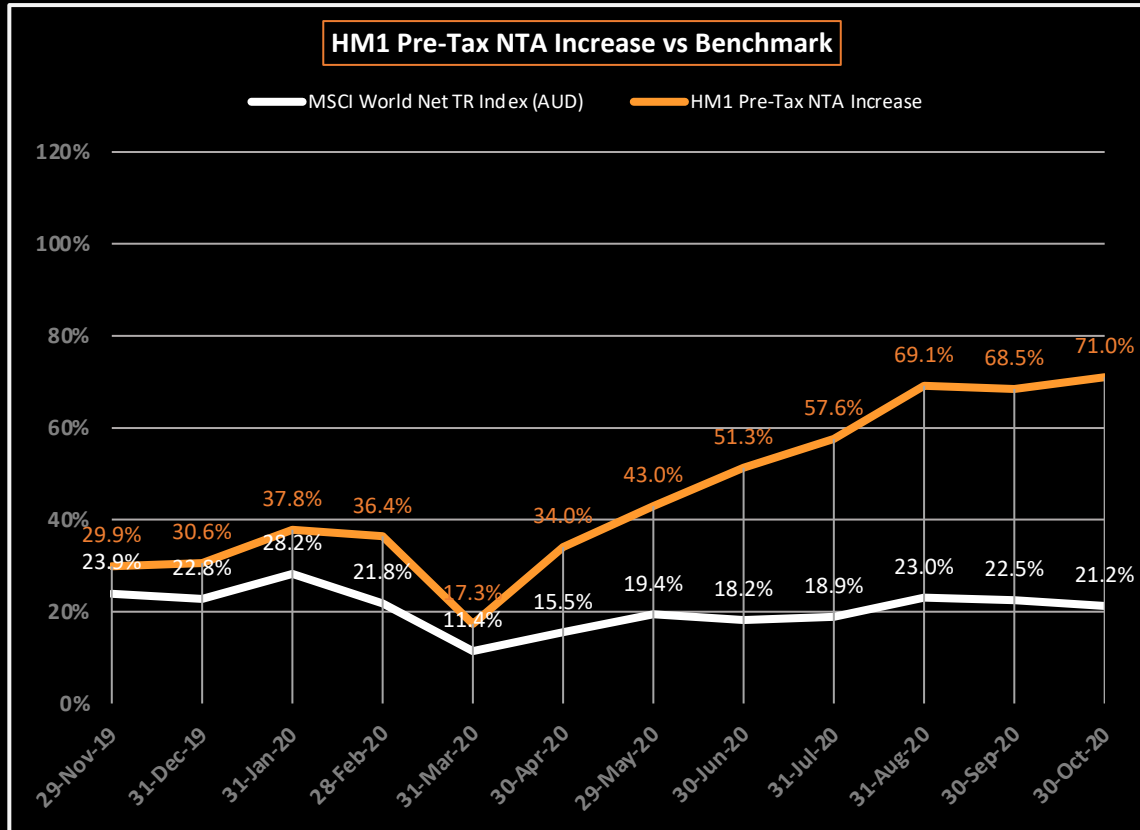
\* Investment Performance is calculated after all expenses and before taxes. Index returns are calculated before expenses and taxes.



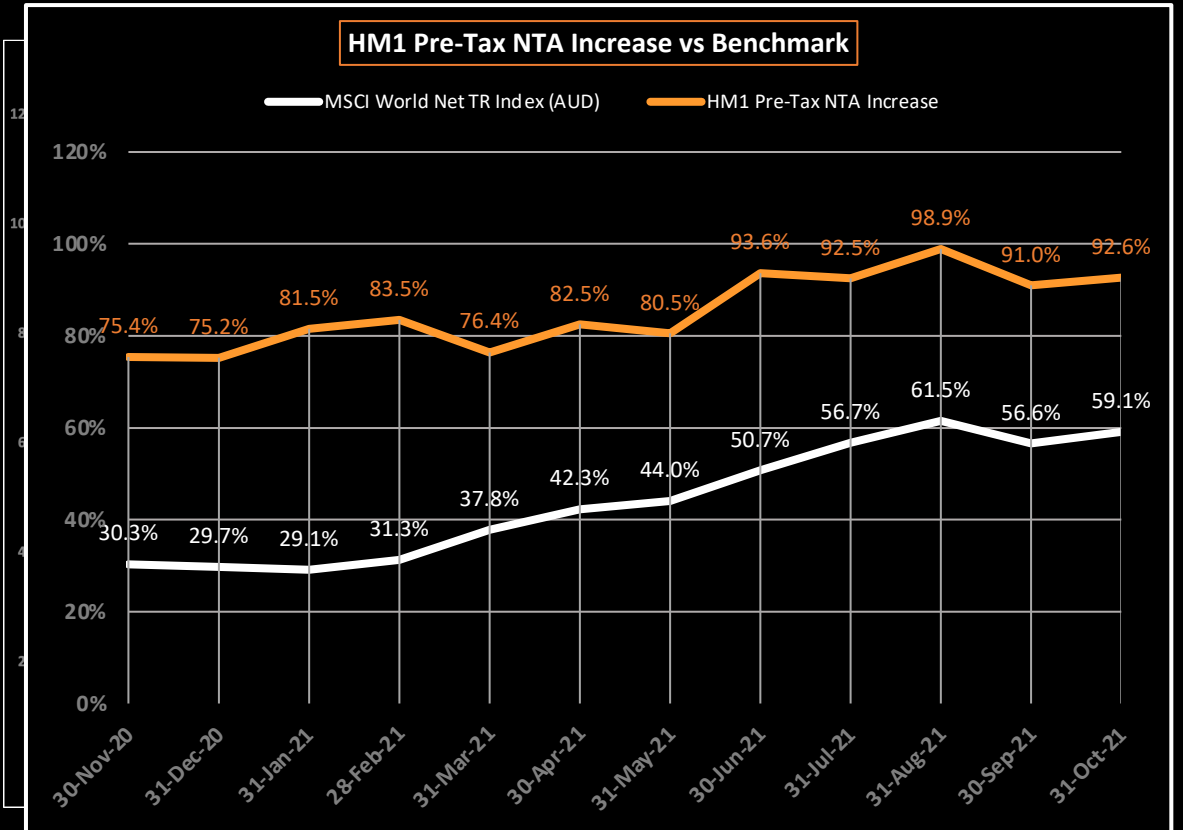
# HM1 Investment Performance

1 year to October 2020 vs 1 year to October 2021

40.5% - 1 year return to Oct 2020



12.6% - 1 year return to Oct 2021

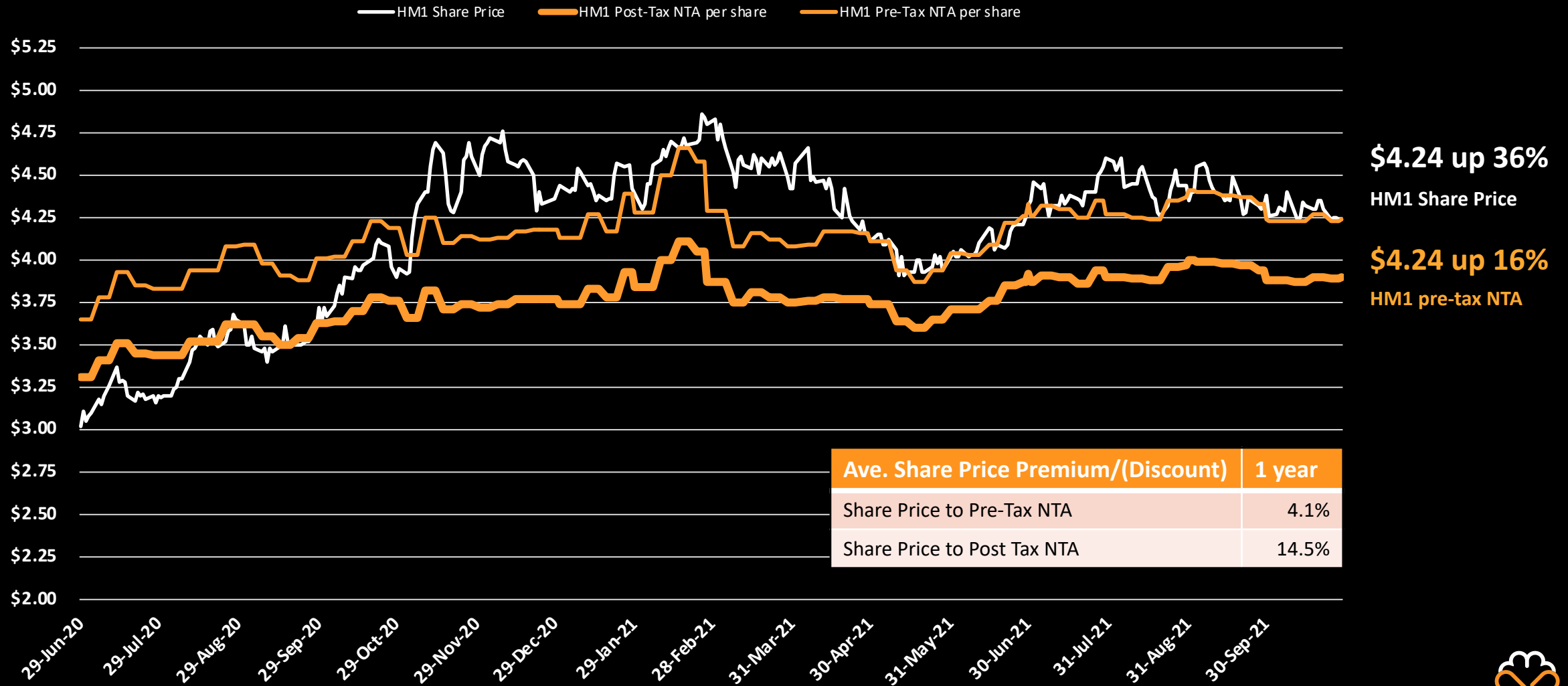


\* Investment Performance is calculated after all expenses and before taxes. Index returns are calculated before expenses and taxes.



# HM1 NTA per share and Share Price

1 July 2020 to 31 October 2021



Post-Tax NTA is calculated after the provision for tax on both realised and unrealised gains and losses.





**HEARTS  
& MINDS**  
INVESTMENTS