

13 April 2022

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 [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 respected 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 1.3% for the month of March, compared to a fall of 0.7% for the MSCI World Net TR Index (AUD); a gain of 3.4% for the NASDAQ Composite; and a rise of 3.6% for the S&P 500. The ASX 200 was up 6.4%, and the Australian dollar rallied by 3.0% to close just below US75c.

Since inception (November 2018) HM1's compound annual return stands at 13.6% p.a., compared to 13.5% p.a. for the MSCI World Net TR Index (AUD). The post-tax net tangible asset value decreased by 0.9% in March and has increased at a compound rate of 10.3% p.a. since inception. Note also that we paid our annual fully franked dividend of 13.5 cents per share on April 12.

All eyes were on the ongoing Russia-Ukrainian conflict and what Central Bank action would be announced during the month. The bellwether US 10-year bond yield continued to rise, increasing from 1.83% to 2.32%, as more investors rushed to the safety of cash. We saw mention of "yield curve inversion", which is where the 2-year bond yields more than the 10-year bond and is historically seen as an early sign of potential stagflation, which also unnerves investor confidence. Commodities traditionally fare much better in this environment, and March was no exception, with nickel rising by 32%, zinc 14% and oil almost 5%. The Australian dollar was stronger, rallying back to almost 75c, given the resource heavy nature of the local economy.

The core portfolio (which represents 65% of the capital invested across 18 stocks) had a satisfactory month, with 12 stocks delivering positive returns. The commodity exposures outperformed, with Champion Iron Limited and Mineral Resources up 21% and 16% respectively. As expected with higher bond yields, technology stocks underperformed for the month. The two changes we made to the portfolio recently were Tyro Payments and Netflix being replaced with Visa, Inc. and Block, Inc. which recently acquired AfterPay Ltd.

The Conference Portfolio (which represents 35% of the capital invested) is comprised of high-conviction recommendations from fund managers who presented at the most recent Sohn Hearts & Minds conference. The Conference Portfolio is refreshed every 12 months, meaning the holding period for any conference stock recommendation is up to 12 months. We can exit our positions at any time during the year, either holding cash or redeploying capital to other Conference Portfolio stocks.

The conference portfolio had a more difficult month, with most holdings declining in value. With the continued increase in bond yields over March, the earnings or revenue multiples upon which technology stocks have been priced has continued to contract. Delivery Hero and The Beauty Company fared the worst, with falls of 16% and 13% respectively. Pleasingly, Megaport and Pinnacle Investment Management were able to eke out rises of 3% each during March. Our managers have noted increased "insider buying" by the management of some of our companies at the current depressed levels, which has given them some ongoing confidence in the underlying fundamentals of their recommendations.

Our current investment model for the Conference Portfolio has resulted in a concentration in mid-cap emerging technology companies. This has increased risk in the portfolio that has been exposed by the recent sell off of tech stocks and the broader shift from growth to value stocks.

We are not happy with the current risk correlations in the portfolio, and we are in the process of making changes to our Conference Portfolio fund manager and stock selection process. We believe these changes will reduce the factor risk concentration we have in future Conference Portfolios without losing the essence of the high conviction stock investment model.

In short, we are broadening the selection process for Conference fund managers to deliver greater diversity of investment styles and sector focus. In regard to the recommended stocks, we are implementing a risk overlay to identify excessive factor or risk correlations. These changes will apply for the next Conference Portfolio in November 2022.

The overall investment strategy will remain a portfolio of high conviction recommendations from respected fund managers. We will still not prescribe a top down construction of the portfolio. However, there will be greater diversity in the selection of Conference fund managers and a risk overlay to identify and avoid over concentrations in particular factors or risks.

Geopolitical tensions and the rising interest rate environment continue to drive equity markets around the world. The US Federal Reserve gave some guidance as to how high they expect interest rates to rise over the course of 2022. If we see ongoing yield curve inversion, we can expect more volatility, and almost 30% of respondents expect the US to go into recession within the next 12 months. Companies with sound fundamentals are able to endure most market cycles, and 2022 looks like being a pivotal point in time where markets eventually adjust to the new market that is developing. Active portfolio management in these times is crucial to delivering shareholders acceptable returns on their capital, and we continue to monitor the various risks in our portfolio and speak with our managers to ensure we manage the risks in our high conviction investment portfolio.

Investment Performance

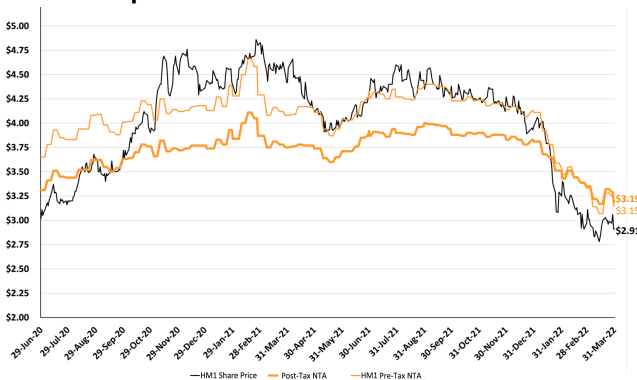
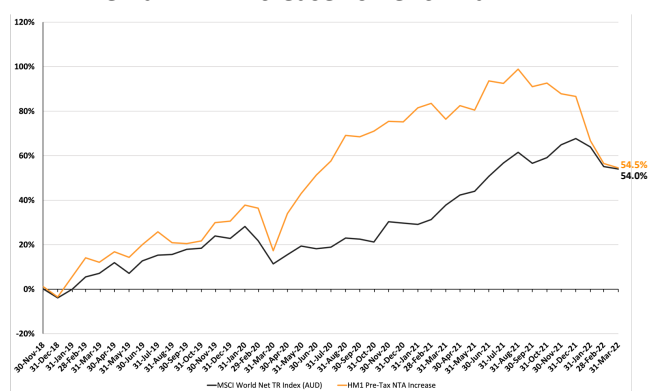
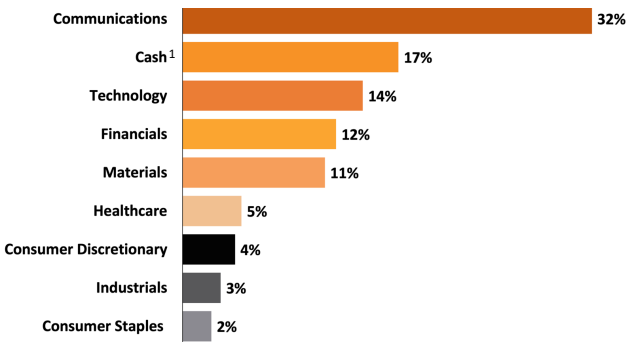
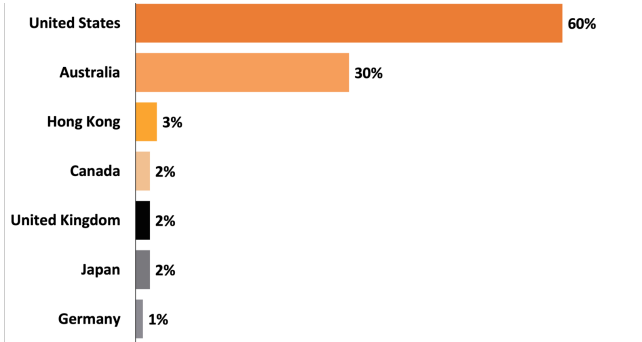
	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Investment Performance	-1.3%	-19.1%	-12.4%	11.3%	13.6%
MSCI World Net TR Index (AUD)	-0.7%	-1.7%	11.7%	12.9%	13.5%

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.

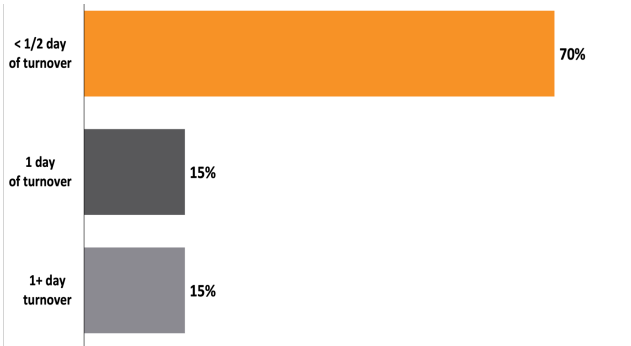
Net Tangible Asset (NTA) Performance

	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Post Tax NTA Performance*	-0.9%	-14.3%	-8.9%	8.8%	10.3%

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 NTA per share vs Share Price

HM1 Pre-Tax NTA Increase vs Benchmark

Sector Allocation

Business Domicile⁴

Key Details

Pre Tax NTA ²	\$3.15
Post tax NTA ³	\$3.19
ASX code	HM1
Share price	\$2.91
Percent invested	83%
Listing date	14 Nov 2018
Annual fully franked dividend	13.5cps
Profits Reserve ⁴	59.9cps

Portfolio Liquidity⁶


¹ Cash 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 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. ⁴The Profits Reserve figure is at 31 December 2021 and after providing for the fully franked dividend of 13.5 cents per share payable on 12 April 2022. ⁵Determined by location where primary business takes place. ⁶Based 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 2022 unless otherwise stated.

News from the **HM1 Network**



Russia's invasion of Ukraine has sent geopolitical and economic shockwaves around the globe, creating new risks to the investment outlook. In the latest episode of **Magellan's In the Know** podcast series, Former US Deputy Assistant Secretary of Defence for Russia, Ukraine and Eurasia Evelyn Farkas, and former Deputy Director of the CIA Michael Morell dissect and shed light on the situation with Magellan's Head of Macro and Portfolio Manager Arvid Streimann. [Listen to the episode here.](#)



At a recent event at the Center for Strategic and International Studies, **Ray Dalio** and Henry Kissinger were brought together for a wide-ranging conversation, taking in what the past can tell us about the present and the future. *LiveWire's* Matt Buchanan has summarised the key takeaways including the titans' thoughts on America's future, how the rivalry between China and the United States will play out, and the role of technology in shaping it. [Read the 'wire' here.](#)



COVID-19 may have stopped tours of **The Victor Chang Cardiac Research Institute's Innovation Centre** but it certainly hasn't slowed their scientists from making new discoveries to prevent Spontaneous Coronary Artery Dissection (SCAD) and better diagnose sudden cardiac arrest as shown [in this video with Sky News Australia.](#)



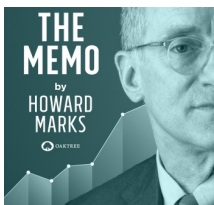
Speaking at the recent *Inside Network's* Equities and Growth Assets Symposium, conference fund manager **Nick Griffin of Munro Partners** shared the sector representing a \$25 trillion opportunity and perhaps the most important S-curve of his career. [Read the highlights from his presentation on *The Inside Adviser* here.](#)



In a recent post, **previous conference keynote speaker Ramez Naam, a futurist at Prime Movers Lab** writes how the war in Europe will accelerate climate and clean energy technologies as the world rushes to get off of Russian gas and oil. Naam suggests Putin has done more to advance climate action in the last month than anyone in the last decade. [Read the article on Medium here.](#)



Ever wanted to know more about CRISPR? **The Walter Eliza Hall Institute (WEHI)** has developed a free CRISPR online learning course for anyone wishing to get up-to-speed with the genome editing tool. After completing the course, you will have an understanding of CRISPR and some of the many applications of this technology, including how scientists at WEHI are using it every day. [To learn more and complete the course visit the WEHI Learning Hub here.](#)



In **Howard Marks' latest memo**, he connects two seemingly unrelated trends – Europe's energy dependence and US offshoring – to explain why the pendulum of companies' and countries' behaviour may be swinging away from globalisation and toward onshoring. This shift will likely create risk for investors, but also opportunities. [Listen to the memo here.](#)



Rory Lucas, HM1's Chief Investment Officer, writes a jargon-free update providing 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 [here](#).

More news from the HM1 network

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

Core Fund Managers



Conference Fund Managers



Designated Beneficiaries



Pro-Bono Service Providers

