



## Monthly Investment Update August 2022

9 September 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 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 name of the signatory.

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 declined by 1.1% for the month of August, after the strong month recorded in July. Most markets fell during August with the MSCI World Net TR Index (AUD) down 2.5%; the S&P 500 Index down 4.2%; the NASDAQ Composite down 4.6%; and the local ASX 200 up 0.6%. The AUD also declined by 2% against the USD to 68.4 cents. Since inception, the HM1 portfolio has delivered an annualised investment return of +9.0%.

Despite a strong start to the month following positive earnings reports from the large technology companies, US markets posted their weakest August performance since 2015 after Chairman Jerome Powell made the Federal Reserve's stance quite clear: that lowering inflation was paramount, even if that requires a recession.

*"Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation."* – Jerome Powell

This sent bond yields back above 3% and the 2Y/10Y interest rate curve remained inverted. Higher interest rates are one factor that impacts the earnings multiples being applied to longer duration assets, in particular technology companies, as we saw in the first six months of 2022.

Despite a large exposure to technology companies, the HM1 portfolio slightly outperformed the tech heavy NASDAQ Index in August. The largest positive contributors to returns were: Mineral Resources +19%; Champion Iron Limited +8%; Techtronics +7%; Avalara +5%; and Gitlab +4%. The main detractors were The Beauty Company (SKIN) -13%; Delivery Hero -12% and Opthea Limited -11%. Our positions in the mega-cap technology stocks Alphabet and Microsoft also hurt performance.

During the month, private equity firm Vista Equity Partners launched a takeover bid for conference holding Avalara, Inc, which develops software that helps businesses manage their tax compliance. Following the technology sector selloff, it is not surprising to see private equity firms acquiring quality technology businesses such as Avalara. When the Avalara Board recommended the takeover to shareholders in early August, we sold our position at close to the takeover offer price. Other transactions during the month included a reduction in our Gitlab holding, as well as participation in the Opthea Limited and Orica placements that were conducted.

Despite what proved to be a generally positive earnings season, both locally and abroad, markets remain on edge, as Central banks tackle inflation via ongoing aggressive monetary policy. As noted above, it was made clear that lower growth and employment will be the cost of curbing inflation. Geopolitical tensions also remain high, therefore we expect share price volatility to remain elevated. As we approach the upcoming 2022 Sohn Hearts & Minds Investment Leaders Conference we continue to liquidate our current conference holdings, which will keep our cash weighting higher than normal until November.

### Investment Performance

	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Investment Performance	-1.1%	-11.1%	-30.1%	4.8%	9.0%
MSCI World Net TR Index (AUD)	-2.5%	-5.7%	-9.5%	8.2%	10.4%

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.

All figures as at 31 August 2022 unless otherwise stated. Portfolio Commentary as at 8 September 2022. Fund inception 14 Nov 2018. This communication has been prepared by Hearts and Minds Investments Limited (ABN 61 628 753 220). In preparing this document the investment objectives, financial situation or particular needs of an individual have not been considered. You should not rely on the opinions, advice, recommendations and other information contained in this publication alone. This publication has been prepared to provide you with general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Past performance is not a reliable indicator of future performance.

Pre-Tax NTA **\$2.79**

Post-Tax NTA **\$2.96**

Share Price  
(ASX: HM1) **\$2.37**

Investment Performance p.a.  
(Since inception 14 Nov 2018) **9.0%**











Cash Weighting **25%**

Latest Dividend  
(Annual fully franked dividend paid April 2022) **13.5cps**

Profits Reserve **76cps**

Cumulative Medical Research Funding **\$33.9m**

### Top 10 Holdings (in alphabetical order)

 Alphabet Inc GOOGL US	 ON Semiconductor Corp ON US
 Brookfield Asset Management BAM US	 Orica Ltd ORI AU
 Danaher Corporation DHR US	 Spotify Technology SA SPOT US
 Formula One Group FWONK US	 Visa Inc V US
 Microsoft Corporation MSFT US	 Zillow Group Inc Z US

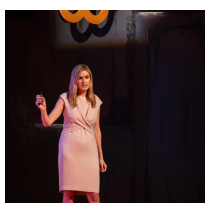
### News from the **HM1 Network**



**Bill Browder, Founder of Hermitage Capital**, acclaimed author (*Red Notice* and *Freezing Order*) and human rights campaigner, will headline the 2022 Sohn Hearts & Minds Conference on Friday 18 November. Bill was the largest foreign investor in Russia until 2005, when he was denied entry to the country and declared “a threat to national security” for exposing corruption in Russian state-owned companies. As the Russia-Ukraine war continues to unfold, there is no one more qualified to comment on the continued far-reaching implications of this hostility as it impacts lives, livelihoods, freedoms, and markets across the globe. [Read \*The Australian\* article on our website to learn more.](#)



**Bob Desmond, Head of Claremont Global** will be making his debut at the 2022 Sohn Hearts & Minds Conference. Bob recently sat down with *ausbiz's The Global View* to talk about his optimism when it comes to company valuations off the back of reporting season and the investment opportunities market volatility brings for active managers like himself. [Watch the full interview here.](#) (note, you'll need to create a free account to view)



Previous Conference Manager, Emma Fisher of **Airlie Funds Management** had a recent conversation with *Livewire Markets* Co-Founder James Marlay about market cycles and why her outlook on the roll-off from peak inflation is uncharacteristically pessimistic. Emma also delves into some of the companies that delivered standout results in the latest reporting season. [Watch the interview](#) or [read the transcript on Livewire here.](#)



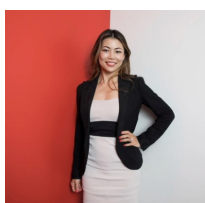
**Chief Investment Officer of Munro Partners Nick Griffin** believes there are three important factors that must be considered in determining whether market bottom has been reached. Find out what these are in this [Firstlinks article](#), as well as some of the Areas of Interest Munro are currently monitoring for long-term growth.



In a recent episode of **TDM Growth Partners' Scaling Up** podcast, Co-Founder and CEO of Rent the Runway ('RENT') Jennifer Hyman shared the scaling challenges of creating a closet in the cloud for over 2.5 million American women as well as the lessons learnt in building enduring and powerful network effects. [Listen to the conversation here.](#)



Professor Jason Kovacic from **Victor Chang Cardiac Research Institute** explains what you need to know about NASA's first moon mission since Apollo, and how deep space travel impacts the human body and heart health. From microgravity to radiation and blood clots, learn what an astronaut would need to endure on a mission to Mars by [reading the article here.](#)



Previous Conference Manager **Jun Bei Liu of Tribeca Investment Partners** joined *ausbiz* to discuss her overall impression of company earnings off the back of the recent reporting season and why looking ahead, corporates seem to be in good shape. Jun Bei also highlights some businesses that particularly interested her over this period. [Watch the full interview here.](#) (note, you'll need to create a free account)



2022 Conference Fund Manager **Tim Carleton of Auscap Asset Management** discusses furniture retailer Nick Scali's ('NCK') strong earnings results despite the many challenges facing its sector throughout FY22, and why he names it as one of the highest conviction stocks in his portfolio. [Read the Livewire article 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

