



December 2021

12 January 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 December 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 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 0.6% for the month of December, compared to increases in the MSCI World Net TR Index (AUD) of 1.7%, the NASDAQ of 0.7%, the S&P 500 of 4.4%, and the ASX 200 of 2.6%. The Australian dollar rallied 1.3% to US\$0.727, recapturing some of the 5% decline seen in November.

Since inception (November 2018) the compound annual investment return of the portfolio stands at 21.8% p.a., compared to 17.7% p.a. for the MSCI World Net TR Index (AUD). The post-tax net tangible asset value of HM1 decreased by 0.5% in December and has increased at a compound rate of 16.1% p.a. since inception.

After a strong start to the month in global equity markets, the emergence of the new COVID-19 variant Omicron and more hawkish commentary from the US Federal Reserve, combined to quickly erode confidence in growth markets, most notably in the technology sector. There has been a marked rotation from high PE growth stocks to lower PE value stocks in the last couple of months. Within the technology sector itself, semiconductor companies saw solid buying interest, given the much-publicised shortfall in supply, amid surging demand. Tech sector investors also favoured the mega cap stocks, such as Apple and Microsoft, which are considered safer havens within the sector.

The rapid surge in infections from Omicron again brought supply constraints and bottlenecks to the front of investors' minds, and price increases (i.e. inflation) have spread to a far broader range of goods and services. Inflationary expectations usually lead to higher interest rates, which lower theoretical valuations for high growth companies, and place downward pressure on their share prices. Only time will tell whether the current inflation we are experiencing will persist and what impact it will have on interest rates and broader economic conditions. Our managers are generally of the opinion that the current inflation spike is predominantly connected to the dislocations caused by the pandemic, and that it will most likely stabilise over the next 12-18 months.

On December 3, the 2021 Sohn Hearts & Minds Investment Leaders Conference was presented virtually, where our latest selection of fund managers presented their highest conviction stock ideas. This year twelve long ideas were presented, and all have now been added to the portfolio. These stocks represent 35% of the capital invested in the portfolio, as they have in previous years. The 2020 conference portfolio delivered the Fund an investment return of 23%, which was pleasing given the difficult and uncertain investment environment we are in. Whilst we were able to invest in the new stock recommendations at seemingly attractive entry levels, the Christmas/New Year tech stock sell-off soon saw the early gains lost, and a small mark to market loss was recorded for the month of December.

Within the core portfolio, there were some rebounds in the prices of some of the companies that have been sold off heavily in recent months. Weakness in 4-5 companies offset some of these gains, but overall, the core portfolio delivered a gain of 1.2%. Whilst short-term profits are realised in many of the conference holdings, our core managers take multi-year views on the companies they recommend to HM1. In theory this should allow compounding of our capital to take place. However, if they lose conviction in their multiyear thesis, or find what they believe to be a better compounder of capital, then we sell and replace the particular holding.

Overall, we are disappointed by the investment returns delivered by our portfolio for 2021, especially after the gains of 2019 and 2020. Lower investment returns have also impacted the HM1 share price over the second half of the year. As we have mentioned throughout the year, uncertainties caused by the everchanging pandemic and its spill over effects into the economy, including worker shortages, price inflation and rising interest rates, have all seen many very robust companies experience challenges. Our portfolio was not immune to these forces. Large share price moves will no doubt continue into 2022, and we will continue to work closely with our fund managers to manage the portfolio to deliver the longer term returns we aim to generate for our shareholders.

Investment Performance

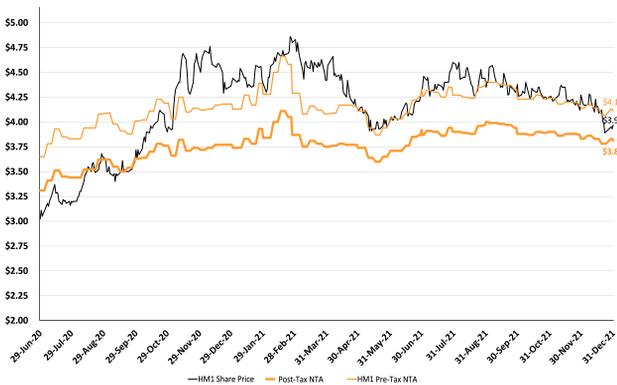
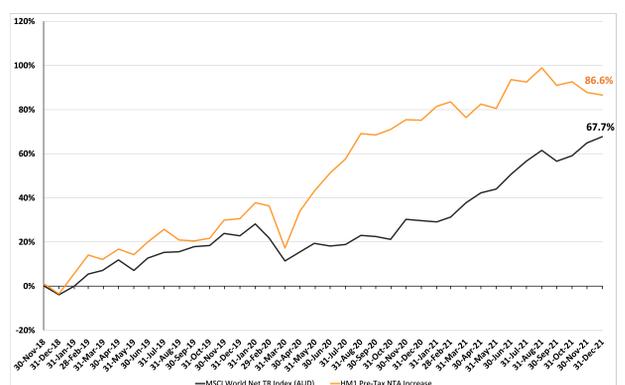
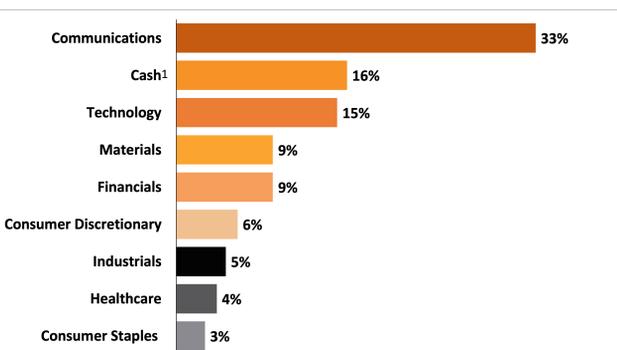
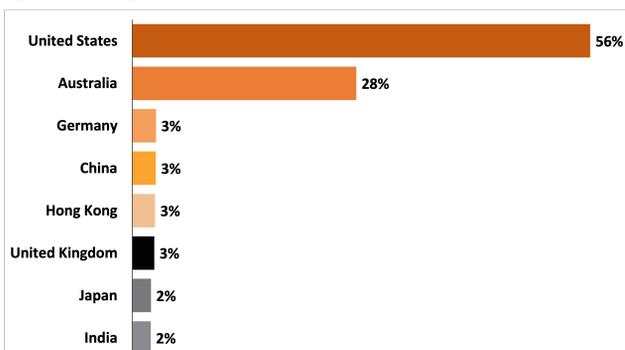
	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Investment Performance	-0.6%	-3.6%	6.5%	24.6%	21.8%
MSCI World Net TR Index (AUD)	1.7%	11.3%	29.3%	20.4%	17.7%

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

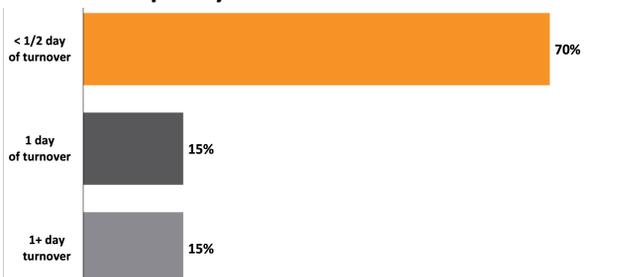
	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Post Tax NTA Performance*	-0.5%	-2.7%	5.2%	18.0%	16.1%

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	\$4.11
Post tax NTA ³	\$3.81
ASX code	HM1
Share price	\$3.97
Percent invested	84%
Listing date	14 Nov 2018

All numbers as at 31 December 2021 unless otherwise stated.

Portfolio Liquidity⁵


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. ⁴Determined by location where primary business takes place. ⁵Based 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 December 2021 unless otherwise stated.

News from our **Managers**



Founders in 15 with Lily Sarafan brings you insightful conversations with founders across various thriving industries. In this episode Conference Manager **Babak Poushanchi** discusses the origins of **Cota Capital** alongside Co-Founder Bobby Yazdani. [Watch the interview here.](#)



In the latest episode of the *In the Know Podcast*, **Magellan's** Chairman and CIO **Hamish Douglass** speaks with one of the world's foremost epidemiologists, and a member of President Biden's Transition COVID-19 Advisory Board, Dr Michael Osterholm about the Omicron variant. [Listen the podcast here.](#)



Conference Manager and **Munro Partners'** Chief Investment Officer **Nick Griffin** explains the circular economy in this episode of their Climate Change Trends video series. Nick Griffin highlights companies in the space that are offering ingenious solutions to lower our carbon intensity globally. [Watch the video here.](#)



Livewire's 2022 Outlook Series features insights from many of our Conference Managers as they share their most compelling predictions for the year ahead. [Watch the interviews here.](#)



Core Fund Manager **TDM Growth Partners'** *Scaling Up Podcast*, hosted by Ed Cowan is back for its fifth season, giving incredible insight into what it takes to scale a business. [Listen to the podcast here.](#)



Each month former Conference Manager, **Cathie Wood of ARK Invest** publishes an episode of "In the Know". In the latest video Cathie weighs in on the tech sell off, innovation stocks, China and the tech & telecom bubble. Cathie also discusses her views on fiscal policy, monetary policy and the economy. [Watch the video here.](#)



This episode of *Livewire's Success and More Interesting Stuff* features HM1 Director and **Wilson Asset Management's Geoff Wilson**. The episode covers many of the key lessons Geoff has learnt in building Wilson Asset Management and how he 'smoked out the doubters' in the early days. [Listen to the podcast here.](#)



Rory Lucas, HM1's Chief Investment Officer, writes a 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 most [Monday's here](#).



Get to know new Conference Fund Manager, **Yen Liow** Managing Partner of **Aravt Global** in this episode of the *What Got You There* Podcast. Yen shares some of his life philosophies, Aravt's investing frameworks, mentors he's had along the way, learning from difficult times and so much more. [Listen to the episode here.](#)



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.



In the final *Livewire* Buy Hold Sell episode of 2021, previous Conference Manager, **Tribeca's Jun Bei Liu** analyses three businesses with big plans for the year ahead. [Watch the interview here.](#)

Core Fund Managers



Conference Fund Managers



Designated Beneficiaries



Pro-Bono Service Providers

