

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Hearts and Minds Investments Limited (ASX: HM1)

Listed Managed Investments

June 2019 Quarterly Review

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Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

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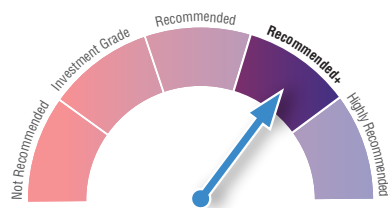
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- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
- 4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
- 5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

Rating



LMI Type

Listed investment company

Investment Area

Global

Investment Asset

Listed companies and other

Investment Sectors

Diversified

Investment Profile

Price (\$) as at 13 September 2019	2.91
Market cap (\$M)	582.0
Shares on issue (M)	200.0
Options on issue (M)	0.0
Shares traded (\$M p.a.)	140.7
12-month L/H (\$)	2.35/3.18
Listing date	November 2018
Fees	
Management Fee (%)	0.0*
Performance Fee(%)	0.0*

*There are no management or performance fees associated with the company.

*All managers from the underlying funds forgo management and performance fees.

Premium/Discount to Pre-tax NTA

As at 30 June 2019	1.3%
Since listing	0.5%

Dividend Yield

	%
FY17	na
FY18	na
FY19	na

Substantial Shareholders

	%
HSBC Custody Nominees	18.9
National Nominees Ltd	6.9

As at 30 June 2019

COMPANY OVERVIEW

Hearts and Minds Investments Limited (ASX:HM1) is a listed investment company striving to deliver attractive equity investment returns for shareholders, while providing funding for Australian medical research. HM1 has a concentrated portfolio of long only positions in Australian and globally listed securities based on the highest conviction ideas from leading fund managers. The Company will forgo any investment fees and instead donate to leading Australian medical research institutes. A 1.5% donation based on the average monthly NTA will be paid to the designated charities.

INVESTMENT OBJECTIVE

The Company aims to provide shareholders with a concentrated portfolio of high quality listed companies.

STYLE AND PROCESS

HM1's blend of manager investment philosophies and styles aims to minimise the portfolio's investment bias, and despite the relatively small number of securities (25-35), the portfolio has diversified exposure across geographic regions and industry sectors. The fund managers have strong performance track records and have very high conviction in the stock/s they recommend. The Company will maintain a regular dialogue with each manager to ensure their conviction in the stock remains intact throughout the investment period. Should an investment thesis play out or change materially, the Company may close out after consultation with the fund manager.

PORTFOLIO CHARACTERISTICS

HM1 allocates 40% of the portfolio based on the annual recommendations of fund managers (Conference Fund Managers) who present at the annual Sohn Hearts & Minds Investments Leaders conference every year. HM1 allocates 60% of the portfolio to its five Core Fund Managers which are currently Caledonia Investments Pty Ltd, Cooper Investors, Magellan Financial Group, Paradise Investment Management and Regal Funds Management.

The portfolio will also be unhedged for currency moves versus the Australian dollar and investors should be comfortable with such exposure given the large international equity exposure currently.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

The Company was listed in November 2018, thus we cannot look at the current listed performance of the company given the short time frame. However, the Company has performed well in the initial highly volatile period for equity markets in which the company has been listed.

The Managers who are selecting the stocks have a long track record of alpha generation and outperformance delivered versus both peers and associated benchmarks. We regard the initial selection of fund managers highly.

Both the Investment Committee and Board of Directors comprise some of the most well known and highly regarded industry professionals in Australia with excellent track records in their respective fields of financial services.

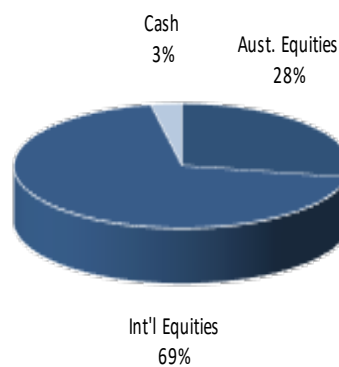
The Board have advised they consider a possible dividend only at December 2019 half year result.

HM1 made its first payment of \$4.9 million in June 2019 to Victor Chang Cardiac Research Institute, representing a reimbursement of the offer costs of the initial public offer. During FY20 it is expected that the offer costs will be fully repaid and donations to its designated charities will commence.

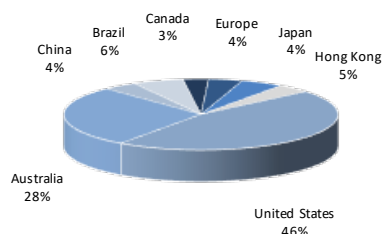
SECTOR BREAKDOWN (EX CASH)

Sector	30 Jun (%)	31 Mar (%)
Energy	0.0	0.0
Materials	6.0	7.0
Industrials	17.0	16.0
Consumer Discretionary	21.0	25.0
Consumer Staples	0.0	0.0
Healthcare	4.0	5.0
Financials (ex Property)	11.0	9.0
Property	0.0	0.0
Information Technology	15.0	14.0
Telecommunication Services	20.0	20.0
Utilities	3.0	4.0

Asset Weighting



Country Weighting



Board of Directors

Chris Cuffe	Chairman (Non-Executive)
Lorraine Berends	Director (Non-Executive)
Guy Fowler	Director (Non-Executive)
Matthew Grounds	Director (Non-Executive)
Geoff Wilson	Director (Non-Executive)
David Wright	Director (Non-Executive)
Michael Traill	Director (Non-Executive)
Gary Weiss	Director (Non-Executive)

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

PERFORMANCE ANALYTICS

Performance	Jun Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	6.8	na	na	na
Share Price + Dividends (%)	3.1	na	na	na

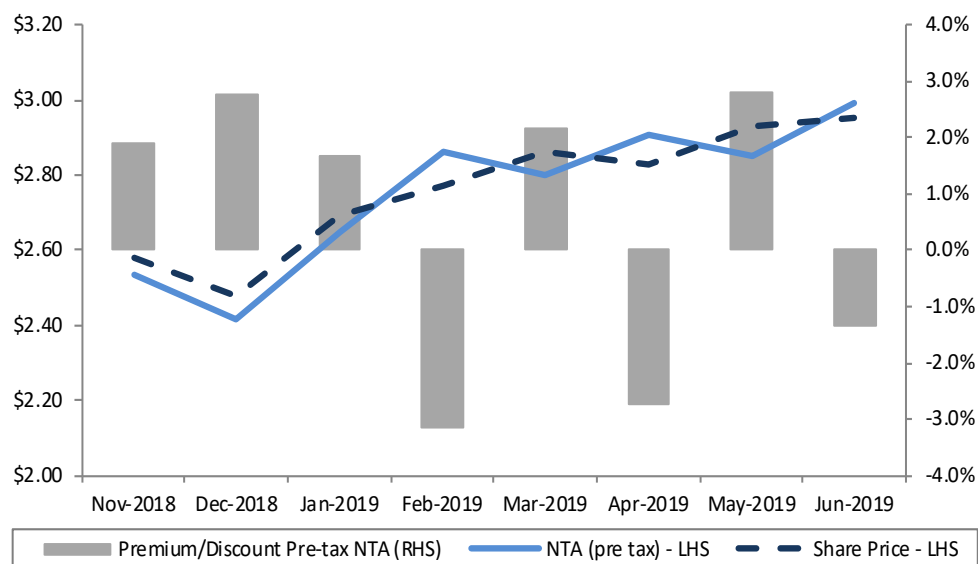
Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

OTHER DATA

- ◆ Distribution policy – The Board is yet to announce a dividend policy.
- ◆ Capital management policy – Capital management decisions are reviewed by the Board on an ongoing basis. Any decision which may be made from time to time will be done in the best interest of the Company.
- ◆ LIC tax concessions – No
- ◆ DRP Available - TBA

Source all figures: HM1/Independent Investment Research/IRESS.
All data as at 30 June 2019 unless otherwise specified.

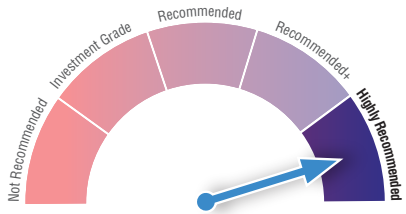
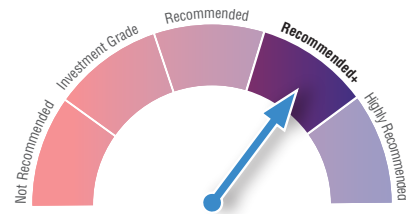
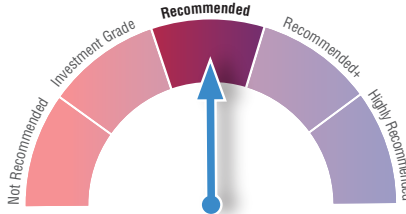
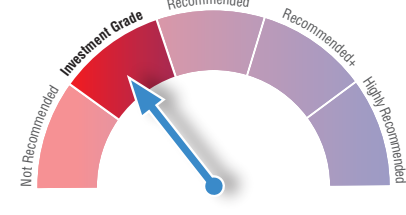
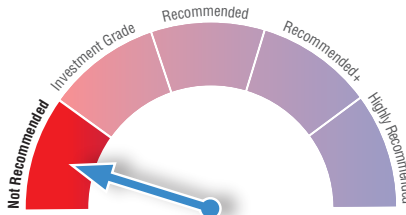
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

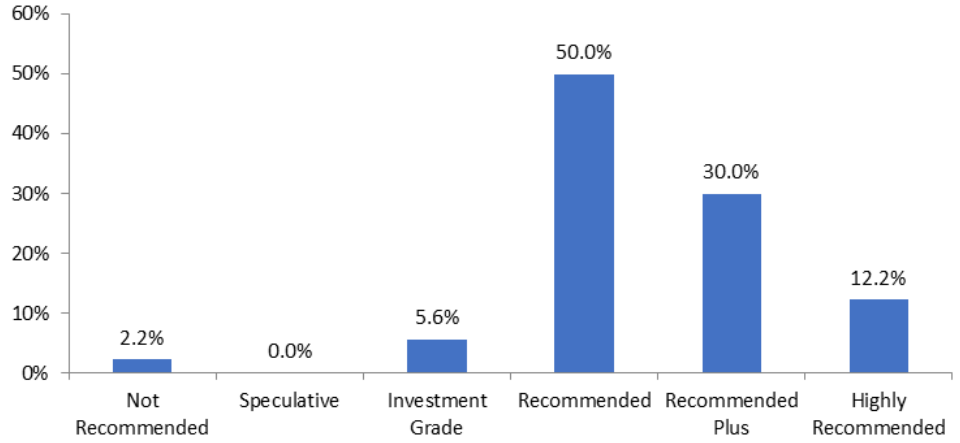
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above
	<p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
Recommended +	79–83
	<p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
Recommended	70–79
	<p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
Investment Grade	60-70
	<p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
Not Recommended	<60
	<p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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