

11 May 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 April 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 8.8% for the month of April, compared to a fall of 3.1% for the MSCI World Net TR Index (AUD); a fall of 13.3% for the NASDAQ Composite; and a fall of 8.8% for the S&P 500. The ASX 200 was down 3.1%, and the Australian dollar fell by 5% to close just below US71c.

Since inception (November 2018) HM1's compound annual return stands at 10.3% p.a. compared to 12.1% p.a. for the MSCI World Net TR Index (AUD). The post-tax net tangible asset value decreased by 6.1% in April and has increased at a compound rate of 8.1% p.a. since inception.

A difficult macroeconomic backdrop, which has seen rapidly rising inflation and interest rates lead to a rapid contraction in valuation multiples from multi-year highs, has severely impacted the technology sector in particular. Our overweight position in technology stocks has impacted our net tangible asset value over the past 6-12 months.

Aside from the war in Ukraine, which is disrupting food and energy prices in particular, the biggest issue concerning markets now is the impact and duration of inflation, and whether policy responses might cause stagflation, meaning slowing/falling economic output accompanied by rising prices (inflation). The technology-heavy NASDAQ index has declined by over 20% this calendar year, making it the worst start to a year on record. With inflation at 40-year highs, investors clearly fear that the level of prices will be higher, and the duration will be longer than first expected. Central governments have stated they "understand the hardship it (higher prices) is causing and are moving expeditiously to bring it back down" (US Fed Chairman Jerome Powell). It appears that only once a peak in inflation is clearly established will there be any easing on the selling pressure of technology stocks.

The Core Portfolio (which represents 65% of the capital invested across 18 stocks) had a difficult month, with most stocks falling, with only Mineral Resources outperforming and Orica posting a small price increase over April. New holdings Visa and Block had mixed months, with Visa posting a small decline, while Block had a difficult month, with the quarterly result they delivered not satisfying investor expectations.

The Conference Portfolio (which represents the remaining 35% of the capital invested) also had a difficult month. Most stocks fell in line with technology indices, with Bengo4 (6027.JP) holding up better than most, while digital currency exchange Coinbase (COIN.US) and local network interconnection provider Megaport (MP1.AX), fared far worse than their technology counterparts.

It is clear that with no indication of how this period of inflation will play out, we must continue to expect greater than normal volatility in share prices, especially in the technology sector. Inflation may well prove to be transitory. Perhaps share prices have already factored in maximum inflation, and the ongoing digitisation of industries will continue to drive down prices as they have for the last 25 years. Conversely, the fact that interest rates have been kept artificially low for such a prolonged period of time, coupled with the fact that supply chain disruptions are so severe, may see price inflation last for many years.

As noted previously, 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 tech stocks and the broader shift from growth to value stocks. We are in the process of making changes to our Conference Portfolio fund manager and stock selection process to reduce the factor risk concentration we have in future Conference Portfolios, without losing the essence of the high conviction stock investment model.

Investment Performance

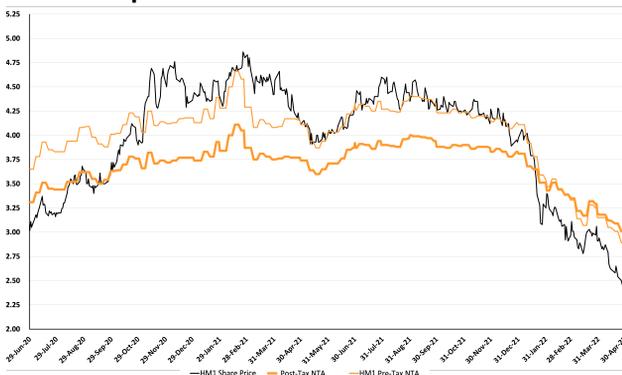
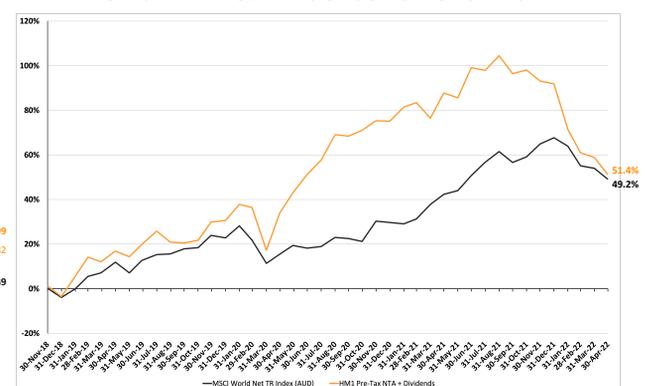
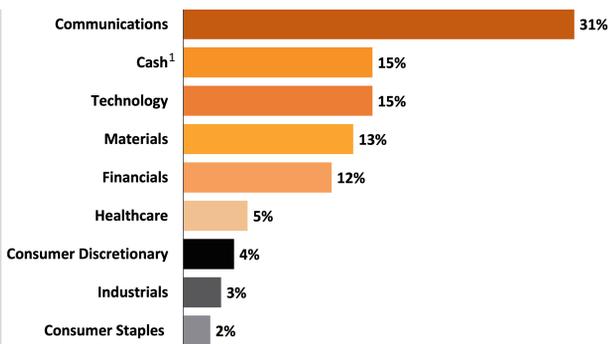
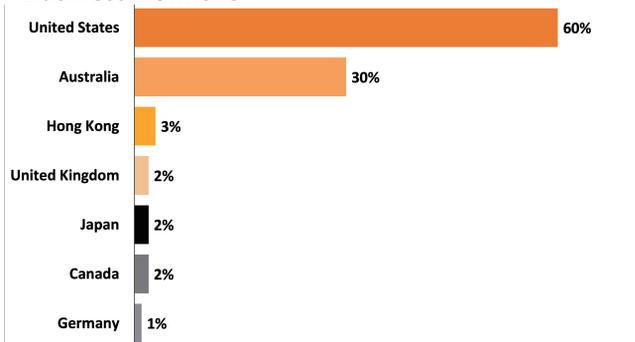
	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Investment Performance	-8.8%	-26.9%	-22.8%	6.4%	10.3%
MSCI World Net TR Index (AUD)	-3.1%	-6.3%	4.9%	10.1%	12.1%

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.

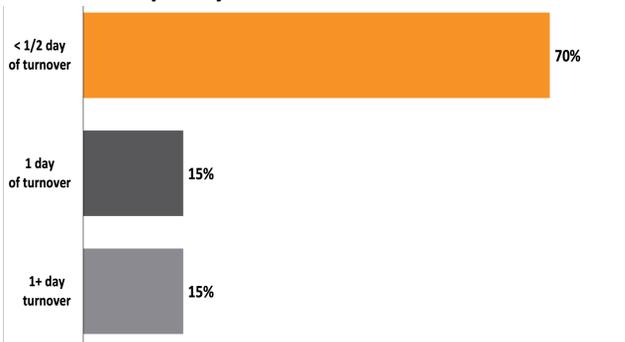
Net Tangible Asset (NTA) Performance

	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Post Tax NTA Performance*	-6.1%	-20.1%	-16.7%	5.5%	8.1%

NTA Performance is calculated after all expenses and taxes. Source: Hearts and Minds Investments Limited and Citco Fund Services. Fund inception 14 Nov 2018.

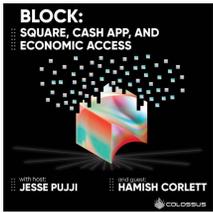
HM1 NTA per share vs Share Price

HM1 Pre-Tax NTA & Dividends vs Benchmark

Sector Allocation

Business Domicile⁵

Key Details

Pre Tax NTA ²	\$2.82
Post tax NTA ³	\$2.99
ASX code	HM1
Share price	\$2.49
Percent invested	85%
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 30 April 2022 unless otherwise stated.

News from the **HM1 Network**



Hamish Corlett of TDM Growth Partners joined the *Business Breakdown* podcast to help break down Block. They cover the common threads that have enabled Block to organically build two major ecosystems in Square and Cash App, how the recent Afterpay acquisition can strengthen the connective tissue between those businesses, and the competitive frontiers Block faces. [Listen to the episode here.](#)



Long-time conference manager **Munro Partners** have launched their own podcast: *Invest in the Journey*. For their first episode, Communications Manager Taylor Bree sat down with the three Founding Partners, Nick Griffin, John Spensley and Ronald Calvert to hear why they started Munro Partners. [Listen to the episode here.](#)



In a special live episode of *Inside the Rope*, to celebrate 100 episodes, David Clarke is joined by Core Fund Manager **Phil King, CIO of Regal Funds Management** alongside managers from Ellerstyn Capital and Pengana Capital to discuss the behaviours and traits of successful investors. Touching on some of the more defining moments of their respective careers, the three panellists cover some of the most challenging markets they have faced to date, as well as where they are seeing opportunities today. [Listen to the episode here.](#)



In a recent newsletter from previous conference keynote speaker and founder of **Bridgewater Associates, Ray Dalio** asks “which investment themes are hot (and not) as the bubble pops?”. In this summary by *Livewire*, learn the sectors Dalio thinks are likely to perform strongly in the current market environment. [Read the article on Livewire here.](#)



In an article for *Equity Mates Media*, **Munro Partners** outlines two ‘circular economy’ companies worth watching. Explaining that despite recycling efforts, there is obvious room for improvement given 99% of what we harvest, mine, process and transport are trashed within six months. [Read the article on the Equity Mates website 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](#).



The Florey Institute of Neuroscience and Mental Health's Autumn 2022 edition of *Brain Matters*, their regular neuroscience magazine, is now available. In this issue read about the establishment of Australia's first dedicated service for young people with stroke, discover top tips on harnessing senses to improve memory and learn about the crucial link between the brain and body - our gut. [Access the PDF 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

