

10 August 2021

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 July 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 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 0.6% for the month of July, compared to increases in the MSCI World Net TR Index (AUD) of 4.0%, the S&P 500 index of 2.3%, the NASDAQ Composite Index of 1.2% and the ASX 200 index of 1.1%. The Australian dollar weakened by 2%, closing at US\$0.7345 dollars.

Since inception (November 2018) the compound annual investment return stands at 26.9% compared to 17.7% for the MSCI World Net TR Index (AUD). The post-tax Net Tangible Asset value decreased by 0.4% in July and has increased at a compound rate of 19.8% since inception. For the 12 months to July 31 the HM1 investment performance was 22.1%, lagging our benchmark at 31.8%.

July will perhaps be seen as the month in which Australia finally came to accept that COVID-19 will be with us for many years, and that mass vaccination is the only path to ending lockdowns, while people permanently adjust their ways of life to accommodate the virus for the foreseeable future. Working from home, much increased online food and goods buying, vaccination passports, tele-conferences instead of business trips look set to become the norm. Companies that can adopt and facilitate these changes will thrive while those that ignore this once-in-a-lifetime disruptive change will be left behind.

The investment portfolio had a poor month underperforming the broader market despite the weakening of the Australian dollar. At an individual stock level, July was a very volatile month primarily due to the reporting season commencing in the US, but also on news that the Chinese Government announced a sweeping overhaul of the education tech sector, curtailing firms that were profiteering from core school curriculum services. This led to concerns about whether the Chinese Government had other industries in its regulatory sights, which caused a broader sell off in the region, leading some industry experts to describe the region as un-investable for now. Authorities tried to calm fears of other industries having draconian measures placed upon them, however the Hang Seng finished the month 10% lower, while the China H-Shares index closed down 13.4%.

The HM1 core portfolio, which represents 65% of HM1's investments, was down 1% for the month with 12 stocks posting price falls, ranging from 2-17%. This was largely offset by price gains in the remaining stocks, with three stocks gaining over 10%, including one of our largest holdings. The larger losses were due to disappointing earnings commentary out of the US, the Chinese Government actions mentioned above and some local profit taking. The larger gains were due to pleasing earnings updates and pre-announcement anticipation of strong local earnings. Our Core Fund Managers recommended a couple of portfolio changes during the month. We sold one of our holdings with regulatory exposure to China and we took profits and rebalanced a local holding following strong price gains.

The conference portfolio, which represents 35% of the investments, was slightly positive for the month, generating a 0.3% investment gain. As with the core portfolio, we saw large share price volatility, with Bill.com rallying a further 15%; Temple and Webster climbing 11%; and Target increasing by 10% over the month. These were offset by declines in Ping An Good Doctor (-25%; Chinese exposure), Nintendo (-13%); Shenzhou Holdings (-12%), and Teladoc Health (-11%).

This underlying volatility is not unexpected. Reporting seasons, both in the US and locally are traditionally the most volatile periods for individual stocks, as investors digest updates on company performance and the guidance management provide for the next period. Uncertainty on outlook is as high as it has been in recent memory, with the pandemic changing the way we live and work. No one knows whether the Delta strain will morph into other vaccine resistant strains, or if the Chinese Government will harshly regulate other industries in the region. Our managers react with the news they have available, and the insights and experience they have developed over their careers. When conviction is lost in a company due to a changing regulatory environment or poor performance, or when share prices factor in too much blue sky/good news, our managers are quick to communicate their views with us. The active management of the portfolio should lead to satisfactory investment returns over the longer term, despite the volatility we continue to experience.

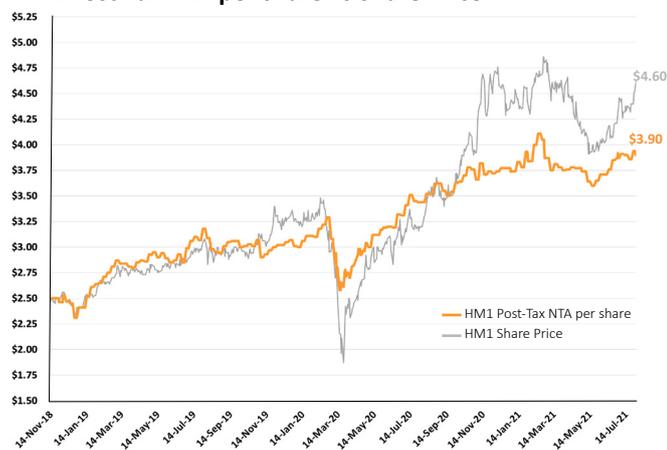
Investment Performance	1 month	6 months	12 months	Since Inception Compound p.a.
Investment Performance	(0.6%)	6.1%	22.1%	26.9%
MSCI World Net TR Index (AUD)	4.0%	21.3%	31.8%	17.7%

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.

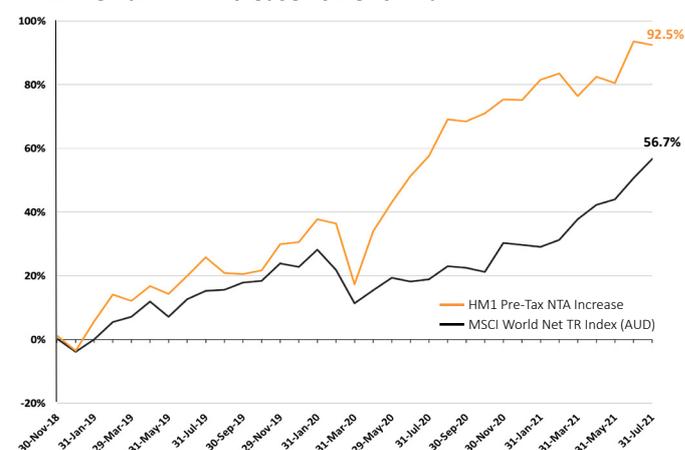
Net Tangible Asset (NTA) Performance	1 month	6 months	12 months	Since Inception Compound p.a.
Post Tax NTA Performance*	(0.4%)	4.7%	16.9%	19.8%

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

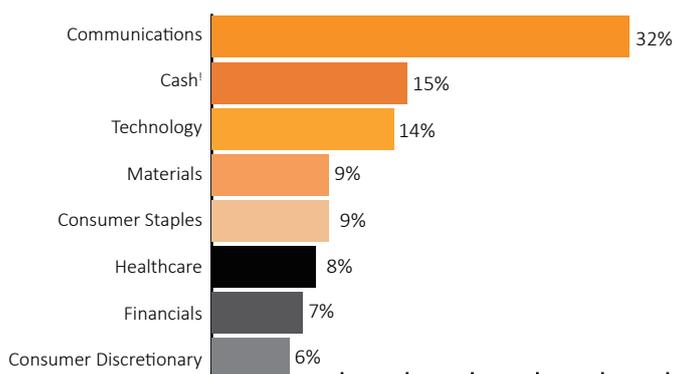
### HM1 Post-Tax NTA per share vs Share Price



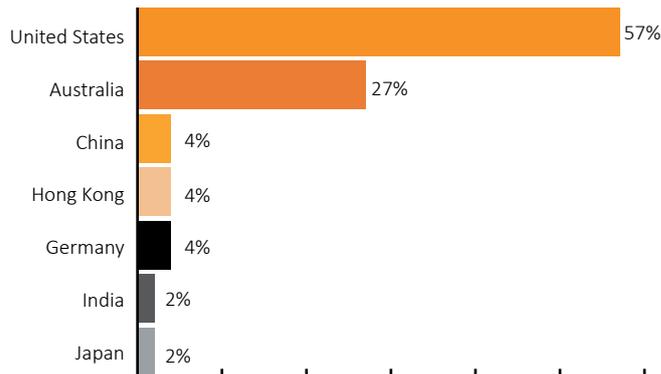
### HM1 Pre-Tax NTA Increase vs Benchmark



### Sector allocation



### Business Domicile<sup>4</sup>

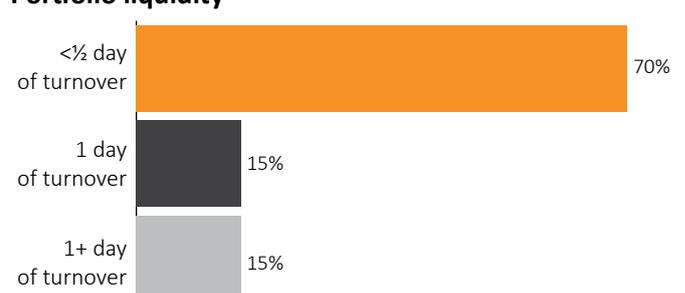


### Key details

Pre Tax NTA <sup>1</sup>	\$4.27
Post current tax NTA <sup>2</sup>	\$4.14
Post tax NTA <sup>3</sup>	\$3.90
ASX code	HM1
Share price	\$4.60
Percent invested	85%
Listing date	14 Nov 2018

All numbers as at 30 July 2021 unless otherwise stated.

### Portfolio liquidity<sup>5</sup>



<sup>1</sup>Cash allocation includes 5% cash set aside for operating expenses, donation accrual and tax liability <sup>2</sup>Pre tax NTA is the NTA of the company before the provision for current or deferred tax. <sup>3</sup>Post current tax NTA includes a provision for tax on operating profits, a provision for tax on realised gains and losses on the Total investment portfolio and a provision for tax on unrealised gains and losses on the Conference investment portfolio <sup>4</sup>Post 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. <sup>5</sup>Determined by location where primary business takes place. <sup>6</sup>Based on 20 day average daily turnover. <sup>7</sup>The performance figures quoted are historical, calculated using end of month prices. Performance can be volatile and future returns can vary from past returns. <sup>8</sup>All NTA figures are unaudited and prepared by Citco Fund Services. <sup>9</sup>All numbers as at 30 July 2021 unless otherwise stated.

## News from our **Managers**

### MUNRO PARTNERS

Read **Munro Partners'** quarterly update on the Global Growth Fund with stock stories on top portfolio holdings including Nick's Conference Recommendation HelloFresh and commentary on the market rotation to inflation winners and a refocus on earnings growth over the longer term. [Access the report here.](#)



Access **Magellan's** 2021 InReview including a Q&A with **Hamish Douglass** and Ticky Fullerton from The Australian, where Hamish shares his perspectives on the state of global markets from inflationary pressures and asset bubbles, to cryptos and big tech regulation. Plus, read Hamish's annual letter to investors (which Rory shared key highlights from in the latest [CIO update](#)) alongside other key thematic insights. [Access Magellan's 2021 InReview here.](#)

### t.d.m. GROWTH PARTNERS

A great read, and insight into how the **TDM Growth Partners** team think about generational businesses and building a thesis for 10+ year investment opportunities, in particular how they apply their "what do you need to believe" thinking, using Peloton (PTON) as a case study. [Read the article here.](#)



**Cooper Investor's** Founder, **Peter Cooper** and Global Team leaders **Allan Goldstein and Marcus Guzzardi** spoke with the Australian Financial Review about the unique origins and performance of their Family and Founders Fund. A Fund focussed on companies that have families and founders with significant 'soul in the game', and how they apply the firm's VoF investment process to identify high performing companies to invest in. [Read the article on our website here.](#)



In an interview with ausbiz, **Tribeca Investment Partners' Jun Bei Liu** shares the investment case for six stocks that have been impacted by the recent lockdowns and opportunities in the reopening trade for sectors such as retail, travel, and the housing market, including Domain (ASX: DHG), Lovisa (ASX:LOV) and Nine Entertainment (ASX: NEC) as companies to watch. Jun Bei can see upside with businesses that have exposure both online and in brick-and-mortar stores. [Watch the interview here.](#)



In a recent episode of the *Shares not Shoes* podcast, **Paradice Investment Management portfolio manager Julia Weng** shares how a stint in managing two of her own artisan bakeries made her a better analyst and portfolio manager. Julia also explains Paradice's investment process and some of the investment themes they are currently watching, including their focus on ESG. [Listen to the episode here.](#)



In a Livewire article, **Airlie Funds Management's Emma Fisher**, former conference fund manager tells a (mostly) good news story as she reflects on the last 12 months. Emma outlines three risks currently facing the market including lofty valuations, inflation, and Australia's worsening diplomatic relationship with China. Plus, some observations from her recent, albeit brief, travels and the stocks to play them. [Read the article here.](#)



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

### CALEDONIA

The Australian Financial Review shares key highlights from **Caledonia's** June quarter update, where the fund manager discussed its high conviction stock picks such as Just Eat Takeaway.com and Genius Sports, plus how the company is taking advantage of initial public offering (IPO) opportunities on the horizon. [Read the article here.](#)

More news from  
the HM1 network

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.

Core fund managers



Conference fund managers



Designated charities



Pro-bono service providers

