

11 February 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 January 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 by 10.7% for the month of January, compared to falls of -2.3% for the MSCI World Net TR Index (AUD), the NASDAQ down 9.0%, S&P 500 down 5.3%, and the ASX 200 down 6.3%. The Australian dollar fell 2.7% to US 71c.

Since inception (November 2018) the compound annual return stands at 17.0% p.a., compared to 16.4% p.a. for the benchmark MSCI World Net TR Index (AUD). The post-tax net tangible asset value decreased by 8.1% in January and has increased at a compound rate of 12.7% p.a. since inception.

Despite both US and European equity markets hitting all-time highs on the first trading day of 2022, January was a very difficult month for equity investors, with both the broad S&P 500 and the technology heavy NASDAQ indices having their worst month since the onset of the COVID-19 outbreak in March 2020. Three macroeconomic forces came together in January, which saw investors run to the safety of cash. Firstly, the ongoing supply chain disruptions caused by the pandemic worsened again, with millions of workers being forced into household isolation, hindering the production and delivery of goods to consumers, which unnerved investors. Second, the fastest US inflation seen in four decades saw the year-on-year rate hit 7%. Fed Chair Jerome Powell reassured investors that tackling high inflation was a high priority, sending bond yields sharply higher, which in turn hurts valuations of high growth technology companies. Third, the increased geopolitical tensions between Russia and the US over Ukraine occupation is also unsettling for investors.

It was a difficult month for both the core and conference portfolios. The core portfolio, which represents 65% of the capital invested, had three of the eighteen positions suffer falls of 20% or more. Of these holdings, nearly all of the losses were from past unrealised gains, with just one of these positions now showing an unrealised loss.

Four holdings increased in value over the month despite the magnitude of the index declines. Currently there are five positions showing an unrealised loss, while three stocks have gains of more than 100%, and another two with gains of greater than 50%.

The conference portfolio saw declines in every position over January. With a focus on disruptive technologies and digitisation dominating the recommendations of our managers at the conference in December, inflation fears and rising bond yields saw valuation multiples pull back sharply as the market reacts to the expectation of higher interest rates. Investors in the sector fled from companies with little or no current earnings towards those delivering solid earnings, such as Microsoft, Google, and Apple. The first week of February has seen a bounce in many technology companies, as reporting season, in the US and locally, gives investors fresh insights into the financial strength and outlook of companies.

January was a difficult month for anyone invested in equities. The trifecta of macroeconomic challenges hit markets hard, and no portfolio, concentrated or diversified, is immune to such selloffs. Regardless of this, we are very disappointed in our investment performance this month, and indeed for the past six months. We, and our investment managers must continue to challenge the investment thesis of any company in our portfolio in the economic environment as it stands today. Inflationary expectations have always been damaging to equity markets and will continue to do so. Whether the current inflation proves to be short or longer lasting, only the passage of time will tell. There is plenty of evidence to support both views. All our managers have challenged their investment ideas and remain of the view that the eventual re-opening of the economy will see an easing in many of the pressures currently weighing on markets.

Investment Performance

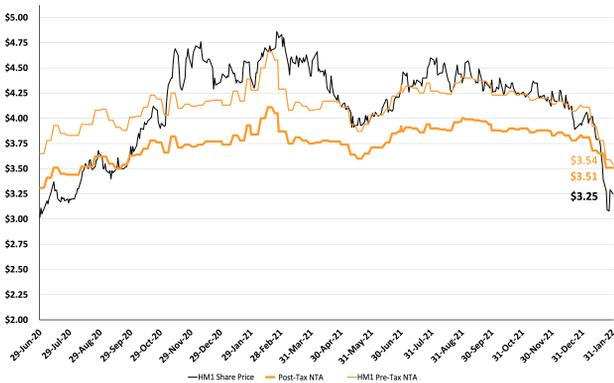
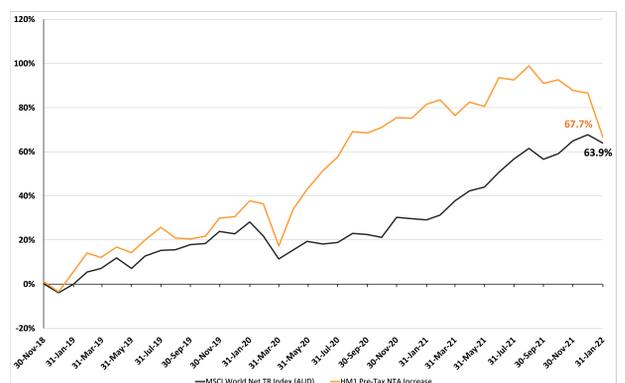
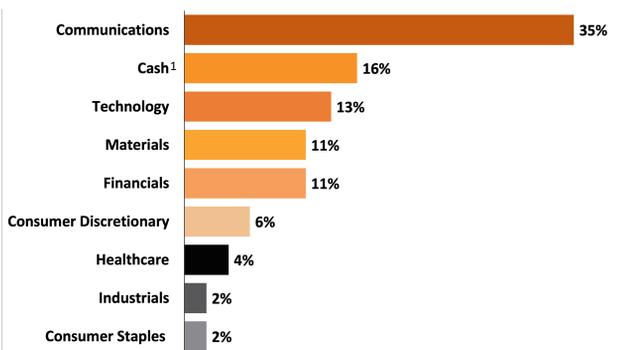
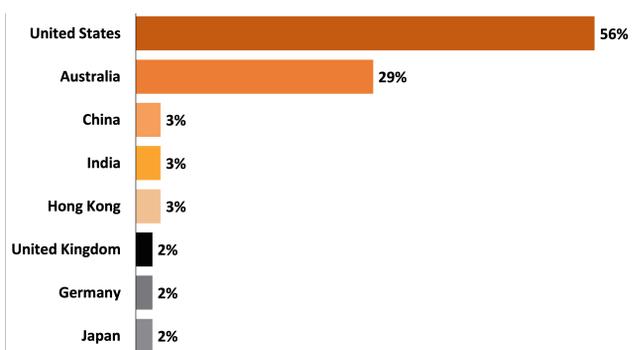
	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Investment Performance	-10.7%	-13.4%	-8.1%	16.4%	17.0%
MSCI World Net TR Index (AUD)	-2.3%	4.6%	26.9%	17.9%	16.4%

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. Fund inception 14 Nov 2018.

Net Tangible Asset (NTA) Performance

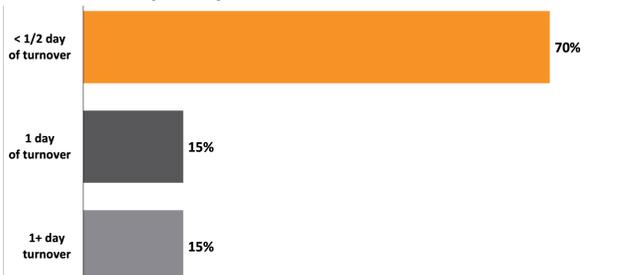
	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Post Tax NTA Performance*	-8.1%	-10.1%	-5.9%	12.4%	12.7%

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	\$3.54
Post tax NTA ³	\$3.51
ASX code	HM1
Share price	\$3.25
Percent invested	84%
Listing date	14 Nov 2018

All numbers as at 31 January 2022 unless otherwise stated.

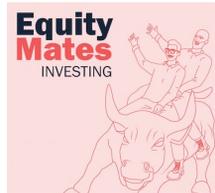
Portfolio Liquidity⁵


¹ Cash allocation includes 5% cash set aside for operating expenses, donation accrual and tax liability ² Pre tax NTA is the NTA of the company before the provision for current or deferred tax. ³ 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. ⁴ Determined by location where primary business takes place. ⁵ Based 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 January 2022 unless otherwise stated.

News from our **Managers**



Previous Conference Keynote, **Howard Marks of Oaktree Capital** considers one of investing's most fundamental questions: when to sell. Howard explains that it's foolish to sell because prices are up *and* because they're down – and why, most of the time, staying invested is ultimately “the most important thing.” [Read or listen to the memo here.](#)



Conference Manager **Nick Griffin of Munro Partners** talks with Bryce and Ren on the *Equity Mates Podcast* to discuss the investing journey of the world reaching net zero. Nick explains how climate change is one of the biggest structural changes happening in the world today and some of the companies that they're looking at within the four sub-trends of climate (spoiler: they're companies you've probably never heard of!). [Listen to the episode here.](#)



TDM Growth Partners' Scaling Up Podcast has released a People and Culture Mini Series. In this episode, Ed Cowan speaks with the CPO of Asana, Anna Binder. The conversation gives insights into what has enabled Asana to scale so effectively. From the mental model of “culture as a product” - that is one to be constantly designed, tested and iterated upon - to what Anna describes as corporate mindfulness. [Listen to the conversation here.](#)



In the latest episode of the *In the Know Podcast* hear from a panel of senior members of **Magellan's** investment team as they look back at the extraordinary year of 2021, and towards the year ahead. The panel discuss their approach to managing key sectors and stocks in Magellan's global portfolio, as well as the volatility of the current investment landscape, potential challenges faced with exposure to China and the inflationary economic outlook. [Listen to the full episode here.](#)



As part of the 2022 Outlook Series, *Livewire* asked nine of Sydney's best fund managers, including **Eleanor Swanson (Firetrail Investments)** and **David Moberley (Paradise Investment Management)**, what stocks they would buy in the case of market weakness. These include some of Australia's highest-quality tech legends, as well as a handful of global stalwarts currently trading too high. [Read the article in Livewire 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 [here](#).



Munro Partners' Nick Griffin and James Tsinidis join Henry Jennings on the *On the Couch Podcast* for the first episode of 2022. They discussed inflation rates, the Fed and decarbonisation as the next big structural change. [Listen to the full 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.



Former Conference Manager **Jun Bei Liu** is featured in this episode of *Livewire's Success and More Interesting Stuff Podcast*. The episode explores how Jun Bei worked her way up the ranks from humble beginnings to now managing close to \$1 billion for Tribeca Investment Partners. [Listen to the conversation here.](#)

Core Fund Managers



Conference Fund Managers



Designated Beneficiaries



Pro-Bono Service Providers

