



Monday, 28 November 2022

## Hearts and Minds Investments Limited

### Chairman's Address at 2022 Annual General Meeting

Hearts and Minds Investments Limited (ASX: HM1) provides a copy of its Chairman's address at the Annual General Meeting to be held today, Monday, 28 November 2022.

Good afternoon and welcome to the 4th Annual General Meeting of Hearts and Minds Investments Limited (which I will refer to as HM1 or the Company). My name is Chris Cuffe and I am Chair of the Company.

It is good to be holding our AGM in person again. It is also great to see that many of our shareholders have joined us online via the Lumi platform. The hybrid meeting allows as many shareholders as possible to participate in the meeting. Shareholders who are online can listen to the live webcast of the meeting, ask questions and submit votes.

It is now past 3.00 pm, and I have been informed that there is a quorum present, and I declare the meeting open.

I will now make some general comments about the year under review. Rory Lucas will then present his Chief Investment Officer report. We will then consider the financial statements and resolutions to be voted on, followed by questions. A copy of my address and the CIO's presentation have been lodged with the ASX and will be published on the Company's website.

### Performance Update

HM1 is a listed investment company that was established in 2018 with the combined objective of providing a concentrated investment portfolio of the highest conviction ideas from respected fund managers, whilst also supporting Australian medical research institutes. It was born out of the investment and philanthropic vision of the Sohn Hearts & Minds Investment Leaders Conference.

One of the risks of investing in a concentrated portfolio of high conviction stocks is the risk of large drawdowns during the period of investment. This financial year that risk has eventuated,

with the portfolio incurring significant losses in some of its holdings. The Core Portfolio mostly comprises high conviction growth stocks which over the long term are expected to deliver capital appreciation. This was the case for the first three years since the inception of HM1 and shareholders enjoyed healthy returns. In 2022 global markets fell dramatically and the market values of our Core holdings gave up much of their previous gains. Our Conference Portfolio which invests in short-term recommendations, was refreshed in December 2021 and was also impacted by the market turmoil given we had a concentration in technology stocks, as recommended by the 2021 Conference fund managers which bore the brunt of the market sell off.

Based on our latest performance numbers, the HM1 portfolio declined on a pre-tax basis by 28.6% for the year to 31 October 2022 compared to the MSCI World Net Total Return (AUD) Index, which declined 4.2%, and the Nasdaq Composite index which declined 29% over the same period. Since the inception of the Company in November 2018, HM1 has generated a compound annual pre-tax investment return of 8.8% compared to the MSCI World Net Total Return (AUD) Index increase of 11.1% per annum over the same period.

The investment performance in 2022 is clearly very unsatisfactory. As a result, we have made some changes to the construction and management of the HM1 portfolio and the selection process for fund managers. We believe the changes we have made will better balance the risks in the portfolio but retain the essence of a high conviction growth mandate. I will cover these changes in more detail on the next slide.

### **Changes to Conference Portfolio**

For our Conference Portfolio, we have established a fund manager selection panel to provide greater diversity in the style and sector focus of our Conference Fund Managers. We have also implemented a risk overlay for the Conference Portfolio to ensure we do not have an undue concentration in any risk factors. These changes were implemented for the current Conference Portfolio which was announced last week following the Sohn Hearts and Minds Investment Leaders Conference. We are confident the Conference Portfolio will deliver much improved returns over the next 12 months.

### **Changes to Core Portfolio**

We have also made changes to our Core Portfolio. We have appointed two new Core Fund Managers – Munro Partners and Tribeca Investment Partners. Nick Griffin from Munro Partners and Jun Bei Liu from Tribeca provided stock recommendations for the first three Conference Portfolios. Each one of their recommendations delivered excellent results for HM1. We are confident that our two new fund managers will add breadth and performance to our Core Portfolio.

We have also announced an amendment to the investment guidelines for our Core Portfolio.

***HM1's portfolio investment guidelines for its Core Portfolio have been amended to provide HM1 with the flexibility to invest in a fund or individually managed account operated by a Core Fund Manager, where the HM1 Board determines that such investment is appropriate, and it provides a better form of exposure to the investment performance and risk profile for a particular Core Fund Manager.***

The new guideline will be effective from 1 January 2023.

Currently, HM1 gains exposure to its selected Core Fund Managers by investing in three listed securities recommended by each of its Core Fund Managers. An analysis of HM1's investment performance over the last four years shows that this form of portfolio construction does not always provide a high correlation with the actual investment performance, style and risk profile of some of our Core Fund Managers.

The amendment to the investment guidelines for the Core Portfolio will provide HM1 with additional flexibility to better access the expertise and style of selected Core Fund Managers. The amended investment guidelines will be extended to allow exposure to a Core Fund Manager either via;

- Investing in direct listed equities recommended by the Core Fund Manager, or;
- Investing in an interest in a fund or individually managed account operated by the Core Fund Manager.

An investment in a Core Fund Manager's fund or individually managed account will only occur where, in the opinion of the HM1 Investment Committee and Board, such investment provides HM1 shareholders with a better method of gaining access to that Core Fund Manager's expertise, and after having regard to the overall risk profile of HM1.

For clarity, HM1's asset class exposure in the Core Portfolio will remain predominantly listed equity exposure, regardless of whether the exposure to a Core Fund Manager is via directly held listed equities, or via a fund or individually managed account. It is expected the change will provide some diversification benefits whilst retaining the essence of a high conviction portfolio. Exposure via a Core Fund Manager's fund or individually managed account may involve some exposure to unlisted equity securities, derivatives and/or short positions.

Any investment by HM1 in the fund or individually managed account of a Core Fund Manager will continue to be provided on a pro-bono basis by the Core Fund Manager. HM1 will not incur any management fees or performance fees.

HM1 will provide notification of any investments in a Core Fund Manager's fund or individually managed account, if, and when, that occurs.

## **Dividend**

In April 2022 HM1 paid its second annual dividend to shareholders. A fully franked dividend of 13.5 cents per ordinary share amounting to a total dividend of \$30.5 million was paid on 12 April 2022. Our dividend reinvestment plan was operational and many shareholders reinvested their dividend in HM1 shares at the prevailing market price. The Board is targeting the payment of a fully franked annual dividend in April each year following the realisation of the previous year's Conference Portfolio, subject to sufficient cash reserves, available franking credits and prudent business practice.

On 30 June 2022, HM1 had a Realised Profits Reserve equating to 76 cents per share and a Franking Account balance equating to 69 cents per share. Subject to the usual caveats, the Board is confident it can maintain its dividend policy for the foreseeable future.

## **Investment in Medical Research**

In line with its philanthropic objective, HM1 provides financial contributions to various Australian medical research organisations to fund the development of new medicines and treatments, and to drive a new generation of medical research in Australia. HM1 and its participating fund managers forego any investment fees and instead donate an amount equivalent to 1.5% of net tangible assets per annum to designated medical research organisations.

More information on the wonderful work of these organisations can be found in the Medical Research Report.

During the year ended 30 June 2022, HM1 paid \$12.6 million to its designated medical research organisations and made provision for a further \$5.9 million. This brings the total medical research funding since the inception of HM1 to over \$34m. These donated monies will be used by those organisations to fund important research into the prevention and treatment of chronic diseases and mental health disorders. The ongoing pandemic highlights the critical importance of medical research to global health outcomes and economic prosperity.

We would like to thank our Fund Managers and service providers for their support and generosity in the establishment and ongoing operations of HM1. We would also like to thank you, our shareholders, for supporting HM1's combined objective of providing a focused investment proposition whilst also supporting the advancement of medical research in Australia.

**-ENDS-**

**This announcement was authorised for release by the Chairman.**