

11 March 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 February 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 6.1% for the month of February, compared to falls of: 5.4% for the MSCI World Net TR Index (AUD); 3.4% for the NASDAQ; and 3.1% for the S&P 500. The ASX 200 was up 1.1%, and the Australian dollar rallied by 2.8% to close just below US73c.

Since inception (November 2018) HM1's compound annual return stands at 14.4% p.a., compared to 14.1% p.a. for the MSCI World Net TR Index (AUD). The post-tax net tangible asset value decreased by 4.3% in February and has increased at a compound rate of 10.9% p.a. since inception.

Geopolitical tensions dominated the headlines and market moves in February as Russian President Vladimir Putin ordered his armed forces to invade Ukraine, sparking hostilities between the countries and the imposition of broad economic sanctions designed to cripple the Russian economy. This has unnerved investors, and sent commodity prices sharply higher, with oil trading well above \$100/barrel, while nickel and gold are also at, or near, multi-decade highs.

US inflation readings released in mid-February showed the strongest inflation in four decades, which prompted investors to price in an accelerated pace of interest rate rises. Up to seven hikes have now been priced in for 2022 alone, which adds to the pressure on 'risk assets', in particular technology companies whose valuations are more sensitive to rate rises than value-oriented companies.

The Core Portfolio (which represents 65% of the capital invested across 18 stocks) experienced larger than average declines in seven of our holdings. Our mining sector and mega cap technology exposures held up quite well, as did the more defensive investments which sit in the portfolio. The financials and disruptive technology names suffered, however.

In recent weeks we have reduced our financial sector exposure, as well as exiting one of our communication sector holdings. Some of these proceeds will remain in cash, with one of our managers recommending lower equity exposure while the geopolitical tensions remain elevated. The new holdings are both global large cap companies listed in the US.

The Conference Portfolio (which represents 35% of the capital invested) is comprised of high-conviction recommendations from fund managers who presented at the most recent Sohn Hearts & Minds conference. The Conference Portfolio is refreshed every 12 months, meaning the maximum holding period for any conference stock recommendation is 12 months. We can exit our positions at any time during the year, either holding cash or redeploying capital to other Conference Portfolio stocks.

Based on the ideas presented in early December, our Conference Portfolio has a higher exposure to disruptive technology than our Core Portfolio. In an inflationary environment, investor appetite for such companies has been dampened and stocks such as food delivery business Delivery Hero (-29%); Japanese e-signature business Bengo4 (-10%) and WISE Payments (-11%) have all suffered large losses in a tech sector sell off.

We are carefully monitoring both the presenting fund managers views on their stock picks and the financial performance of those companies themselves. Pleasingly, The Beauty Company (SKIN.US) reported strong numbers in its quarterly report, which saw much of the share price weakness going into the result reversing, with the stock closing up 36% for the month.

Markets will remain volatile due to geopolitical tensions. The attack on Ukraine by Russian forces will lead to tragic and unnecessary loss of life, and enduring hardship for citizens of both countries. No one can know how long this war will last, or how it will end – only time will tell.

Extreme market volatility often leads to short term losses, which sometimes can no longer be tolerated by fund managers – in the same way individuals exit their exposures when losses are too great for them. In the first week of March, we were notified that Yen Liow of Aravt Capital, one of the managers who presented at our 2021 conference in December, had decided to close his Fund and return the capital to investors. Despite his strong five-year performance, he felt his strategy would not be able to meet expectations in the current investment environment. As a result, we are currently reviewing our position in his stock pick, Gitlab, and will keep investors informed.

As always, we remain active in the management of the various risks in our portfolio. As reported above, we made changes to some of our Core Portfolio holdings in February, and will most likely make further changes in the months ahead, as we adjust our exposures to the ever-changing world we find ourselves in 2022 and beyond.

Investment Performance

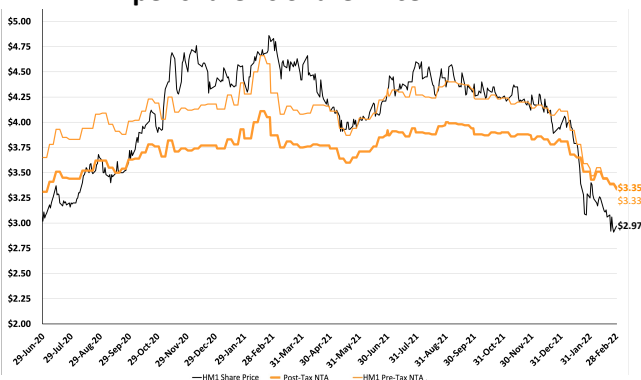
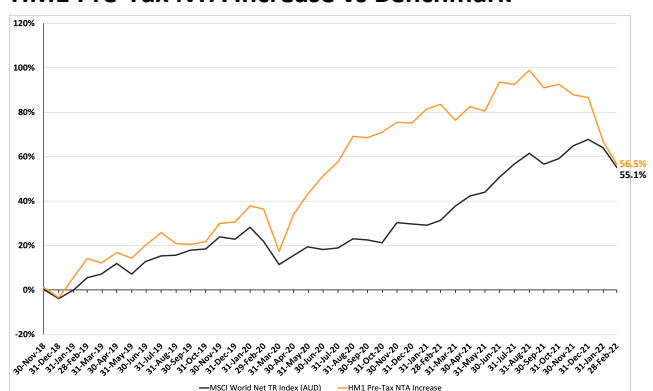
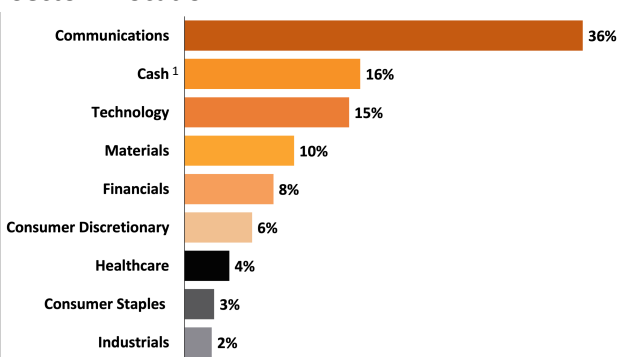
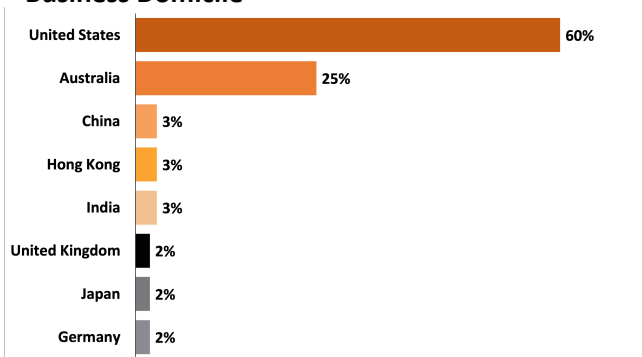
	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Investment Performance	-6.1%	-21.3%	-14.7%	11.1%	14.4%
MSCI World Net TR Index (AUD)	-5.4%	-4.0%	18.1%	13.7%	14.1%

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.

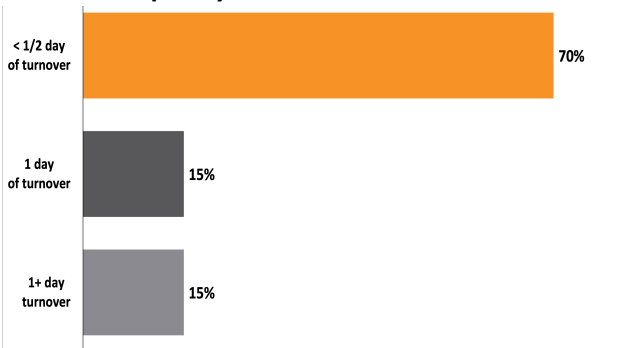
Net Tangible Asset (NTA) Performance

	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Post Tax NTA Performance*	-4.3%	-16.2%	-10.8%	8.7%	10.9%

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	\$3.33
Post tax NTA ³	\$3.35
ASX code	HM1
Share price	\$2.97
Percent invested	84%
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 28 February 2022 unless otherwise stated.

News from the **HM1 Network**



Last year we shared a memo from **Core Fund Manager TDM Growth Partners** on how they were thinking about market valuations. In light of recent market movements, the team have written a follow-up [memo which you can read here](#). Andy Simon joined our friends at *Equity Mates* to breakdown the memo. Andy shared TDM's thoughts on the recent correction in growth companies, where to from here and why they are confident this is not "2000 all over again". [You can listen to the conversation here](#).



HM1 is pleased to [announce a new partnership](#) with the **Cerebral Palsy Alliance** which will support innovative research that aims to revolutionise newborn intensive care around the world. The projects will leverage ground-breaking technology to accelerate progress and improve the quality of life for vulnerable newborns. To learn more about the partnership and the projects HM1 is supporting, [watch this video](#) which features Professor Nadia Badawi AM and HM1 CEO, Paul Rayson, among others.



The Florey Institute of Neuroscience and Mental Health has recently published new research that sheds light on the phenomenon of "Zoom fatigue" – yes, it's a real thing! The team researched how the shift to video conferencing during the pandemic has impacted how people work and socialise. In this episode of *This Working Life Podcast* Professor Bernhardt explains how video conferencing can lead our brains to work harder, resulting in feelings of exhaustion after prolonged periods of use. [You can listen to the podcast episode here](#). The Florey has also put together some top tips on [how to avoid Zoom fatigue which you can view here](#).



Climate Change is a big area of interest for the team at **Munro Partners**. Conference Manager, **Nick Griffin** joined Chris Judd on the latest episode of *Talk Ya Book* where they discussed how Munro is betting on the companies that are best positioned to champion and win from decarbonisation. [Listen to the episode](#) to hear Nick's insights on the opportunities from these structural changes and how Munro uncovers their "climate winners."



In the most recent edition of **Magellan's Minutes**, Ryan Joyce, Head of Technology, Communications and Media, shares his view on the current valuation of the tech sector and why 2020 and 2021 created the 'perfect storm'. Ryan takes a deeper dive into the changes taking place at Meta (formerly Facebook) and shares some news announced at Alibaba's recent investor day. [Watch the video on the Magellan 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](#).

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

