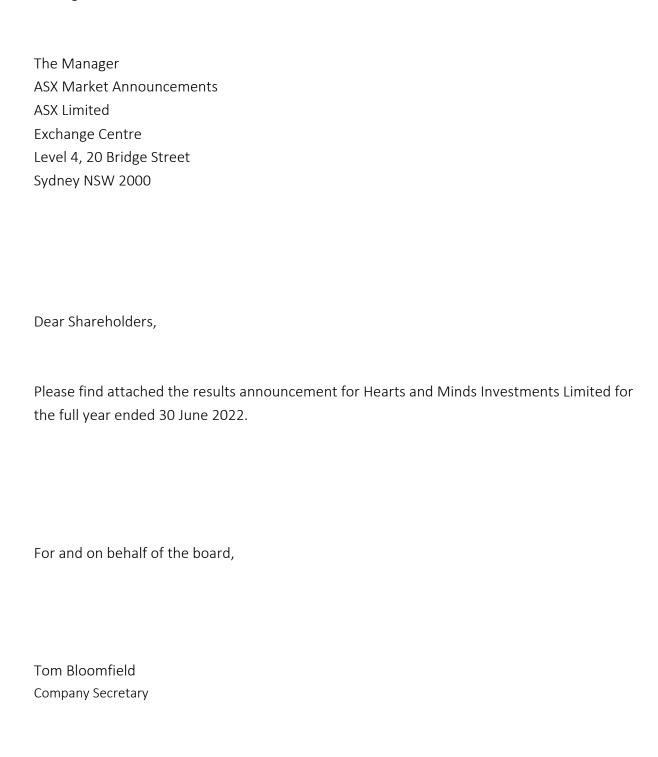


24 August 2022





## Dear Fellow Shareholder,

On behalf of the Board and management we would like to thank you for your support of Hearts and Minds Investments Limited (hereafter referred to as 'HM1' or the 'Company') as we share the Annual Report for the year ended 30 June 2022.

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 many 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 unrealised losses in 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 the second half of this financial year global markets fell dramatically and the market values of our Core holdings have given up much of their previous gains. Our Conference Portfolio which invests in short-term recommendations, was refreshed in December 2021 and has also been impacted by the market turmoil given we had a concentration in technology stocks pitched by Conference Fund Managers which bore the brunt of the market sell off.

The HM1 portfolio declined on a pre-tax basis by 33.6% for the year ended 30 June 2022 compared to the MSCI World Net Total Return (AUD) Index, which declined 6.5%, and the Nasdaq Composite index which declined 24.0% over the same period. Since the inception of the Company in November 2018, HM1 has generated a compound annual pre-tax investment return of 7.1% compared to the MSCI World Net Total Return (AUD) Index increase of 9.8% per annum over the same period.

This is obviously a very unsatisfactory result. 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.

For the year ended 30 June 2022, HM1 recorded a total comprehensive loss after tax of \$219.6 million (2021: total comprehensive income after tax of \$157.9 million). The result was driven by net unrealised losses from the Core Portfolio and the current Conference Portfolio, partially offset by net realised gains from both the Core Portfolio and the previous Conference Portfolio. HM1's post-tax net tangible assets decreased by 27.6% over the year from \$886.0 million on 30 June 2021 to \$641.1 million as of 30 June 2022.



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.

In line with its philanthropic objective, HM1 provides financial contributions to leading 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.

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. HM1's total donations to medical research since inception in 2018 now amount to \$33.9 million. 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.

Through their investment in HM1, shareholders gain exposure to the highest conviction ideas, investment approach and expertise of respected fund managers, and make a significant contribution to advancing medical research in Australia. This is made possible by all of our participating fund managers foregoing investment management and performance fees. The Board of Directors, the Investment Committee and many of our service providers also work on a pro bono basis.

Finally, we would particularly like to thank you, our shareholders, for continuing to support HM1 in what has been a disappointing year for performance, and thereby supporting its objective of furthering the advancement of medical research in Australia.

For further information on HM1 and our Annual Report for the year ended 30 June 2022, visit the HM1 website at www.hm1.com.au.

Kind regards,

Chris Cuffe AO Chairman

Cuin Diffe