

10 June 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 May 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 1.1% for the month of May, compared to increases in the MSCI World Net TR Index (AUD) of 1.2%, the S&P 500 Index of 0.5%, the ASX200 of 1.9% and a decrease in the NASDAQ Composite of 1.5%. The Australian dollar was flat for the month, closing at US\$0.773 dollars. Since inception the compound annual investment return of the HM1 investment portfolio stands at 25.7% compared to 15.2% for the benchmark MSCI World Net TR Index (AUD). The post-tax Net Tangible Asset value of HM1 decreased by -0.9% in May and has increased at a compound rate of 18.9% since inception.

The vaccine rollout and continued fiscal and monetary support by Governments and Central Banks continue to dominate headlines, while the much anticipated resurgent global economy continues to see investors rotating exposure towards cyclically sensitive sectors and away from high growth and technology stocks. Reported unemployment levels have declined to be near the multi-decade lows we saw prior to COVID-19 back in February 2020, while the bellwether US 10 year bond rate has steadied at around 1.6%.

Debate continues to rage about inflation, with Federal Reserve Chairman Jerome Powell saying, "Our best view is that the effect of inflation will be neither particularly large nor persistent. We have been living in a world of strong disinflationary pressure.... for a quarter of a century". Against this, ongoing supply chain disruptions and labour shortages continue to place short term upward pressure on prices. Whether this is a transitory price disruption will only be known in the next 12-18 months.

The core portfolio had a disappointing month, down 4% in AUD terms, with eight stocks delivering flat to positive returns and the remaining 10 stocks seeing declines in May. The common theme was declines in the share prices of high growth digital economy stocks. The only change made during the month was an additional investment in our largest holding, which has experienced share price weakness in the past three months. Our fund manager took this opportunity to rebalance the weightings of their three recommendations. Overall, our three largest holdings represent our three best performing core stocks, all of which have generated returns of well over 100% since we invested in them.

The conference portfolio had a good month, up 3% in AUD terms. Shenzhou International Group Holdings Limited (2313.HK), which produces and sells sportswear, casual wear, and lingerie wear, and counts among its biggest customers Nike, Adidas and Uniqlo, rallied 15%. Treasury Wine Estates (TWE.AX) increased by 14% after updating the market on its strategic blueprint for the next 5 years after the Chinese imposed severe tariffs on Australian wines late last year. Target Corporation (TGT.NYS) increased 8% for the month after delivering exceptional sales and margins in their latest quarterly update. Teladoc (TDOC.NS) had a difficult month, declining 15% in May despite meeting revenue expectations but incurring a larger loss than analysts' consensus, as well as growing concerns about competition in the tele-medicine industry, especially from Amazon. Cathie Wood retains her conviction in Teladoc and has used the recent selloff as an opportunity to increase her holding of TDOC in the ARK Invest portfolios. Fisher & Paykel (FPH.AX) was also sold off despite delivering very strong growth in revenue and profitability.

Much of the HM1 portfolio has a focus on the digitisation of various industries, which has been happening for the last 15-20 years. The pandemic has served to accelerate this move, with many industries seeing a decade of digital progress in the space of a few short months. These digitisations are not fads, rather they are making more goods and services more convenient and available to a far broader network of people around the world. Tele-medicine, pre-prepared food delivery, online furniture buying, and back-office billing systems will be an integral part of our day to day lives long after the COVID virus is under control. All of our managers are highly convicted in their belief that digitisation is still in its very early days, and the companies in our portfolio all have strong growth profiles in whatever macroeconomic environment the world finds itself in coming years.

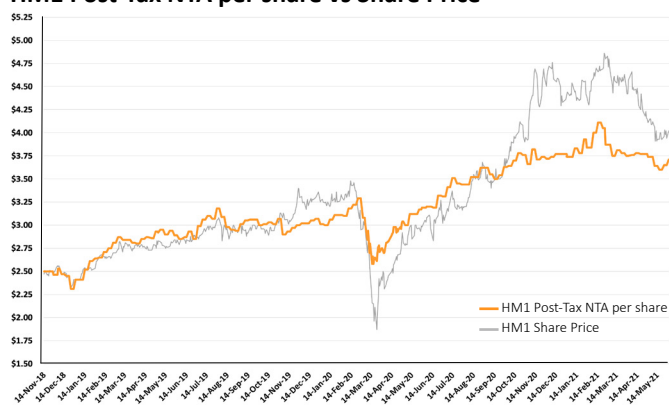
Investment Performance	1 month	6 months	12 months	Since Inception Compound p.a.
Investment Performance	(1.1)%	2.9%	26.2%	25.7%
MSCI World Net TR Index (AUD)	1.2%	10.5%	20.6%	15.2%

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.

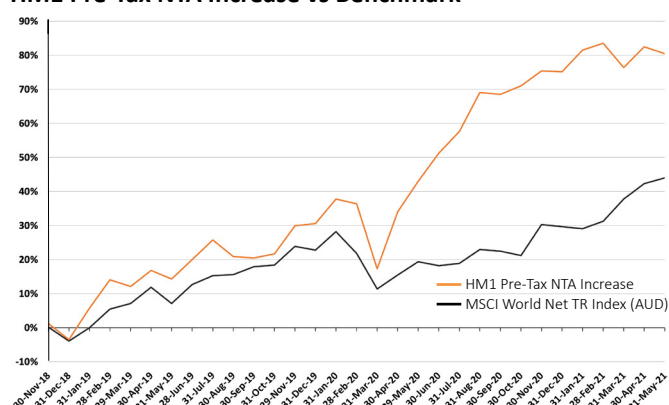
Net Tangible Asset (NTA) Performance	1 month	6 months	12 months	Since Inception Compound p.a.
Post Tax NTA Performance*	(0.9)%	2.3%	20.2%	18.9%

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

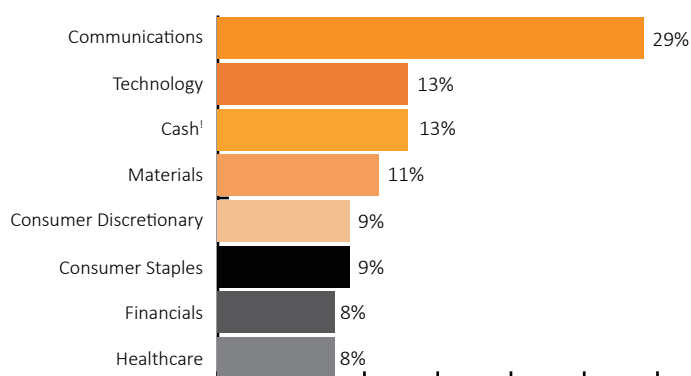
### HM1 Post-Tax NTA per share vs Share Price



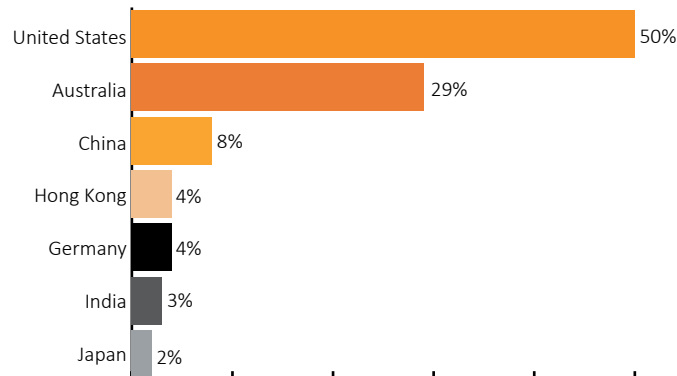
### HM1 Pre-Tax NTA Increase vs Benchmark



### Sector allocation



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

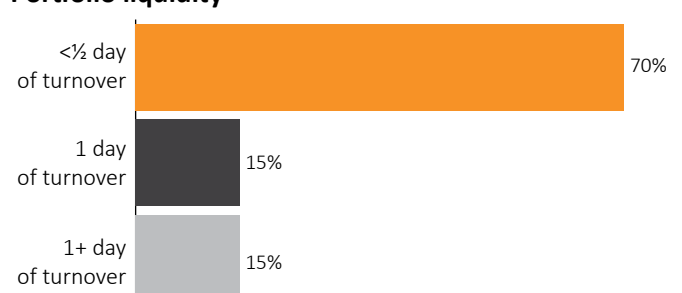


### Key details

Pre Tax NTA <sup>1</sup>	\$4.04
Post current tax NTA <sup>2</sup>	\$3.89
Post tax NTA <sup>3</sup>	\$3.71
ASX code	HM1
Share price	\$4.02
Percent invested	87%
Listing date	14 Nov 2018

All numbers as at 31 May 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 31 May 2021 unless otherwise stated.

## News from our Managers



**David Wright, co-founder of Zenith Investment Partners and chairman of HM1 Investment Committee** recently spoke with Livewire where he shared some of the countless insights that he has learnt throughout his career, and what he believes will be key to portfolio returns in the future. [Watch the conversation here.](#)



In the latest episode of **Magellan's In the Know** podcast, Hamish Douglass is joined by former member of the Federal Reserve Board of Governors Kevin Warsh. They discuss navigating the US through the global financial crisis, the role of central banks in controlling inflation and his outlook on the current global economic landscape. [Listen to the episode here](#) or read the coverage of the episode [here](#).



**Nick Griffin the Founding Partner and Chief Investment Officer of Munro Partners** joined Henry Jennings on the latest episode of the *On the Couch* podcast. They discussed a variety of topics including capital preservation, what it means to be a 'Munro Bagger' and some of Nick's favourite climate and high-performance computing companies. [Listen to the episode here.](#)



**Conference Fund Manager Qiao Ma of Cooper Investors** talks to INBrief about Cooper's investment philosophy and experience in Asian Capital markets, megatrends reshaping global markets and some high conviction ideas, including her Conference pick Shenzhou International. [Watch the conversation here.](#)



**VGI Partners' Executive Chairman and Portfolio Manager, Robert Luciano** discusses growth in the e-commerce space, opportunities in the technology sector - in particular 5G, inflation and the importance of downside protection with Tom Piotrowski on *CommSec Executive Series*. [Watch the interview here.](#)



In an article for the Australian Financial Review, **Jun Bei Liu of Tribeca Investment Partners** explains how large fiscal and monetary stimulus measures have contributed to surges in commodity prices and increased input price measures. She discusses the factors at play, and what this means for equity markets. [Read the article here.](#)



Marcus Guzzardi, portfolio manager at **Cooper Investors** spoke with Chris Judd on *Talk Ya Book*. In this episode, Marcus talks us through an exciting stock in the gaming and entertainment industry. [Watch the conversation here.](#)



2020 conference fund manager, **David Halpert of Prince Street Capital Management** recently spoke with our friends at Equity Mates about his personal investing story, his thoughts on Digital Decolonisation, and shares two emerging company case studies. [Listen to the episode here.](#)



**Paradice Investment Management** believes renewable energy will be one of the defining investment themes of our lifetimes. Despite COVID, investment in clean energy increased 9% to USD500 billion in 2020. Learn more about the rise of electronic vehicles and the demand it creates for raw materials, and how Paradice are investing in renewable energy adoption [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](#).



**Nick Griffin** speaks to Livewire about the rapid acceleration and uptake in technology as a result of COVID-19. In this interview, Nick shares some opportunities that he thinks the market is overlooking, the link between interest rates and growth equities and how a rise in interest rates would influence this thematic. [Watch the conversation 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

