

9 November 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 October 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 increased by 0.8% for the month of October, compared to increases in the MSCI World Net TR Index (AUD) of 1.6%, the S&P 500 of 6.9%, the NASDAQ Composite of 7.3%. The ASX 200 was down -0.1%. The Australian dollar rebounded by 4% to US\$0.75 which was the strongest monthly performance this year. A stronger local currency detracts from investment performance given the weight of offshore holdings in the portfolio.

Since inception (November 2018) the compound annual investment return stands at 24.4% pa, compared to 16.7% pa for the MSCI World Net TR Index (AUD). The post-tax Net Tangible Asset Value increased by 0.6% in October and has increased at a compound rate of 18.0% pa since inception.

An uncertain economic outlook continues to drive global equity market sentiment as we move into 2022; namely, the strength of the post pandemic economic recovery, supply side constraints, whether inflation will prove to be transitory or prolonged, and the timing of the Federal Reserve's tapering of their asset buying program and how interest rates will react. The US 2 year bond rate jumped in October, up 20bps to 0.48%.

Second quarter earnings season in the US commenced in October, where companies provide updates on their financial performance, as well as anticipated guidance on what revenue and cost growth/pressures they may be expecting in coming months. Locally, the Annual General Meeting season started, and many companies also use this forum to provide guidance to the market on what to expect in 2022.

The core portfolio, which represents 65% of the investments, had a strong month in October, increasing in value by 5.1%. The technology-based stocks outperformed, with one of the holdings increasing in value by over 20%, and a further five experiencing increases of more than 8% in portfolio value. During the first week of November however, one of our holdings announced a closure of a business line which resulted in a large write down and a subsequent large share price decline. We are in discussions with the recommending fund manager about the position and the expected long-term effect of the announcement on the business.

The conference portfolio, which represents 35% of the portfolio and is held for a maximum of 12 months, had a disappointing month declining in value by 5.0%. Large declines were seen in our exposure to Ping An Good Doctor (-28%), Twitter (-15%), HelloFresh Group (-14%), and Japanese based Nintendo Games (-11%). HelloFresh Group has since reported in early November delivering a very strong quarter and increasing its revenue growth guidance. The positive update led to a 25% rebound in the share price. We took the opportunity to dispose of the stock realising an 88% gain over the 11 month holding period. We also disposed of our holding in Target Corporation. The success of its 'click and collect' business helped the share price gain 44% over the 11 month holding period. The current conference portfolio has generated an investment return of 23% for the 11 months to the end of October.

As we are now in the final month of the holding period for the current conference portfolio, the remaining positions will be sold over November. The effect of this will be that more of our capital will be held as cash until we reinvest in the new stock recommendations from the upcoming [Sohn Hearts & Minds Investment Leaders Conference](#) on December 3.

This year we have seen far greater volatility in the share prices of many of our portfolio holdings. The uncertainty businesses and investors have faced during the COVID-19 pandemic has been unprecedented. There has been a much quicker adoption of various technologies across many industries; Governments have intervened with lockdowns, border restrictions and rapid fiscal and monetary measures resulting in winners and losers. In addition, regulatory and policy changes in China altered the investment landscape and sent commodity markets on a roller coaster ride. The turmoil has made 2021 feel like a once-in-a-generation year. In both the core and conference portfolios not all the stock recommendations have been successful and indeed overall returns have been down compared to the first two years. Whilst we have under-performed the global share market over the last 12 months our 1 year return of 12.6% is above long term equity market returns. As we near the third anniversary of HM1 our compound annual investment return since inception of 24.4% remains comfortably above the global equity benchmark.

Investment Performance

	1 month	6 months	12 months	Since Inception Compound p.a.
Investment Performance	0.8%	5.5%	12.6%	24.4%
MSCI World Net TR Index (AUD)	1.6%	11.9%	31.3%	16.7%

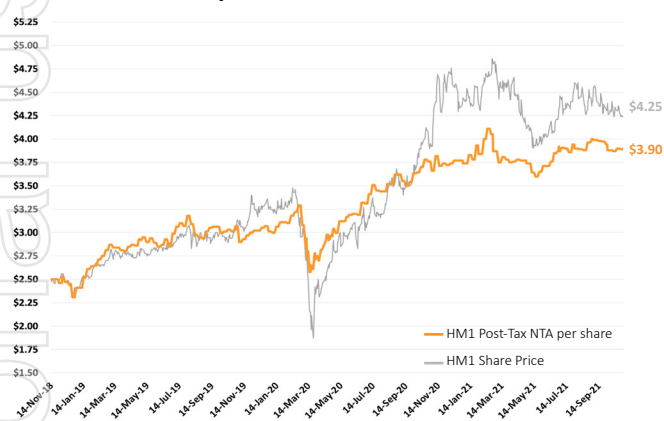
Investment Performance is calculated after expenses and before taxes. Index returns are calculated before expenses and taxes. Source: Citco Fund Services and www.msci.com. Fund inception 14 Nov 2018.

Net Tangible Asset (NTA) Performance

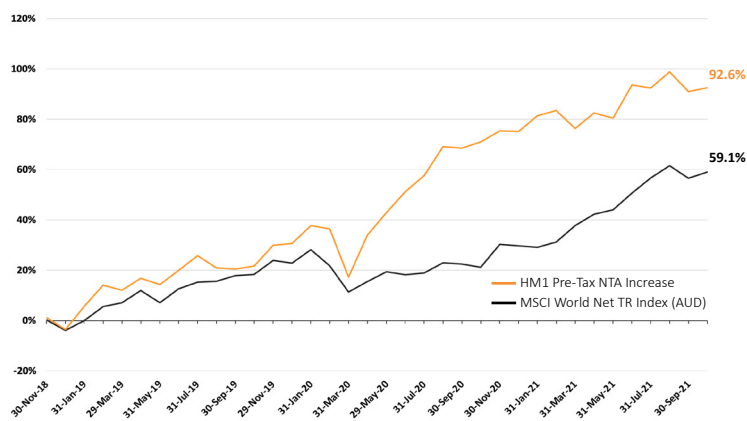
	1 month	6 months	12 months	Since Inception Compound p.a.
Post Tax NTA Performance*	0.6%	4.3%	9.9%	18.0%

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

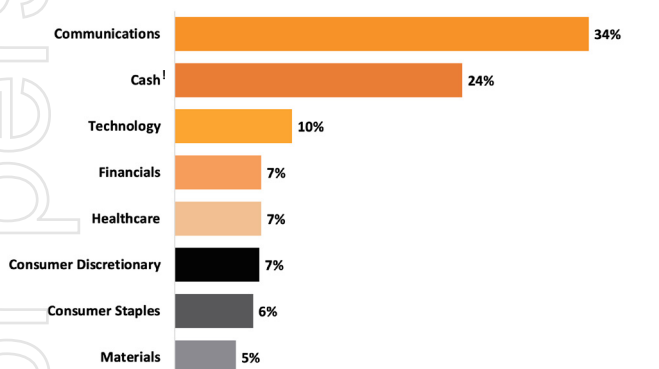
HM1 Post-Tax NTA per share vs Share Price



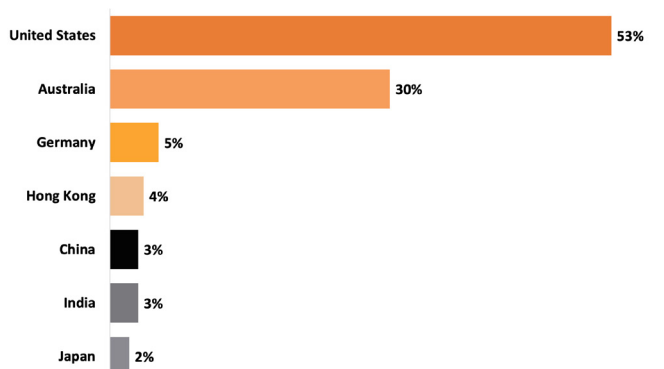
HM1 Pre-Tax NTA Increase vs Benchmark



Sector Allocation



Business Domicile⁴

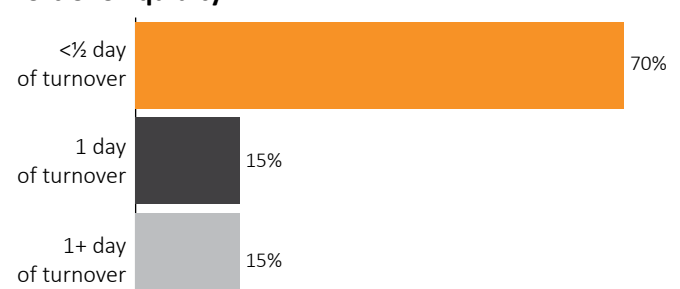


Key details

Pre Tax NTA ¹	\$4.24
Post current tax NTA ²	\$4.09
Post tax NTA ³	\$3.90
ASX code	HM1
Share price	\$4.24
Percent invested	76%
Listing date	14 Nov 2018

All numbers as at 31 October 2021 unless otherwise stated.

Portfolio liquidity⁵



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 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 ⁴Post 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. ⁵Determined by location where primary business takes place. ⁶Based on 20 day average daily turnover. ⁷The performance figures quoted are historical, calculated using end of month prices. Performance can be volatile and future returns can vary from past returns. ⁸All NTA figures are unaudited and prepared by Citco Fund Services. ⁹All numbers as at 31 October 2021 unless otherwise stated.

News from our Managers



In this episode of *Livewire's The Rules of Investing Podcast*, **Munro Partner's Nick Griffin** expands on the decarbonisation opportunity and shares one stock that he believes is materially mispriced. Nick also discusses how to avoid selling your growth stocks too early, and why he sold all the firm's positions in Chinese equities. [Listen to the podcast here.](#)



In this episode of the *In the Know Podcast*, **Magellan's Hamish Douglass** speaks with Sir Frank Lowy AC, where he candidly shares his story, including mistakes he made along the way, the key character traits he thinks are necessary to become a business success, and the importance of remaining paranoid yet optimistic. [Listen to the episode here.](#)



In this must-listen episode of *The Capital Allocators Podcast*, Core and Conference Fund Manager **Hamish Corlett** sat down with Ethan Berman to discuss the **TDM Growth Partners'** story and how the firm grew from \$1m FuM to over \$2b today. [Listen to the podcast here.](#)



In this *Australian Financial Review* article, returning Conference Fund Manager, **Beeneet Kothari of Tekne Capital Management**, admits it's been a 'bloodbath' for Chinese tech stocks this year, but there are two good reasons he thinks the sentiment will shift. [Read the article here.](#)



New Conference Manager, **Yen Liow** of New York-based firm **Aravt Global** focuses on the payments sector and discount retail, as well as finding mid-size companies that can capture market share in niche corners of tech and other sectors. [Read the Australian Financial Review article here.](#)



In this article, *The Australian* shares how climate change is reshaping the world's stock market and delivering lucrative returns to investors. Returning Conference Fund Manager, **Nick Griffin of Munro Partners** explains how up to \$50 trillion will be spent over the next 30 years as the world transitions to renewable energy, electric vehicles and increased recycling. [Read the article here.](#)



New Conference Fund Manager, **David Allingham, Portfolio Manager at Eley Griffiths Group** says the Sohn Hearts & Minds Conference is the Australian investment management industry's answer to the Woodstock Festival. [Read the Australian Financial Review article here.](#)



Paradise Investment Management's David Moberley spoke to *ausbiz* about positioning the fund manager's investment portfolio during periods of volatility, focusing on companies that have excellent management teams, strong balance sheets and that are trading at attractive valuations. [Watch the interview here.](#)



HM1 Director, Michael Traill recently joined David Clark on the *Inside the Rope Podcast*. They discuss Michael's career and path into investing for purpose. As founding chief executive of Social Ventures Australia, an organisation offering innovative solutions to society's most pressing social problems, Michael is a wealth of knowledge in the impact investment space. [Listen to the conversation here.](#)



Returning Conference Manager **Qiao Ma, Asian Equities Portfolio Manager at Cooper Investors**, is planning to tip a Hong Kong-based consumer brand player when she fronts the annual Sohn Hearts & Minds Conference next month. [Read The Australian article here.](#)



Returning Conference Manager **Beeneet Kothari** sat down with our friends at *Equity Mates* to discuss his first investment, views on China and Cryptocurrency, and why he loves being involved in the Sohn Hearts & Minds Conference. [Listen to the incredible podcast episode 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](#).

Core fund managers








Conference fund managers
















Designated charities












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