



January 2020

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 January Investment Update.

For and on behalf of the board,

A handwritten signature in blue ink, appearing to read "T. Bloomfield", is written over a faint blue line.

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

During January, the portfolio delivered an investment gain of 5.6%, compared to an increase of 4.4% in the MSCI World Net TR Index (AUD). The 4.3% decline in the AUD vs USD was the primary driver of returns this month, as global markets generally registered negligible gains in their local currencies. Since inception, the investment portfolio is up 38.5% compared to +28.2% for the benchmark for the same period. Our post tax Net Tangible Asset value increased by 4% during January and is up 27% since inception. The share price at the end of January was \$3.30, up 32% since inception.

Markets remain nervous as we begin 2020. At the start of January, the World Health Organisation was informed of an outbreak of a virus of unknown cause in the province of Wuhan in China. This of course has become known as the 2019 novel coronavirus or Covid-19, and the death toll has passed 1,000 with tens of thousands of confirmed cases around the world. The outbreak is a global health emergency and no one knows how it will eventually play out. Global bonds rallied hard amidst the nervousness, with the US 10 year bond yield falling back to just over 1.5%. Brexit finally happened, with the UK officially leaving the European Union on January 31. The US President was impeached and acquitted, and the Q4 reporting season is in full swing in the US.

The conference portfolio again had a positive month, even though 5 of the 12 stocks fell. Tesla was again the standout stock, rallying 55% for the month, following on from the 27% rally in December. You can read more on Tesla over the page, in our 'Stock of the Month' profile. Smartsheet (SMAR.NYSE), a provider of a cloud-based platform for the execution of work, rallied almost 8%, while low cost European air carrier Wizz Air was up 7.5% for the month. Sanken Electric (6707.JP), a Japanese firm that manufactures, purchases and sells electric equipment and apparatus, was down 15% after a sustained rally over the past 6 months. Sanken is due to report in early February. Spotify was also a detractor in January, falling 5.5%.

The core portfolio now holds 18 stocks, with our new manager, TDM Growth Partners having recommended their three highest conviction stock ideas to us. The proceeds of the December capital raising were used to fund these recommendations, meaning that we did not reduce any exposures to our other Core manager positions. We are excited to have TDM on board with HM1, as they have delivered above market returns to their investors over many years. Pleasingly, their three stocks have all started well for HM1, and we will be in regular contact with them going forward.

We cannot expect to get moves in stocks like what we have seen in Tesla very often. There will always be volatility, and this is why the regular ongoing dialogue with all of our managers is so important. We manage our portfolio risk very diligently, and where we see heightened risk around earnings announcements, we act accordingly, always in conjunction with our managers, and always in the interests of shareholder capital preservation and accretion.

Investment Performance

	1 month	6 months	12 months	Since Fund Inception
Investment Performance	5.6%	10.0%	31.0%	38.5%
MSCI World Net TR Index (AUD)	4.4%	11.1%	28.2%	28.2%

Investment Performance is calculated on a before tax basis. Index returns are 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 Fund Inception
Post Tax NTA Performance*	4.0%	7.5%	22.1%	27.0%

Source: Hearts and Minds Investments Limited and Citco Fund Services. Fund inception 14 Nov 2018.

To receive these monthly investment updates via email please [click here](#).

*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.

All NTA figures are unaudited and prepared by Citco Fund Services. *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 numbers as at 31 January 2020 unless otherwise stated.

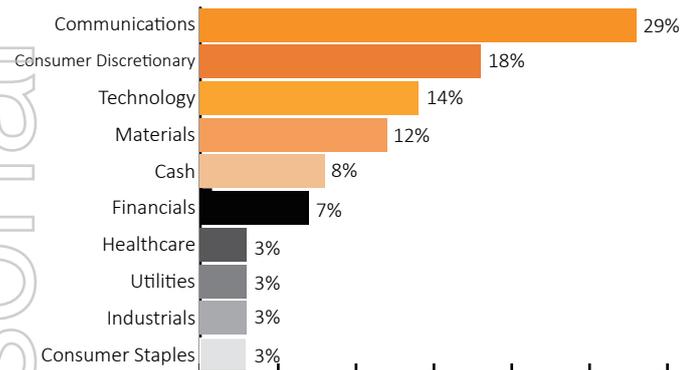
HM1 share price vs pre-tax NTA backing



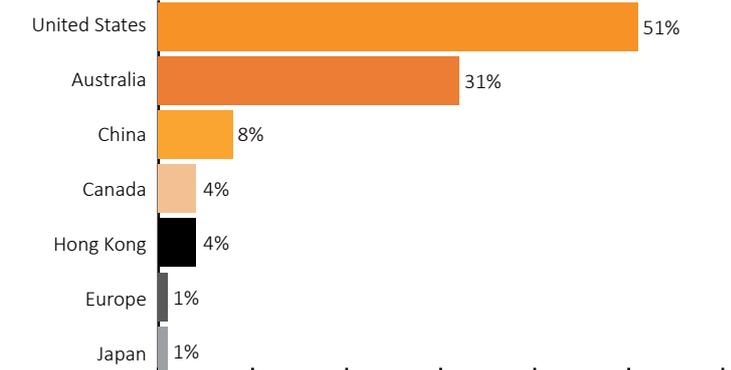
HM1 share price vs MSCI World Net TR Index (AUD)



Sector allocation



Business domicile⁴

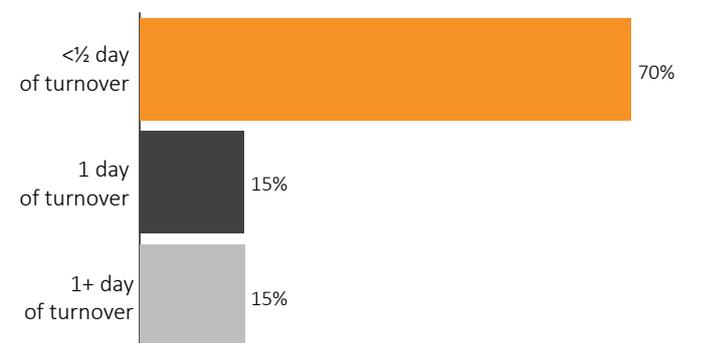


Key details

Pre Tax NTA ¹	\$3.36
Post current tax NTA ²	\$3.22
Post tax NTA ³	\$3.10
ASX code	HM1
Share price	\$3.30
Percent invested	92%
Listing date	14 Nov 2018

All numbers as at 31 January 2020 unless otherwise stated.

Portfolio liquidity⁵



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¹Pre tax NTA is the NTA of the company before the provision for current or deferred tax. ²Post 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. 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. ⁴Determined by location where primary business takes place. ⁵Based on 20 day average daily turnover. ⁶The performance figures quoted are historical, calculated using end of month prices. Performance can be volatile and future returns can vary from past returns. All numbers as at 31 January 2020 unless otherwise stated.

Stock of the Month: **Tesla, Inc.**

Pretty much everyone has heard of Tesla. Whether you have driven one, or read about Elon Musk's crazy plans for electric cars, sustainable energy, or space travel, we all know something about the company. It was founded in 2003 by a group of engineers who wanted to prove that people didn't need to compromise to drive electric – that electric vehicles can be better, quicker and more fun to drive than petrol cars. Today, Tesla builds not only all-electric vehicles but also infinitely scalable clean energy generation and storage products. Tesla believes the faster the world stops relying on fossil fuels and moves towards a zero-emission future, the better.

Launched in 2008, the Roadster unveiled Tesla's cutting-edge battery technology and electric powertrain. From there, Tesla designed the world's first ever premium all-electric sedan from the ground up – Model S – which has become the best car in its class in every category. Combining safety, performance, and efficiency, Model S has reset the world's expectations for the car of the 21st century with the longest range of any electric vehicle, over-the-air software updates that make it better over time, and a record 0-60 mph acceleration time of 2.28 seconds as measured by Motor Trend. In 2015, Tesla expanded its product line with Model X, the safest, quickest and most capable sport utility vehicle in history that holds 5-star safety ratings across every category from the National Highway Traffic Safety Administration. Completing CEO Elon Musk's "Secret Master Plan", in 2016, Tesla introduced Model 3, a low-priced, high-volume electric vehicle that began production in 2017. Soon after, Tesla unveiled the safest, most comfortable truck ever – Tesla Semi – which is designed to save owners at least \$200,000 over a million miles based on fuel costs alone. (source: [Tesla website](#))

Tesla, the stock, polarises investors. It has long been one of the most heavily shorted stocks, with many investors having presented why the stock will go bust; whether it's their cash burn, their lack of capital compared to its competitors (BMW, VW, Daimler, etc) in the quest for dominance in the rapidly growing electric vehicle (EV) market, their inability to produce enough cars to meet the demand, or a host of other reasons.

In the past month, the stock has doubled, even though the financials reported to the market weren't anything fantastic. It has now reported two consecutive quarters of positive earnings (not enough for inclusion in the S&P 500 index) and it seems more people are coming around to the idea that maybe Elon might just deliver on his promises.

Cathie Wood, from ARK Invest, pitched the stock as a buy at the Sohn Hearts & Minds Conference in November of last year. She describes herself as the most trolled portfolio manager on earth because of her views on Tesla. So why does she like it so much, and why does she think it will be worth \$7,000 by 2024?

According to Cathie, there were 1.5m EV cars sold worldwide in 2019, and she expects 2m to sell in 2020. Fast forward to 2024, and Cathie is predicting 37m EV cars to be sold. Why? Because they will be 30-40% cheaper than petrol cars, and they will be better.

Her bear case valuation for 2024 is \$700, roughly double where it was when she pitched the stock. This valuation is based off Tesla being purely an EV manufacturer, selling 2m cars p.a. (of the predicted 37m), and achieving a 25% gross margin. Her bull case on the other hand, assumes that Tesla is an EV manufacturer and also runs one of the most important autonomous taxi platforms in the world. This would mean they sell 6m cars a year in 2024 but achieve 80-90% gross margins due to the autonomous nature of the cars. This valuation is some 10x her bear case valuation.

Cathie told the audience that she believes Tesla has four distinct comparative advantages over its competitors:

1. Superior battery technology - they are about three years ahead of the competition
2. Over the air software updates - a Tesla bought last year is better, faster and safer than it was last year
3. Artificial intelligence chip - Tesla designed its own chip, which is the equivalent of 144 MacBook Pro's, which will be central for the autonomous driving vehicles
4. Data collection - Tesla has collected roughly 22 billion km of data from its 6,000 cars on the road, while its nearest competitor, Google, has roughly 20 million km.

If she is right, and recent events suggest she may well be, Tesla investors are in for a great ride.

Company information

Ticker code	TSLA US
Market capitalisation	USD \$140bn
Average daily volume	7m shares / day
52-week range	USD \$176.99- \$653.00
Bloomberg consensus	7 Buys, 12 Holds, 18 Sells
Average price target	USD \$470

TSLA US: 5 year share price history



Core fund managers

CALEDONIA

COOPER INVESTORS

MAGELLAN EXPERTS IN GLOBAL INVESTING

PARADICE INVESTMENT MANAGEMENT

REGAL FUNDS MANAGEMENT

t dm. GROWTH PARTNERS

Conference fund managers

Airlie Funds Management

ARK INVEST



COOPER INVESTORS

COTA CAPITAL

Montaka Global Investments

MUNRO PARTNERS

OASIS

REGAL FUNDS MANAGEMENT

t dm. GROWTH PARTNERS

TEKNE CAPITAL

Tribeca Investment Partners

Designated charities

Black Dog Institute

THE UNIVERSITY OF SYDNEY Brain and Mind Centre

Proudly supporting the children's hospital at Westmead

THE FLOREY INSTITUTE OF NEUROSCIENCE & MENTAL HEALTH Improving lives through brain research

MS RESEARCH AUSTRALIA

orygen

rpa Green Light Institute Transforming Emergency

SWINBURNE UNIVERSITY OF TECHNOLOGY

Victor Chang Cardiac Research Institute

Pro-bono service providers

BoardRoom

CITCO

IRM

KING & WOOD MALLESONS 金杜律师事务所

BUCHAN