

9 September 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's August 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

For the month of August, the HM1 portfolio generated an investment return of 7.2%, compared to a gain of 3.4% in the MSCI World Net Total Return Index (AUD). Leading indices around the world were stronger again in August, with the S&P 500 registering a 7.0% gain, the technology focused NASDAQ up 9.6%, the FTSE-100 up 1.1%, while the local S&P ASX 200 was up 2.2%. The Australian dollar was also stronger, up a further 3.3% to 73.8c against the US dollar. Since inception (November 2018) the investment portfolio has gained 69.1% compared to 23.0% for our benchmark, while the post tax net tangible asset value of HM1 increased by 5.7% during August and is now up 48.5% since inception.

US markets in particular were very strong in August, registering record highs, in response to more resilient corporate earnings reported in July, the Federal Reserve indicating monetary policy would remain looser than previously targeted (ie interest rates would likely remain lower for longer, even if inflation rises above the target), as well as continued optimism on a potential COVID-19 vaccine. It should be noted that 5 companies – Facebook, Amazon, Alphabet (Google), Apple, and Microsoft now represent more than 20% of the S&P 500's market value, and these stocks have increased around 40% this year, while the remaining 495 stocks represented in the index have collectively fallen about 5%. What this means is that right now the performance of the S&P 500 (and even more so the NASDAQ) is and will be dictated by the rises and falls of this small number of stocks rather than the broader base of stocks that the index represents.

As is shown in the charts on the next page, the HM1 portfolio does have a relatively high exposure to the technology sector. This has obviously helped our performance in recent months, but investors need to be aware that a sharp downturn in this sector would also likely detract from the net asset value of HM1. We remain disciplined in our risk management and have already locked in substantial gains on many of the technology stocks in the portfolio. If we were to experience a severe selloff, in the short term we would expect our share price to fall also.

In portfolio news this month, pleasingly only two stocks registered negative returns. One of these was A2 Milk, which reported solid numbers in their yearly performance update, but seemed to not meet expectations, which led to a couple of analyst downgrades. Jun-Bei Liu, our recommending manager of A2 Milk, still believes the investment thesis to be intact, and so we continue to hold our position. The worlds most talked about stock, Tesla, rallied an incredible 74% for the month, after announcing a 5:1 share split. Since November last year, Tesla is now up over 600%. Other stocks in the conference portfolio that performed strongly in local currency terms were Nickel Mines (+17%); Wizz Air (+21%); Smartsheet (+14%) and Floor and Décor Holdings (+11%). The core portfolio also performed across the board, with seven stocks gaining more than 10% for the month, two of which gained over 25%. The strengthening of the \$A over the month partially offset some of these gains.

Given the strength of markets around the world since COVID-19 hit in February/March, where many indices are now back towards all-time highs, we think it prudent to urge caution in this environment. The correction in the first week of September is not surprising. Some of the share price moves we have seen recently are difficult to comprehend, and some may have more optimism priced in than is perhaps realistic. In the long term, share prices move on fundamentals, while in the short term, momentum and euphoria will often take precedence. As we have always said, portfolio risk management is paramount to long term success, and never more so than in the world we currently find ourselves in.

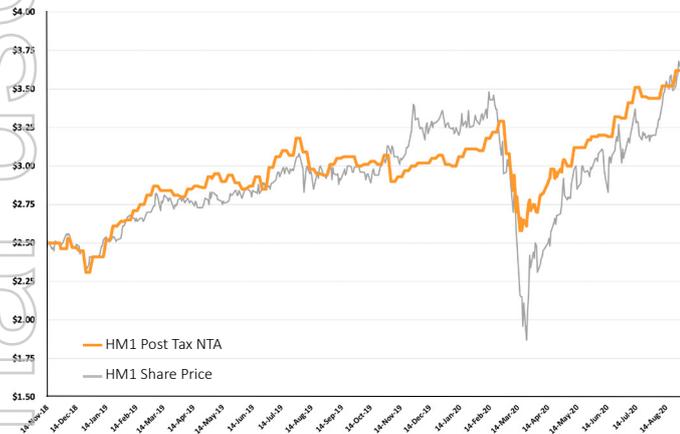
Investment Performance	1 month	6 months	12 months	Since Fund Inception
Investment Performance	7.2%	23.9%	39.8%	69.1%
MSCI World Net TR Index (AUD)	3.4%	0.9%	6.4%	23.0%

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.

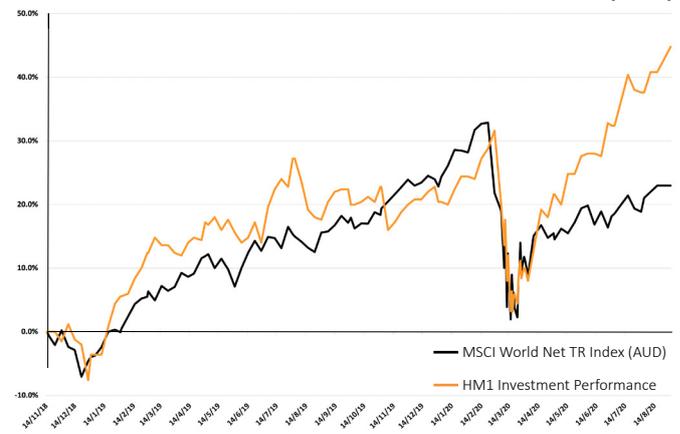
Net Tangible Asset (NTA) Performance	1 month	6 months	12 months	Since Fund Inception
Post Tax NTA Performance*	5.7%	18.1%	29.4%	48.5%

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

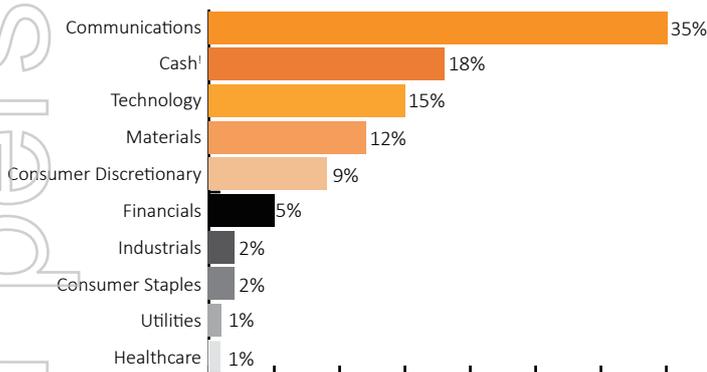
### HM1 Share Price vs Post Tax NTA



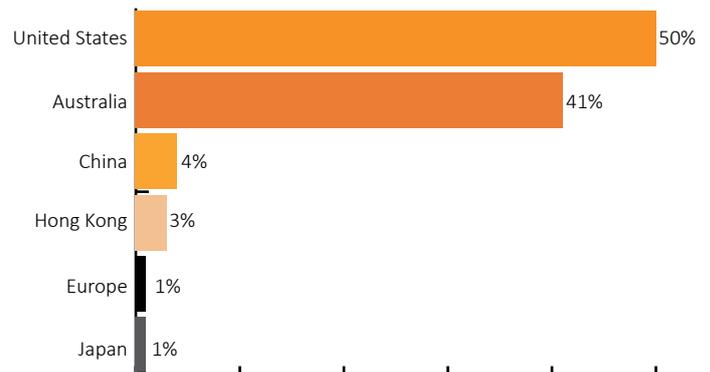
### Investment Performance vs MSCI World Net TR Index (AUD)



### Sector allocation



### Business domicile<sup>4</sup>

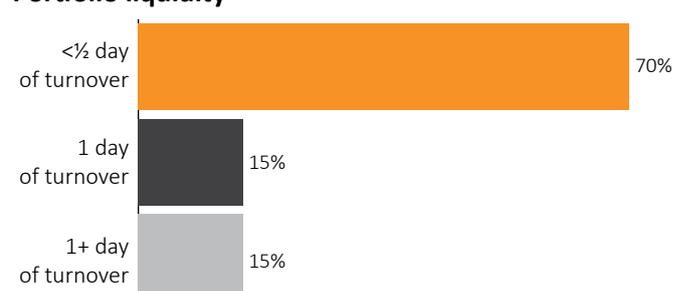


### Key details

Pre Tax NTA <sup>1</sup>	\$4.11
Post current tax NTA <sup>2</sup>	\$3.83
Post tax NTA <sup>3</sup>	\$3.63
ASX code	HM1
Share price	\$3.62
Percent invested	82%
Listing date	14 Nov 2018

All numbers as at 31 August 2020 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 August 2020 unless otherwise stated.

## News from our **Managers & Beneficiaries**

### Beneficiary Profile: Black Dog Institute

1 in 5 of us will experience symptoms of mental illness in any given year. In Australia that's around 5 million people. And roughly 60% of these people won't seek help.

Science. Compassion. Action. As the only medical research institute in Australia to investigate mental health across the lifespan, Black Dog Institute's aim is to create a mentally healthier world for everyone.

Black Dog Institute (BDI) improve the lives of people touched by mental illness through translational research. Integrating research findings with education programs, digital tools and apps, clinical services, and public resources leads to the discovery of new solutions, fosters connections and creates real-world change.

BDI take research out of the ivory tower and put it into action in health, educational, digital and corporate settings. Partnering with Hearts and Minds Investments Limited has allowed BDI to continue to conduct innovative and ground-breaking research in suicide prevention, youth and workplace mental health.

With the worst bushfire summer, and more recently the COVID-19 pandemic, the past year has been challenging for everyone. Hearts and Minds Investments Limited has funded BDI's efforts to assist at-risk groups in need of some extra mental health support.

In early 2020, with BDI's strong track record in improving the mental health of first responders, they were called upon by governments, fire services and the wider community to provide support, resources and advice in response to the horrific bushfire season. Evidence from BDI's research was drawn on by governments to inform some of their decisions, and BDI engaged with many key stakeholder groups to provide expertise and guidance.

BDI have also responded quickly to the mental health needs of frontline healthcare workers during the COVID-19 pandemic. With partners across Australia, BDI launched The Essential Health Network which provides information and self-help resources, as well as a personalised, free, confidential assessment and triage services through the BDI clinic. It is designed specifically for people working under pressure within hospital services.

Black Dog Institute's capacity to rapidly respond to these challenges is a reflection of the dedication and expertise of BDI's researchers, lived experience staff, educators, psychologists, psychiatrists and support staff. Partners like Hearts and Minds Investments Limited and Paradise Investment Management, who share BDI's commitment to improving mental health in our communities, make BDI's advancements for mental health possible.



**HM1 Chairman, Chris Cuffe** spoke with Elysse Morgan on ABC's *The Business* about our recent FY20 results, the changing philanthropy landscape in Australia and how HM1 is funding cutting edge medical research. [Watch the interview here.](#)



**HM1 Chief Executive Officer, Paul Rayson** appeared on AusBiz to discuss the Hearts and Minds model, the increased need for mental health funding and the upcoming Sohn Hearts & Minds Conference. [Watch the interview on our website here.](#)



**Hearts and Minds has donated almost \$10 million** to our medical research beneficiaries in FY20. A huge thank you to our fund managers who give their time and expertise for free to make this happen. Read the feature in the Financial Standard [here.](#)



**Magellan launched their *In the Know* podcast.** In the first episode CIO Hamish Douglass talks to former deputy director of the CIA, Michael Morell. The pair discuss whether US antagonism against China is permanent and bipartisan, the two things Michael worries most about for the US election, the national security issues surrounding COVID-19 and much more. [Listen to the episode here.](#)



**Cooper Investors portfolio manager, Qiao Ma** was featured in AFR's BOSS Magazine talking about why the quiet approach pays off in China. Qiao Ma discusses the recent findings from her Asialink Business Report which highlights that if Australian companies can ditch the megaphone and get the relationship right, they can be richly rewarded in Asia. [Read the feature here.](#)



**Conference Manager Jun Bei Liu of Tribeca** talks to the AFR about the earnings season just gone, and while the path forward is still unclear, one thing for certain is that recovery is on its way, and some of the underperformers could take off. [Read the article on our website here.](#)



As part of our impact video series, we spoke with **Director and Chief Scientist of Black Dog Institute, Scientia Professor Helen Christensen AO**, discussing the importance of medical research and their recent breakthroughs. You can [watch the video here.](#)



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

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

CHARLIE TEO FOUNDATION funding brain cancer research

Proudly supporting the children's hospital at Westmead

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

MS RESEARCH AUSTRALIA

ory gen

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