

8 July 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 June 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 June, the HM1 portfolio generated an investment return of 5.8%, compared to a fall of 1% in the benchmark MSCI World Net Total Return Index (AUD). Leading indices around the world were up 2-3% in June, with the Australian ASX 200 index rising 2.5% and the US S&P 500 rising 1.8% for the month.

For the year to 30 June 2020, HM1 generated an investment return of 26.1%, significantly outperforming global markets. In comparison the MSCI benchmark increased 4.8%, the S&P 500 increased 5.4% and the ASX 200 declined 10.9% for the same period. Since inception (November 2018) the investment portfolio has gained 51.3% compared to 18.2% for the benchmark. The post-tax net tangible asset value of HM1 increased by 4.8% during June and is now up 36.1% since inception.

Global markets swung between gains and losses during the month, as a second wave of coronavirus infections and continued tensions within the US were offset by signs of a better than expected economic recovery occurring, even if lockdowns need to be re-introduced. Despite a positive US jobs report and a large bounce in retail sales, it looks like interest rates everywhere are set to stay near zero for years to come, which appear to be driving current equity market valuations. The upcoming US reporting season will provide investors with fresh data on how companies are faring through the pandemic. With about half of the S&P 500 companies having withdrawn their earnings guidance during COVID-19, all eyes will be on the updates delivered by companies this time round.

In portfolio news, 10 of our 12 conference stocks increased in value over the month, with four stocks in particular having outsized gains. We often speak about Tesla (TSLA.NAS), both in our monthly report, and our weekly investor update, and with the share price having risen from \$350 to \$1300 it is little wonder. In the month of June, it was up a further 29%, as speculation increased that it might finally be included in the S&P 500 index. The Trade Desk (TTD.NAS), a cloud-based platform for digital advertising campaigns, rallied 30%, while GDS Holdings (GDS.NAS), a provider and operator of data centres in China, rallied 40%. The top performer for the portfolio during June was Spotify (SPOT.NAS) which has recently signed three large deals to further enhance their position as the dominant podcast platform.

Its share price rallied almost 43% over the month. The two stocks to post negative returns were Smartsheet (SMAR.NYS), which fell 12% after their earnings failed to meet analyst expectations, and Sanken Electric (6707.TKS), which fell 15% after analysts downgraded their target prices.

The core portfolio had another solid month, with only four stocks having a negative month, with two of these being smaller position sizes. One change was made to the core portfolio during the month. Four of the stocks were up over 10%, while another stock was up over 20% for the month. Our core managers remain highly engaged and focused on delivering their highest conviction investment ideas to HM1.

The core portfolio has a longer term investment horizon than the conference portfolio. The core stock recommendations are multiyear thematics, which we expect to play out over 3-5 years. The six core managers each have varying investment styles and focus on different sectors and themes. So, whilst the core portfolio is quite concentrated by number of stocks, it is diversified by fund manager style and sector focus.

On the other hand, the conference portfolio has a 12 month investment horizon. At each conference, the selected fund managers are asked to pitch a single stock that they believe will deliver the best returns over the next 12 months. These ideas occasionally play out much faster than initially forecast, especially with some of our disruptive technology stocks. Sometimes it will be prudent to realise some (or all) of a larger than expected gain, but there will also be instances whereby announcements provide even more comfort and conviction that the original investment thesis is on track, and so our shareholder returns will be maximised by holding onto those stocks as long as we can. We remain in regular contact with all of our fund managers, so that each investment is actively managed whenever the landscape changes.

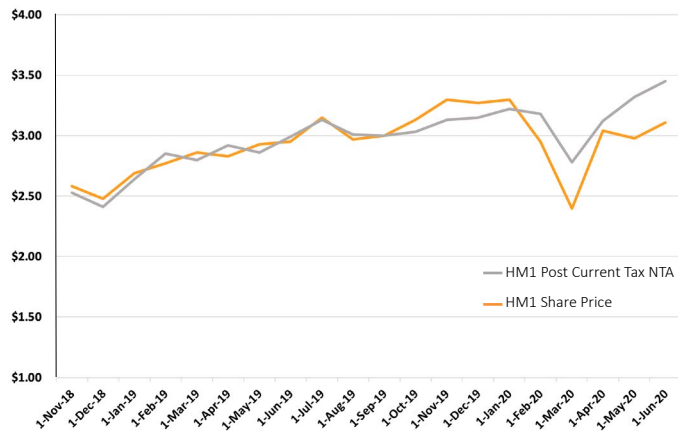
Investment Performance	1 month	6 months	12 months	Since Fund Inception
Investment Performance	5.8%	15.9%	26.1%	51.3%
MSCI World Net TR Index (AUD)	-1.0%	-3.8%	4.8%	18.2%

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.

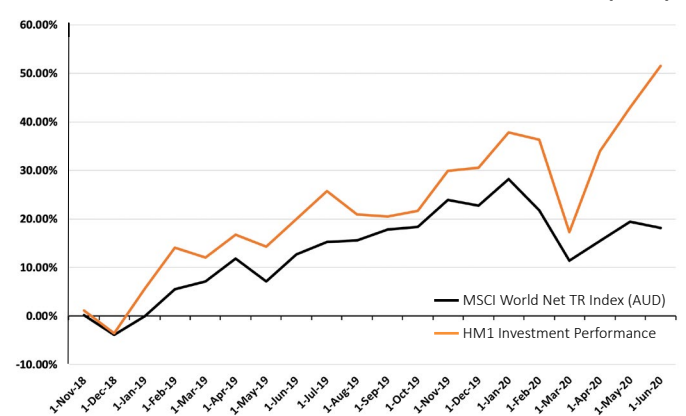
Net Tangible Asset (NTA) Performance	1 month	6 months	12 months	Since Fund Inception
Post Tax NTA Performance*	4.7%	11.9%	19.3%	36.1%

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

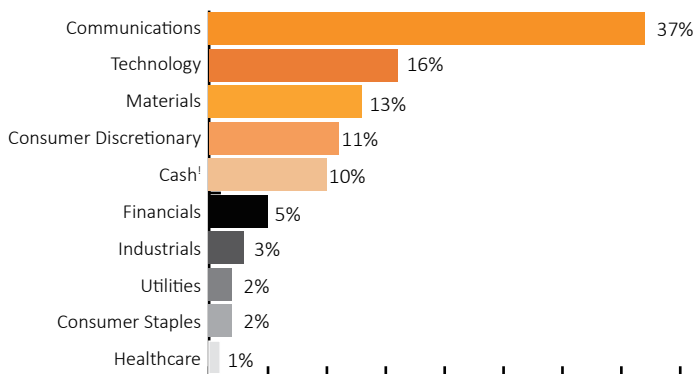
HM1 Share Price vs Post Current Tax NTA



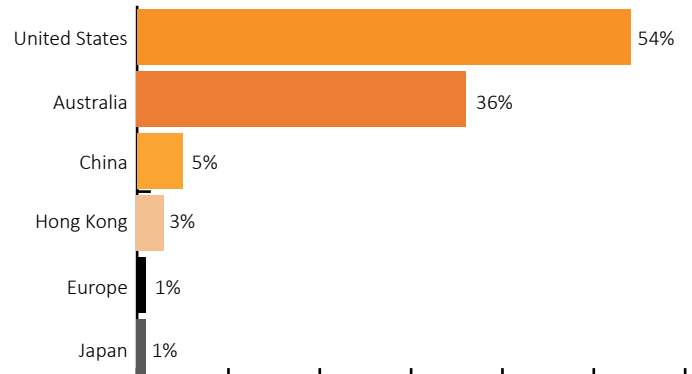
Investment Performance vs MSCI World Net TR Index (AUD)



Sector allocation



Business domicile⁴

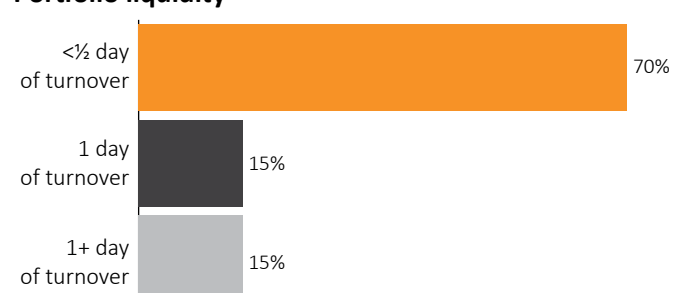


Key details

Pre Tax NTA ¹	\$3.67
Post current tax NTA ²	\$3.45
Post tax NTA ³	\$3.33
ASX code	HM1
Share price	\$3.11
Percent invested	90%
Listing date	14 Nov 2018

All numbers as at 30 June 2020 unless otherwise stated.

Portfolio liquidity⁵



¹Cash 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 30 June 2020 unless otherwise stated.

News from our Managers & Beneficiaries

Beneficiary Profile: The Florey Institute

Every year, 4.7 million Australians are diagnosed with one of the conditions that the Florey Institute of Neuroscience and Mental Health (the Florey) study. That’s why the Florey believes that everyone has a stake in health and medical research.

From mental health to epilepsy, stroke, dementia and basic discovery science, they are at the forefront of science’s final frontier.

The Florey is the largest brain research group in the Southern Hemisphere and in the top 10 of the world’s best brain research centres. In 1963, brothers Ken and Baillieu Myer, along with Ian Potter, worked with founding director, Derek Denton, to raise money to establish a medical research institute. This great act of philanthropy was the beginning of the Florey’s 55-year history and their connections to the community remain strong.

The Florey’s partnership with Hearts and Minds Investments Limited (HM1) is a testament to this wonderful collaborative spirit. As a celebrated member of the Florey Alumni community, Dr Mark Nelson is a former PhD student and lifelong Florey supporter. As Chair and Co-Founder of Caledonia Investments, Mark nominated the Florey as a beneficiary of HM1.

Today HM1 donates to the Florey encouraging the development of medicines and driving a new generation of medical research in Australia. The impact of this investment to the Florey’s work is invaluable, as Mark notes, “Neuroscience is an area that the world really needs to focus on. Any investor will think very carefully about where they want their money to go. This initiative isn’t a band-aid. This aims at big ideas; at prevention and ways we can have far-reaching effects on human health. It’s almost at the stage that if we don’t fund brain research now and wait 20 years, we’ll look back and think ‘oh, that was a mistake. If only we’d done something at the time.’”

With thanks to Caledonia Investments and Hearts & Minds Investments Limited, Florey scientists continue to conduct important research in the area of brain and mind. To see how Caledonia Investments and HM1’s contributions are making a difference, you can follow The Florey on [LinkedIn](#), read their [latest newsletter](#) and sign up to receive their quarterly newsletter [here](#).



On this episode of the Equity Mates Podcast, **Chris Wheldon, portfolio manager at Magellan** shares his thoughts on the market’s rebound, how Magellan responded in the early days of the pandemic and the investment thesis behind Facebook, Visa and Tencent. Listen to the episode on [our website here](#).



In this AusBiz interview, Core Manager **David Paradise** chats about investing in the current environment; if he’s bear or bull, where he’s overweight and the structural changes we may see as a result of COVID-19. Watch the interview on the [AusBiz website here](#).



In this [Livewire article](#), Conference Manager **Andrew Macken of Montaka Global Investments** asks why we pay taxes? Looking through the lens of Modern Monetary Theory, Macken looks at why we still need taxes.



Chris Dixon, of Cooper Investors provides a market outlook and update on the Cooper Investor’s Global Equities Strategy. Watch the [update here](#). Cooper Investors is a Core Manager.



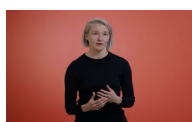
Paradice managers, Edward Su and Michael Roberge discuss why investors should separate volatility from business risk, they’re excitement for emerging markets, their approach to stock selection in emerging markets, and of course, the impacts of COVID-19. Read the interview [here](#).



Challenging periods, are what separate the wheat from the chaff in the business world. While some firms were slow to adapt, others were thriving and taking market share. Catherine Wood, Conference Manager and Founder / CEO of ARK Invest explains in [this Livewire Q&A](#).



Throughout the COVID-19 pandemic, investors have eagerly checked **Howard Marks'** latest memos to clients. Graham Hand of Firstlinks summarises the [latest memo](#) from the Co-Chairman of multibillion-dollar asset manager, Oaktree Capital.



As part of our impact video series, we spoke with **two key researchers at the Florey Institute for Neuroscience**, 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

 SWIN
BUR
NE
SWINBURN
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