



Monthly Investment Update February 2023

8 March 2023

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 February Investment Update.

If you would like to receive these monthly investment updates via email please [subscribe here](#).

For and on behalf of the board,

A handwritten signature in blue ink, appearing to read "T. Bloomfield", is written over a faint, light blue circular watermark or background graphic.

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 respected fund managers. The Company will forego any investment fees and instead donate to leading Australian medical research institutes.

Portfolio Commentary

The HM1 portfolio value declined by 1.0% over February. Global markets gave up some of their January gains as inflation remains persistent and results season revealed slowing growth in some sectors. The broad-based S&P 500 fell 2.3%, the NASDAQ Composite declined 1.1%, while the local ASX 200 was down 2.9%. The MSCI World Net TR Index (AUD) increased by 2.0%, primarily due to a lower Australian dollar, which fell 4.6% to US\$0.673. Since inception in November 2018, the HM1 portfolio has delivered an annualised investment return of 9.1% pa.

Most sectors were weaker in February after January's strong rebound. US 10 year yields briefly hit 4% for the first time since November reflecting comments by Federal Reserve governors that inflation remains too high, and rates will not be cut until 2024. Until bond yields roll over it is unlikely that equity markets will resume the rebound seen in January. Earnings season delivered mixed results in the US and locally. Inflation impacted the margin and growth outlook for consumer and financial sectors. Energy sectors and resources enjoyed record profits, although recent \$US strength has hit most commodity prices. Despite the slowing growth outlook, the large tech stocks have performed well year to date mostly due to the significant underperformance in 2022.

Increasingly investors are analysing the fundamentals of quality companies in this difficult market rather than just the broader macro picture. The HM1 portfolio showed resilience over February partly aided by the fall in the \$A. Most of our holdings were impacted by the February sell off, however a few holdings bucked the trend based on solid earnings reports. Overall, the portfolio was down 1.0% over February and is up 4.7% over the last 6 months showing some signs of recovery. We remain fully invested and are comfortable with the current high conviction recommendations of our fund managers in this market.

On 22 February 2023 we announced our results for the 6 months ending 31 December 2023 showing improvement in our investment performance over the previous half year. We announced an unchanged fully franked dividend of 13.5 cents per share payable on 13 April 2023. The dividend represents a fully franked net yield of 5.2% on the February month end share price. The record date for the dividend entitlement is 16 March 2023 and the election date for the dividend reinvestment plan (DRP) is 20 March 2023. Shareholders have the opportunity to reinvest their dividend at the prevailing share price which represents a discount to the current net tangible asset (NTA) backing per share. HM1 will fund the DRP via an on market buy back to ensure there is no dilution to shareholders. Shareholders can elect to participate in the DRP by [clicking here](#).

We remain very aware that the HM1 share price is currently trading at a discount to the NTA backing per share. During our first 3 years of strong investment performance, our share price closely tracked the NTA backing per share. The share price discount emerged and widened following our poor investment performance in the calendar year 2022. We strongly believe that improving investment performance is the main driver of the share price more closely tracking the NTA backing per share. Over the last 6 months we have taken several actions to improve the selection of our fund managers and the selection and management of stocks in our investment portfolio. These actions include revised selection criteria for fund managers, greater diversity in fund manager style and sector exposure, and a risk overlay on our Conference Portfolio. We believe these actions will lead to stronger investment performance and risk management of our investment portfolio. Additionally, we maintain a dividend policy that provides shareholders with an annual fully franked dividend to underpin the inevitable ups and downs of the equity market. We are also committed to providing shareholders with regular updates on the portfolio as well as insightful content from our network of fund managers.

In February, we also announced the latest half yearly contribution to our selected medical research beneficiaries of \$5m. This money will fund important medical research into new medicines and treatments in Australia. Our overall funding of medical research is now \$38.8m since the inception of HM1.

Pre-Tax NTA **\$2.92**

Post-Tax NTA **\$3.05**

Share Price (ASX: HM1) **\$2.59**

Investment Performance p.a. (Since inception 14 Nov 2018) **9.1%**

Cash Weighting **12%**











Latest Dividend (Annual fully franked dividend payable April 2023) **13.5cps**

Profits Reserve (At 31 December 2022) **78cps**

Franking Balance (At 31 December 2022) **70cps**

Cumulative Medical Research Funding **\$38.8m**

Top 10 Holdings (in alphabetical order)

 BHP Group BHP.AX	 Mastercard Inc MA.NYSE
 Block Inc SQ.NYSE	 Microsoft Corporation MSFT.NAS
 Champion Iron CIA.AX	 New Relic, Inc. NEWR.NYSE
 Formula One Group FWONK.NAS	 Nike, Inc. NKE.NYSE
 Intercontinental Exchange Ltd ICE.NYSE	 Zillow Group Inc Z.NAS

Investment Performance	1 month	6 months	1 year	3 years per annum	Since Inception per annum
Investment Performance	-1.0%	4.7%	-7.0%	2.2%	9.1%
MSCI World Net TR Index (AUD)	2.0%	5.8%	-0.3%	8.3%	10.3%

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.

News from the **HM1 Network**



Listen to the latest episode of *Invest in the Journey*, hosted by our Core Fund Manager **Munro Partners** as they take a closer look at the stock story of Liberty Media – the company that owns Formula One today. This episode is a must-listen for any motorsports fans or investors. [You can listen to the episode here.](#)



Featured in *Firstlinks*, **Jun Bei Liu** (Core and Conference Fund Manager) of **Tribeca Investment Partners** suggests that this reporting season has demonstrated the earnings resilience of corporate Australia. These numbers are a solid outcome, with the most surprising outperformance being the retail sector. [You can read the full article on Firstlinks here.](#)



Conference Fund Manager, **Tim Carleton, Founder of Auscap Asset Management** shares more insights into his 2022 Conference stock pick Carsales.com, and why he believes it has the potential to dominate the tech industry in 2023. [You can read the full article on Livewire here.](#)



Bob Desmond, Head of Claremont Global and Conference Fund Manager, appeared on a recent episode of the *UnPACing Alpha Podcast* to discuss his strategy for running concentrated portfolios – including why Claremont avoid making market and macro predictions, and the importance of simple valuation techniques in security analysis. [You can watch the full interview here.](#)



Check out the latest episode on *GFSM Conversations* where **Jun Bei Liu of Tribeca Investment Partners**, discusses her 2022 Conference pick, China Duty Free, and her insights on the latest economic issues, industry developments and trends. [You can listen to the episode here.](#)

**More news from
the HM1 network**

The News and Insights section on the [HM1 website](#) is regularly updated with interesting articles from our fund managers and beneficiaries.



Case Study Highlight: The Baker Heart & Diabetes Institute

In some remote areas, up to 50% of Indigenous community members are affected by diabetes, a disease with devastating complications if left uncontrolled. **The Baker Heart and Diabetes Institute** is working closely with Indigenous communities to help tackle heart disease and diabetes in remote communities in Central Australia. In partnership with **TDM Growth Partners** (Core Fund Manager), we're pleased to support the first phase of Associate Professor Neale Cohen's project which aims to re-write the guidelines for the standard of care in remote communities. Learn more about the project via TDM's [case study here.](#)

Core Fund Managers

CALEDONIA

COOPER INVESTORS

MAGELLAN
EXPERTS IN GLOBAL INVESTING

MUNRO

REGAL
FUNDS

t.d.m.
GROWTH PARTNERS

Tribeca
Investment Partners

Conference Fund Managers

Auscap
Asset Management

Claremont Global

COOPER INVESTORS

EMINENCE
CAPITAL

FACT Capital
Efficiency. Alignment. Comprehending. Transparency.

Firetrail
Invest with Conviction

MUNRO

Perpetual

REGAL
FUNDS

SAMUEL TERRY
ASSET MANAGEMENT

Tribeca
Investment Partners

WaveStone
CAPITAL

Designated Beneficiaries

Baker
HEART & DIABETES INSTITUTE

Black Dog
Institute

Cerebral Palsy
ALLIANCE
RESEARCH FOUNDATION

CHARLIE TEO
FOUNDATION
Funding brain cancer research

kr kids research
kids critical care research

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

orygen

PAiN
Foundation

rpa
Green Light
Institute
Transforming Emergency

Victor Chang
Cardiac Research Institute

WEHI
brighter together

Pro-Bono Service Providers

BoardRoom

Charter
Hall

CITCO

domestique

KING & WOOD
MALLESONS
金杜律师事务所

MONT
LAWYERS

PITCHER
PARTNERS