

Hearts and Minds Investments
Limited
(ASX: HM1)

Review

8 July 2024

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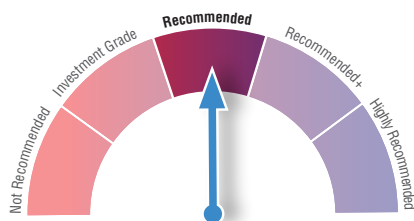
For more information regarding our services please refer to our website www.independentresearch.com.au.

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Note: This report is based on information provided by HM1 as at 30 April 2024.

Rating



Key Investment Information (as at 30 June 2024)

ASX Code	HM1
Share Price (\$)	\$2.58
NTA* per share (\$)	\$3.09
Shares on Issue (m)	229.0
Market Cap (\$m)	\$590.8
Trailing 12-month Dividend Yield (Net)	5.43%
Trailing 12-month Dividend Yield (Grossed-Up)	7.75%
Dividend Frequency	Semi-annual
Listing Date	November 2018
Structure	Listed Investment Company (LIC)
IIR Investment Classification	International - Diversified
Fees:	
Management Fee (p.a)**	1.50%
Performance Fee	na

*Includes tax on realised gains.

**There are no management fees. An amount equivalent to 1.5%p.a. of the post-tax NTA is provided to selected medical research organisations.

Key Exposure

Underlying Exposure	HM1 provides long exposure to a concentrated portfolio of global stocks. The portfolio will predominantly be invested in listed companies however the Company may invest in unlisted companies if they are the best investment idea of a fund manager and if there is an expectation that the company will list in the near-term.
FX Exposure	The global exposure of the portfolio means there is direct foreign exchange (FX) exposure. FX exposure will be unhedged, therefore movements in the relevant currencies will have an impact on the Australian dollar value of the portfolio.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

PRODUCT SUMMARY

Hearts and Minds Investments Limited (ASX: HM1) is a listed investment company (LIC) that is designed to provide exposure to the highest conviction ideas of a select group of fund managers. The Company was established on the back of the Sohn Hearts and Minds Investment Leaders Conference, an annual conference in which participating fund managers provide their highest conviction investment idea for the year. Funds raised from the Conference are donated to medical research organisations. In the initial years of the Conference, the investment ideas performed extremely well and HM1 was created to provide a vehicle for investors to gain exposure to these investment ideas while providing a vehicle to raise additional funds for medical research. The investment strategy of HM1 is unique with the portfolio constructed from recommendations from two groups of fund managers: (1) Conference Fund Managers (35%) - fund managers that present at the annual Sohn Hearts and Minds Investment Leaders Conference; and (2) Core Fund Managers (65%) - select group of fund managers that provide their three highest conviction ideas. HM1, while an investment vehicle is also a philanthropic vehicle with all participants, except for the management team, donating their time to the Company. The donation of time from the Board members, the Investment Committee and fund managers means there are no management fees paid by the Company. An amount equivalent to 1.5% p.a of the average monthly post-tax NTA is contributed to the designated medical research organisations on a semi-annual basis. After a strong start in the initial years, market volatility and a lack of portfolio construction oversight delivered weak relative performance with a number of the stocks in the portfolio falling significantly shortly after the Conference in November 2021. This has resulted in a number of changes with regards to portfolio construction processes and more active oversight of the portfolio and the Conference Portfolio stocks.

INVESTOR SUITABILITY

An investment in HM1 is suitable for those investors seeking exposure to portfolio of global equities with a unique investment thesis. In many instances, investors are exposed to a single manager's investment style with performance reflecting the style and risk profile of a manager's investment approach. HM1 offers investors the ability to gain exposure to a selection of fund manager's highest conviction ideas, meaning investors are exposed to a range of investment styles. With that said, given the nature of the portfolio construction the portfolio is typically skewed to growth and momentum stocks. An investment in the Company is considered high risk given the concentrated nature of the portfolio which lends itself to heightened levels of volatility compared to the broader market. As such, an investment in the Company is for investors with a higher level of risk tolerance. The Company has a capital growth focus, however also offers a semi-annual dividend, fully franked, with an attractive grossed-up dividend for a global equity portfolio. All participants, excluding management, donate their services so the Company can contribute 1.5% of post-tax NTA charged to a select group of Australian medical research organisations. Therefore in addition to an investment in global equities, the Company provides the ability to provide much needed funding for the research and development of a range of medical conditions.

RECOMMENDATION

Independent Investment Research (IIR) has amended the rating for Hearts and Minds Limited (ASX: HM1) from Recommended Plus to **Recommended**. The change in the rating largely reflects the performance of HM1 which has suffered as a result of timing of investments and the structure of the portfolio. The Company has sought to increase portfolio oversight and engagement with fund managers as well as provide a greater level of diversification of fund manager styles to improve the diversification in the portfolio. This is designed to have a positive impact on the volatility of the portfolio as well as reduce drawdowns in future. HM1 provides a unique investment proposition, however the high conviction nature of the portfolio means the Company is heavily reliant on the performance of the stock pickers and engagement of the fund managers. The sizable discount has been a drawback for investors however we continue to believe the elevated discount provides an attractive entry point for those investors seeking exposure to the Company with a narrowing of the discount providing the potential for enhanced returns. This will likely be driven by the portfolio delivering improved risk-adjusted returns.

SWOT

Strengths

- ◆ The Company offers a unique investment strategy with a global equity mandate that provides exposure to a portfolio of a select group of fund managers best ideas. The Company provides high conviction exposure to securities selected by fund managers with a range of investment styles culminating in a unique portfolio that provides materially differentiated exposure to the broader market and its peers.
- ◆ All participants, excluding management, provide their services on a voluntary basis with the annual amount equivalent of 1.5%p.a of the post-tax NTA contributed to a range of medical research organisations. This provides investors the potential to generate a long-term return on investment as well as contribute to philanthropic causes.
- ◆ The Company has contributed nearly \$50 million to medical research organisations.
- ◆ The Company provides a weekly NTA to the market providing enhanced transparency with regards to the value of the portfolio.
- ◆ The Company has a high calibre board and IC with all directors and IC members having significant experience in the funds management and finance industry and are well equipped to implement the investment strategy of the Company.
- ◆ The Company has paid an increasing fully franked dividend over time. The rotation of the Conference Portfolio on an annual basis lends itself to the realisation of capital gains which is supportive of the generation of franking credits for distribution to shareholders. Based on the LTM dividends of 14 cents per share, the Company had over four years of dividend coverage in the profits reserve with a healthy franking account that will enable the Company to maintain the current fully franked dividend.

Weaknesses

- ◆ While the concept of HM1 provides a unique investment option for investors coupled with a vehicle to raise money for medical research, the lack of portfolio construction oversight and the 12-month investment horizon for the Conference Portfolio saw the portfolio significantly underperform the broader market in recent years and shareholders experience significant drawdowns, which were exacerbated by the elevated discount that the Company traded at as a result of the poor relative performance. The Company has sought to increase the oversight of the portfolio and its construction to reduce the concentration risk, which led to the heightened drawdowns in 2022, provide greater diversification in the style of fund managers that are selected and more flexibility with regards to exiting investments in the event the investment thesis changes throughout the year.
- ◆ The recent market environment has highlighted the potential risk associated with the 12-month holding period for the Conference Portfolio stocks, particularly in an economic environment that changes complexion quickly.

Opportunities

- ◆ The discount at which the share price is trading offers the opportunity to potentially generate additional returns in the event the share price re-rates towards the NTA. We view the discount to reflect the poor performance of the portfolio compared to the market in recent years. We expect the discount to narrow in the event the Company can deliver improved risk-adjusted returns relative to the market. The addition of Saba Capital Management to the shareholder register highlights the potential value opportunity at the current discount. Their presence on the shareholder register has the potential to have a positive impact on the dislocation between the share price and the NTA.
- ◆ An investment in the Company provides the opportunity to support medical research in Australia and help develop new and improved treatments for a variety of conditions.

Threats

- ◆ The Company may continue to trade at an elevated discount for a prolonged period of time meaning investors are unable to exit their investment at par value.
- ◆ The portfolio has a global mandate and as such will be impacted by movements in foreign currency. The foreign currency exposure is not hedged, therefore the Australian dollar value of the portfolio will be impacted by movements in the relevant currencies compared to the Australian dollar.

- ◆ Effective 1 January 2023, the Company was able to invest in either listed equities recommended by Core Fund Managers or invest in a fund or individually managed account operated by a Core Fund Manager. The amendment to the Investment Guidelines was designed to provide returns to shareholders that better aligned to the style and risk/return profile of some of the Core Fund Managers. This has resulted in an investment in the Regal Australia Long/Short Equity Fund, which has also resulted in the Company being exposed to shorting and gearing, something that the Company initially was not permitted to be exposed to. There are additional risks associated with shorting and gearing. We do note that as at 30 June 2023, only 2.3% of the portfolio was allocated to the Regal Australia Long/Short Equity Fund and in IIR's opinion it does provide investors a more appropriate exposure to the investment style and risk profile of Regal Funds Management.
- ◆ Concentrated portfolios inherently entail a greater level of risk given the movement of a single position has a much greater impact on the performance of the portfolio. As such, the portfolio will likely have greater levels of volatility than the broader market.
- ◆ The nature of the investment in the Conference Portfolio means that the investment thesis over a 12-month period may not play out and may result in the Company booking losses and a stock subsequently recovering. An example is Wise Plc. This was recommended stock by a Conference Fund Manager at the 2021 conference. The share price subsequently fell and was sold in the portfolio rotation after the 2022 Conference. However, this stock is back in the portfolio with the stock again being a recommendation by a Conference Fund Manager.

HM1 OVERVIEW

Hearts and Minds Limited (ASX: HM1) is designed to provide exposure to the highest conviction ideas of a select group of fund managers. The Company was established on the back of the Sohn Hearts and Minds Investment Leaders Conference, an annual conference in which participating fund managers provide their highest conviction investment idea for the year. Funds raised from the Conference are donated to medical research organisations. In the initial years of the Conference, the investment ideas performed extremely well and HM1 was created to provide a vehicle for investors to gain exposure to these investment ideas while providing a vehicle to raise additional funds for medical research.

The investment strategy of HM1 is unique with the portfolio constructed from recommendations from two groups of fund managers: (1) Conference Fund Managers (35%) - fund managers that present at the annual Sohn Hearts and Minds Investment Leaders Conference; and (2) Core Fund Managers (65%) - select group of fund managers that provide their three highest conviction ideas. HM1, while an investment vehicle is also a philanthropic vehicle with all participants, except for the management team, donating their time to the Company. There are no management fees paid, instead an amount equivalent to 1.5% p.a of the average monthly post-tax NTA is contributed to the designated medical research organisations on a semi-annual basis.

The portfolio will typically comprise 25-30 securities based on the investment ideas of the two groups. The mandate is highly flexible with the intention of the Company to provide exposure to the highest conviction ideas of the contributing Fund Manager's. There are no sector or industry limitations, however the Company will seek to ensure the portfolio has a level of diversification for the purposes of risk management. The stocks submitted by the Conference Fund Managers will be vetted to ensure there is no undue concentration risk to a particular industry/sector. Where concentration risk arises, certain Conference Fund Managers will be asked to recommend a different investment.

The Company will invest predominantly in securities listed on major stock exchanges, however within the Core Fund Manager portfolio has the ability to invest in unlisted securities, managed funds or individually managed accounts operated by a Core Fund Manager where such investments are deemed appropriate by the CEO, CIO and IC. An investment in unlisted securities will be by exception only and would only be on the basis that the company is profitable and is expected to list within 2 years. After the listing of Guzman y Guzman on 20 June 2024, the Company now has one unlisted investment which represented 3.1% of the portfolio as at 20 June 2024.

Given the global mandate, the Company will be exposed to foreign currency risk. The Company does not hedge foreign currency exposure and therefore the Australian dollar value of the portfolio will be impacted by movements in the relevant currencies.

The Company seeks to pay a regular fully franked dividend, subject to sufficient cash reserves, available franking credits and prudent business practices. In FY23, the Company increased the frequency of the dividend payment from annual to semi-annual with the first semi-annual dividend of 7 cents per share being paid in October 2023.

After a strong start in the initial years, the changes in the macroeconomic environment saw the portfolio significantly underperform the broader global market in CY2022 with the portfolio yet to recover the losses. The material decline in the portfolio value during this period resulted in a number of changes with regards to the portfolio construction processes and more involved oversight of the portfolio by the CEO and CIO.

The portfolio underperformance relative to the broader market has resulted in the share price being sold off more than the portfolio value decline. The portfolio continuing to underperform the broader market on a risk-adjusted basis has had a lingering impact on the discount to NTA.

Beneficiaries

1.5%p.a. of the post-tax NTA is contributed to the designated medical research organisations. 50% of the amount is provided to Australian medical research organisations nominated by the Core Fund Managers, 40% to the Victor Chang Cardiac Research Institute and 10% to organisations nominated by the Board. The Board and the Core Fund Managers will nominate their organisation on annual basis.

To date, the Company has donated \$48.9 million to beneficiaries. There are 19 organisations that have received donations from HM1, providing much needed funding to a range of organisations for research and development. A list of beneficiaries is provided below.

Beneficiaries	
Baker Heart and Diabetes Institute	Muscular Dystrophy NSW
Bionics Institute	NeuRA
The University of Sydney Brain and Mind Centre	Pain Management Research Institute
Centre for Population Genomics	The Harry Perkins Institute of Medical Research
Cerebral Palsy Alliance Research Foundation	Green Light Institute
Epworth Centre for Immunotherapies and Snowdome Laboratories	SpinalCure Australia
The Florey Institute of Neuroscience and Mental Health	St. Vincent's Clinic Research Foundation
The Dementia Centre	Turning Point
The Children's Hospital at Westmead- Kids Critical Care Research	Victor Chang Cardiac Research Institute
Walter and Eliza Hall Institute of Medical Research	

MANAGEMENT & CORPORATE GOVERNANCE

Board of Directors

The Board comprises 8 Directors, with Chris Cuffe being the Chairman. All members of the Board donate their time and have all been on the Board since the inception of the Company. The Board are highly experienced in the funds management industry with a number of the Board members being directors on the boards of other listed investment companies and funds management groups.

Board of Directors		
Name	Role	Experience
Chris Cuffe AO	Chairman	Commencing his career as a Chartered Accountant, Mr. Cuffe entered the funds management industry in 1985. In 1988, Mr. Cuffe joined Colonial First State where he was CEO from 1990 until 2003. In 2003, Mr. Cuffe became CEO of Challenger Group. Mr. Cuffe is a Fellow of the Institute of Company Directors and an Associate of the Financial Services Institute of Australasia. In 2007, Mr. Cuffe was inducted into the Australian Fund Manager's RBS Hall of Fame for services to the investment industry.

Board of Directors

Lorraine Berends AM	Director	Ms. Berends has worked in the financial services industry for over 40 years and possesses extensive experience in both investment management and superannuation. Before moving to a non-executive career in 2014 she worked for 15 years with US based investment manager Marvin & Palmer Associates. Ms. Berends contributed extensively to industry associations throughout her executive career, serving on the boards of the Investment Management Consultants Association (IMCA Australia) for 13 years (7 as Chair) and the Association of Superannuation Funds Australia (ASFA) for 12 years (3 as Chair). Ms. Berends has been awarded life membership of both the CIMA Society and ASFA.
Guy Fowler OAM	Director	Mr. Fowler is a co-founder of the Hearts & Minds Investment Leaders Conference. Mr. Fowler is currently Co-Executive Chairman of Barrenjoey Capital Partners. He has worked in a range of senior positions at UBS Australia for over 25 years, including as the Head of the Corporate Advisory business. In these roles he has advised on many of the largest and most complex equity capital markets and corporate transactions completed in Australia.
Matthew Grounds AM	Director	Mr. Grounds is a co-founder of the Hearts & Minds Investment Leaders Conference. Mr. Grounds is the Co-Executive Chairman of Barrenjoey Capital Partners Pty Ltd. Over the past 25 years, Mr. Grounds has held a variety of senior roles at UBS including CEO and Country Head, Joint Global Head of the Investment Banking business, Head of Capital Markets and Head of the Corporate Advisory business. In these roles, Mr. Grounds has advised on many of the largest and most complex equity capital markets and corporate transactions in Australia. Mr. Grounds is also Chairman of the Victor Chang Cardiac Research Institute and a director of the Financial Markets Foundation for Children.
Michael Traill AM	Director	Mr. Traill founded Social Ventures Australia in 2002, after 15 years as a co-founder and Executive Director of Macquarie Group's private equity arm, Macquarie Direct Investment. Mr. Traill is the author of 'Jumping Ship – From the world of corporate Australia to the heart of social investment' which won the prestigious Ashurst Business Literature Prize. In 2010, Mr. Traill was made a member of the Order of Australia in recognition of his services to non-profit organisations.
Gary Weiss AM	Director	Dr. Weiss is a co-founder of the Hearts & Minds Investment Leaders Conference. Dr. Weiss was formally Chairman of Clearview Wealth Limited and Coates Plc, is a former non-executive director of Premier Investments Limited and Pro-Pac Packaging Limited, a former executive director of Whitlam, Turnball & Co and Guinness Peat Group Pls and sat on the board of Westfield Holdings Limited and many other public companies. He has also been involved in overseeing large businesses with operations in many regions including Europe, China and India and is familiar with investments across a wide range of industries, corporate finance and private equity type deals.
Geoff Wilson AO	Director	Mr. Wilson has over 43 years direct experience in investment markets having held a variety of senior investment roles in Australia, the UK and the US. Mr. Wilson founded Wilson Asset Management in 1997 and created Australia's first listed philanthropic wealth creation vehicles, the Future Generation companies.
David Wright	Director	Mr. Wright is the CEO and joint founder of Zenith Investment Partners and has overall responsibility for the management of the broader Group and remains closely involved in servicing the company's investment consulting clients with portfolio construction, management and monitoring advice. Mr. Wright has a wealth of investment industry experience acquired over his extensive career including senior positions at IWL Ltd as Head of Research and Associate Director and Head of Managed Funds Research at Lonsdale Limited.

Management

Paul Rayson is the CEO of HM1. Paul has been with the Company since inception, initially being a member of the Investment Committee. Paul took over as CEO from Rory Lucas shortly after the Company listed with Rory Lucas moving from CEO to CIO before moving on from the Company in 2022.

The Company appointed Charlie Lanchester as Chief Investment Officer (CIO) in March 2023. Charlie was appointed to provide additional oversight to the portfolio to mitigate some of the risks associated with the execution of the concept for HM1 after the significant drawdowns that were experienced in 2022. The IC has delegated authority for the CIO to dispose of Conference and Core stocks in line with Fund Manager recommendations without prior approval from the IC.

Management		
Name	Role	Experience
Paul Rayson	Chief Executive Officer	Mr. Rayson is a Chartered Accountant and has worked in the financial services industry for over 25 years and has extensive experience in investment markets, technology, retail banking, risk management and insurance. Mr. Rayson is the former Managing Director of CommSec, Australia's leading online broker and former Managing Director of Australian Investment Exchange Limited and Colonial Mutual Life Assurance Society Limited. Mr. Rayson has also held a number of CFO and governance positions across large financial services businesses. Prior to financial services, he held senior roles in Chartered Accounting and Consulting firms specialising in corporate advisory, risk management and strategy.
Charlie Lanchester	Chief Investment Officer	Mr. Lanchester was appointed in March 2003. Mr. Lanchester has over 30 years active funds management experience at leading investment organisations. Most recently Mr. Lanchester was Head of Fundamental Australian Active Equities at BlackRock. Prior to that, Mr. Lanchester held senior roles at Perpetual Investments, Platinum Asset Management and Schroder Investment Management. Mr. Lanchester is also currently the Chair of the Australian Fund Manager Awards Foundation and Chair of Surf Aid International.
Maggie O'Neil	Head of Marketing & Operations	Ms. O'Neil is a founding team member of Hearts & Minds, a philanthropic group dedicated to raising critical funds for Australian medical research, which has donated over \$60 million since inception in 2016. Ms. O'Neil is responsible for the company's operations and marketing and is also part of the production team that delivers the annual Sohn Hearts & Minds Investment Leaders Conference, Australia's premier finance conference.

Investment Committee (IC)

The IC is determined by the Board and is responsible for the implementation of the investment strategy and management of the portfolio in accordance with the investment objectives. The IC meets quarterly to review the portfolio and ensure the Company continues to deliver on its investment objective.

There has been some changes to the IC over the life of the Company. The IC originally comprised 7 members, 6 of which were board members. The IC currently comprises 6 members, 4 of which are board members.

Investment Committee		
Name	Role	Experience
Lorraine Berends	Chair of IC	See above
Chris Cuffe	Chair of Board	See above
Matthew Grounds AM	Director	See above
David Wright	Director	See above
Paul Rayson	CEO & IC Member	See above

Investment Committee

Brett Paton	IC Member	Mr. Paton is currently Chairman of Escala Partners, an Australian wealth management advisory group, and Chairman of Pointsbet Holdings Limited. Mr. Paton has worked in a range of senior positions including Vice Chairman at UBS Australia where he spent 23 years. Mr. Paton also spent 5 years at Citi serving as Vice Chairman Australia, Institutional Clients Group. Mr. Paton has also served as a Non-Executive Director of Tabcorp and Chair of Audit and Risk for its demerged entity, Echo Entertainment, giving him valuable insights into the functions expected of ASX 100 boards. He was previously a Council Member at RMIT University and Chair of the Risk and Audit Committee, Chairman of PLC VC and previously a member of the ASX Capital Markets Advisory Committee.
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On the back of the significant declines experienced in 2022, the Company established a Fund Manager Selection Committee with a focus on providing greater diversity in the style and sector focus of the Conference Fund Managers. The Committee was established in addition to the implementation of a risk overlay for the Conference Portfolio to ensure there was not undue concentration in any risk factors.

Fund Manager Selection Committee

Name	Role	Experience
Dr. Gary Weiss	Chair of Committee & Director	See above
David Wright	Director	See above
Charlie Lanchester	Chief Investment Officer	See above
Michael Walsh	Committee Member	Mr. Walsh is a founding member of the organising committee for the Sohn Hearts & Minds Investment Leaders Conference and has been critical in the success of the event. Mr. Walsh is currently a Senior Advisor, UBS Global Markets and Head of Global Family Offices, UBS ANZ.

Fund Managers

The Portfolio will comprise stock recommendations from the Conference Fund Managers and the Core Fund Managers appointed. There are currently 7 Core Fund Managers. The number of Core Fund Managers has expanded since listing, with the Company originally having 5 Core Fund Managers. TDM Growth Partners ("TDM") was added the Core Fund Managers in November 2019. With the addition of TDM, the Company changed the allocation of the portfolio from 40%/60% to Conference Fund Managers and Core Fund Managers, respectively, to 35%/65% Conference Fund Managers and Core Fund Managers. The Company also completed an Entitlement Offer, raising \$62.5 million which was allocated to three highest conviction investment ideas of TDM.

In November 2022, the Company replaced Paradise Investment Management with Munro Investment Partners and Tribeca Investment Partners. The capital allocation to Paradise Investment Management was reallocated to the two new additions to the Core Fund Managers. Moving from 5 to 7 Core Fund Manager's over time increases the diversification of the portfolio due to the increased number of investment ideas (each Core Fund Manager provides three best ideas for inclusion in the portfolio). However we note that an exception has been made for Regal Funds Management, whereby the Company now invests in the Regal Australia Long/Short Equity Fund for exposure to this manager as opposed to investing in the top investment ideas. It was determined that this provides a better way to gain exposure to the manager's expertise.

Core Fund Managers		
Fund Manager	Date Appointed	Overview
Caledonia (Private) Investments	September 2018	Caledonia (Private) Investments Pty Limited is a global investment management firm with offices in Sydney and New York. With over 25 years' investment experience, Caledonia's goal is to achieve high absolute returns for their clients over a long-term time horizon. The firm manages a long short equity strategy with a focus on deep fundamental research and high conviction long-term investing.
Cooper Investments	September 2018	Cooper Investors Pty Limited is a specialist equities fund manager. Cooper Investors commenced operations in 2001 and manages money for a range of clients, including large pension and superannuation funds, religious institutions, Australian State Government agencies, school endowments, charities, high net worth families and retail clients. Cooper Investors is 100% owned by its employees. Cooper Investors seeks to invest in quality companies with a strong value proposition.
Magellan Asset Management	September 2018	Magellan Asset Management Limited is an Australian-based asset manager that is a wholly-owned subsidiary of Magellan Financial Group Limited, an ASX top-100 company that was formed by Hamish Douglass and Chris Mackay in Sydney in 2006. Magellan manages investments across its global equities, global listed infrastructure and Australian equities strategies for retail, high net worth and institutional investors.
Munro Partners	November 2022	Munro Partners is a global investment manager with a core focus on growth equities. Established in 2016 by an award-winning investment team with a proven track record of strong returns, the business has \$4 billion in AUM and is owned and controlled by key staff. Via a proprietary investment process, Munro invests alongside clients to benefit from some of the key structural changes that occur in our world today.
Regal Funds Management	September 2018	Regal Funds Management Pty Limited (Regal) is a specialist alternatives investment manager and business of Regal Partners Limited (ASX: RPL). Founded in 2004, Regal has grown to become one of Australia's most recognised alternative investment managers, four times awarded Australian Alternative Manager of the Year. With offices in Sydney, Singapore and New York, Regal manages capital for a broad number of institutions, family offices, charities and private investors across hedge fund, private market, real asset and private credit investment strategies. With a heritage in long / short fundamental investing, investment strategies typically utilise a research-driven, bottom-up stock selection process, drawing on the significant investment experience of co-founder and Chief Investment Officer, Philip King, and team of portfolio managers, analysts and dedicated industry sector specialists.
TDM Growth Partners	November 2019	TDM Growth Partners Pty Limited is a global investment firm with offices in Sydney and New York. TDM invests in fast growing companies run by passionate management teams. Their unique and flexible mandate allows them to invest in public and private companies globally. They operate on long-term time horizons, fully aligned incentives, and a commitment to help scale businesses they are proud of. TDM has a highly focused approach to investing, with a portfolio of no more than 15 investments globally.
Tribeca Investment Partners	November 2022	Tribeca is an Asia Pacific based asset management and advisory firm with over two decades of experience in partnering with sophisticated clients to provide innovative solutions beyond the mainstream. Combining deep multi-asset class expertise across investment management, private wealth management and corporate advisory with key staff located across the Asia Pacific, Tribeca is able to identify and capture unique investment opportunities. Unhindered by a large bureaucracy, and owned by senior partners, Tribeca takes pride in its strong alignment with clients, speed to market and proven track record.

There were 12 fund managers represented at the 2023 Hearts & Minds Investment Conference held in November. The majority of fund managers were different from the previous year with only two of the 12 Conference Fund Managers providing stock picks for the previous Conference Portfolio. We note that Munro Partners were allocated a stock pick in the Conference Portfolio and are also a contributor as a Core Fund Manager.

Conference Fund Managers		
Name	Fund Manager	Stock Pick
Angela Aldrich	Bayberry Capital Partners	Lamb Weston Holdings, Inc
Ricky Sandler	Eminence Capital	Ashland Inc
Ashish Swarup	Aikya Investment Management	AIA Group Limited
Dan Loeb	Third Point	Bath & Body Works, Inc
Sharif el Khazen	Metronome Capital	Games Workshop Group PLC
Jeremy Bond	Terra Capital	Nexgen Enregy Ltd
Chris Kourtis	Ellerston Capital	Resmed Inc.
Tom Naughton	Prusik Investment Management	Swire Pacific Limited
Rikki Banna	IFM Investors	Telix Pharmaceuticals Limited
Martin Hughes	Toscafund	UniCredit S.p.A
Ravi Chopra	Azora Capital	Webster Financial Corporation
Keiran Moore	Munro Partners	Wise PLC

PORTFOLIO CONSTRUCTION

The portfolio will typically comprise 25-30 securities with 35% of the portfolio allocated to the Conference Portfolio and 65% allocated to the Core Portfolio. The portfolio will be constructed by the Investment Committee, in conjunction with the CEO and CIO, in accordance with the Investment Strategy, Investment Guidelines and parameters as agreed with the Board from time-to-time.

Conference Fund Managers (35%)

The Conference Portfolio will comprise 10-12 positions which represent the Managers recommendations presented at the Conference. The Company will allocate an equal weighting to each of the recommendations. Manager's will not be permitted to recommend an existing Core Portfolio stock.

The securities will be held for a period of 12-months, after which point the securities will be replaced with the recommendations of the Conference Fund Managers who present at the following year's Conference.

Conference Fund Managers are selected by the Fund Manager Selection Committee, which currently comprises four members. Any Board member, IC member, the CIO or CEO can nominate a fund manager with nominations required to be made before June each year. The Committee will make recommendations for the selection of Conference Fund Managers to the Board for ratification, with the Board having the ability to veto any recommendation.

When selecting the Conference Fund Managers there are a number of criteria that the Committee assesses, including:

- ◆ Fund Managers must have a demonstrable track record of outperformance as assessed by the CIO and the Committee.
- ◆ At least one-third of Conference Fund Managers are to be female.
- ◆ Ability to deliver a compelling presentation of the stock recommendation.
- ◆ At least 40%-50% new managers to present each year.
- ◆ Preferably not a Core Fund Manager.

The recommendations from the Conference Fund Manager must be their highest conviction stock recommendation that has an identifiable catalyst for value appreciation over the 12-month holding period. Recommendations must be a listed security on a major exchange that meets the minimum size and liquidity requirements of the Company. It is unlikely that a stock will have a market cap of less than \$1 billion given the liquidity requirements. Recommendations that do not meet the size and liquidity requirements may be excluded or allocated a lower weighting. The CIO will vet the stock recommendations provided to

ensure there is not an over concentration in one sector or risk factor. If there is an over concentration the CIO will ask the manager to recommend a different stock.

The Company is committed to integrating ESG consideration into the investment strategy. The Company will not include tobacco manufacturers and cluster munitions companies and will exclude companies that derive 10% or more of their revenues from (i) controversial weapons; (ii) gambling; or (iii) old growth logging.

The CIO and IC will monitor Conference Portfolio with the potential for a Conference Stock to be exited in consultation with the relevant Manager prior to the end of the 12-month period. If a stock is sold more than 3 months prior to the next Conference the capital will be reallocated to those stocks that Conference Fund Managers continue to recommend at the current price levels. If the position is exited within 3 months of the Conference, the Company will hold cash with the capital redeployed in the Conference Portfolio rotation.

Core Fund Managers (65%)

65% of the portfolio will be allocated to securities recommended by the Core Portfolio Managers, of which there are currently 7. The Core Fund Managers have been selected by the Company after assessing each fund manager's skill, expertise, performance, investment style and willingness to provide their services pro-bono.

The Core Fund Managers have agreed to provide recommendations to the Company for a period of at least three years. If either the Company or a Core Fund Manager wishes to materially change or end the recommendation arrangement, the party will provide the other party with at least six months' prior notification. This period of time will allow the Company to identify and appoint a new Core Fund Manager and further allow for an orderly rebalancing of the Portfolio in relation to such change.

Each quarter, Core Fund Manager's provide their top 3 security recommendations and a weighting for each security. Managers can recommend the same security as another Manager subject to a maximum of two Manager's recommending the security.

If on a quarterly basis there is no change to a Manager's recommendations, the current value of the portfolio attributable to the Manager's securities may be rebalanced. If there is a change in one or more of the recommendations, the Manager's capital allocation will be rebalanced to dispose of the old securities and include the new recommendations.

In November 2022, the Company amended the Investment Guidelines to allow exposure to a Core Fund Manager via investing in direct listed equities recommended by the Manager or investing in an a fund or individually managed account operated by a Core Fund Manager. The amendment was made after a review was undertaken which highlighted that the Core Portfolio for the Managers was not necessarily providing a high correlation with the actual investment performance and risk profile of some of the Managers.

Investment Guidelines

Given the nature of the investment mandate, there are limited investment guidelines with the Company seeking to provide exposure to the selected Fund Manager's highest conviction ideas. There are no sector/industry limitations nor geographic limitations, however the Company will seek to ensure there are no undue concentration risks in the portfolio with the CIO working with the Manager's where concentration risk may arise.

Investment Guidelines	
Number of Securities	Typically 25-30
Average Position Size	Average position size of 3.5%, however position sizes will be in consultation with Fund Managers and the weighting in the portfolio will be impacted by the performance of the security.
Single Security Limit	The Company retains the discretion to limit the weighting of a recommended security where the security represents more than 8% of the portfolio. A maximum limit of 15% of the portfolio applies for a single stock.
Liquidity	The Company will invest in securities where there is sufficient liquidity to facilitate entry or exit from the position. As a guide, the Company will not hold a position that represents less than two days average trading turnover of the stock. Exceptions may be made where the recommended holding is by a Core Fund Manager and intended to be held for the longer term.

Investment Guidelines

Unlisted Securities	Within the Core Fund Manager portion of the Portfolio, the Company may invest in unlisted equities or managed funds where such investments are deemed to provide a better form of exposure to the investment expertise and risk profile of the particular fund manager. Investment in unlisted securities will be by exception only and the Company's Portfolio will remain predominantly invested in listed securities. An investment in an unlisted equity would only be made on the basis that the particular company was profitable and expected to list within 2 years.
Industry/Sector Limits	None
Geographic Exposure Limits	None
Foreign Currency Hedging	The Company does not hedge foreign currency exposure.
Leverage	Not permitted at the Company level.
Fixed Income & Debt Securities	Not permitted.

PORTFOLIO COMPOSITION

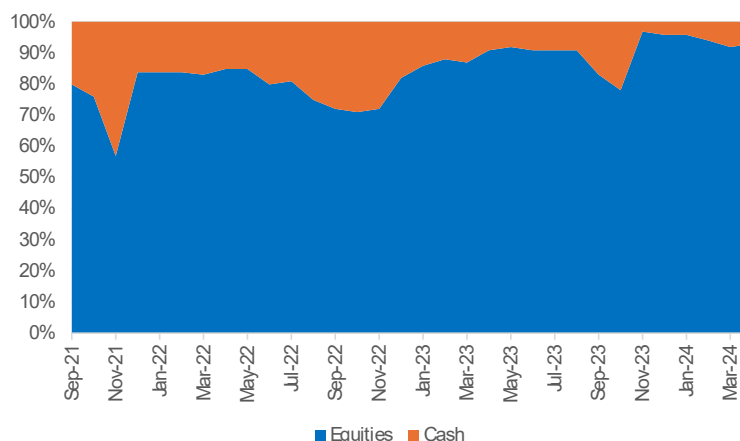
The portfolio will change complexion on an annual basis given 35% of the portfolio is dedicated to the stocks from the Conference Fund Managers which are expected to be different recommendations each year. As such, at least 35% of the portfolio is expected to be turned over on an annual basis. The Core Fund Manager selections comprise the remaining 65% of the portfolio which are expected to have a holding period of 2 to 5 years.

On a quarterly basis (or more frequently as required) each Core Fund Manager will confirm or recommend changes or re-weighting of their selected stocks within their allocation. While the intention is that the Core Portfolio will remain fully invested, a Core Fund Manager has the discretion to hold temporary levels of cash within their allocation. Where the disposal of a security by a Core Fund Manager results in a material net tax liability across that Fund Manager's allocation, sufficient funds will be removed from the Fund Manager allocation to meet the tax liability and retained in cash.

Annual Portfolio Turnover	
Financial Year	Turnover
FY19	30.1%
FY20	69.8%
FY21	56.3%
FY22	48.0%
FY23	66.9%
Average	54.2%

The portfolio will primarily be invested in direct listed equities, however may invest in unlisted companies and funds or individually managed accounts operated by the Core Fund Managers. The portfolio is designed to provide exposure to the high conviction portfolio. The Company will typically hold a small level of cash, however cash levels may be higher in the event the Company reduces exposure to a position in consultation with the contributing Fund Manager or if the Company sells out of its position in a stock in the Conference Portfolio and it is nearing the end of the 12-month investment period. Over the period from 30 September 2021 to 30 April 2024, the cash position of the portfolio ranged from 3.0% to 43%. The 43% cash allocation was at 30 November 2021 as the Company was selling down the previous Conference Portfolio and investing in the new Conference Portfolio.

Asset Allocation (30 September 2021 to 30 April 2024)



The Company will invest the 35% allocation to the Conference Portfolio equally, with Core Fund Managers able to recommend the weightings to each of their investment ideas. Throughout the period, the weighting in a position is likely to largely reflect the performance of a stock, with the potential for weightings to be increased in the event of a disposal of an investment and the capital is redistributed to the existing portfolio. The below shows the top 10 holdings as at 30 June for the last three years.

Top 10 Positions as at 30 June					
30 June 2021		30 June 2023		30 June 2023	
Zillow Group Inc	9.65%	Alphabet Inc	11.14%	Liberty Formula One	8.0%
Mineral Resources Limited	7.48%	Formula One Group	9.25%	Zillow Group, Inc	5.8%
Alphabet Inc	6.44%	Microsoft Corporation	6.70%	Mastercard Inc	5.7%
Megaport Ltd	4.48%	Zillow Group Inc	4.97%	Microsoft Corporation	5.7%
HelloFresh SE	4.48%	IDP Education Ltd	4.93%	Intercontinental Exchange Inc	5.3%
Bill.com Holdings Inc	3.97%	ON Semiconductor Corporation	4.25%	Block, Inc.	4.3%
Microsoft Corporation	3.56%	CSL Ltd	4.07%	ASML Holding N.V	3.2%
Formula One Group	3.54%	Spotify Technology S.A	4.07%	New Relic Inc	3.2%
Just Eat Takeaway N.V	3.46%	Danaher Corporation	3.89%	Carsales.com Ltd	3.2%
Alibaba Group Holding Limited	3.41%	Orica Ltd	3.84%	BHP Group Ltd	3.2%
	50.47%		57.11%		47.60%

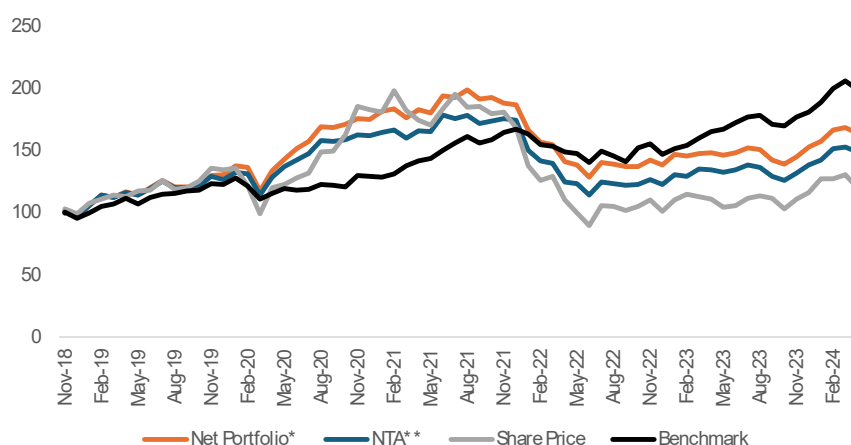
Source: HM1 Annual Reports.

PERFORMANCE ANALYTICS

The below takes a look at the performance of the NTA and share price of HM1. We have included the portfolio performance, which is represented by the NTA after fees and expenses and before tax and the NTA after tax on realised gains but before tax on unrealised gains, which reflects the pre-tax NTA reported by the Company on a weekly and monthly basis. We have included the performance of the MSCI World Index, Net, AUD (the "Benchmark") as representative of the broader global equity market for comparison purposes. We note that the benchmark is used for comparison purposes only. The Company does not pay a performance fee and is not striving to outperform the benchmark, however the performance of the relevant equity market is an important consideration for investors.

After a strong start in the initial years, HM1's portfolio experienced significant declines in 2022 with a number of the best ideas provided from the Conference Managers at the 2021 Conference sold off heavily in 2022 as the macroeconomic environment changed. The performance highlighted the risks of a concentrated portfolio combined with buying a stock and holding for a 12-month period with limited oversight over the period. The portfolio performance has improved from 2023 onwards however has not kept pace with the benchmark, the returns of which have been driven by stocks that are not in the portfolio.

Cumulative Total Return



*NTA after fees and expenses and before tax.

**NTA includes tax paid on realised capital gains.

Source: HM1, Iress, IIR.

Portfolio performance improved over the 12-months to 30 April 2024, with the portfolio after fees and expenses increasing 10.6%. The 2023-2024 Conference Portfolio has contributed positively to the portfolio performance. Over the six month period from 30 November 2023 to 30 April 2024, the 12 stocks in the Conference Portfolio have increased 15.7% on average. The portfolio over this period has increased 13.0%. The biggest drag from the Conference Portfolio has been Lamb Weston Holdings, Inc, the share price of which has declined 16.7% over the 6 month period. The best contributor over the period has been Telix Pharmaceuticals Limited which was up 49.3%.

As is often the case with LICs and LITs, the share price will overshoot to both the upside when the portfolio is outperforming and the downside when the portfolio is underperforming. This has been the case for HM1 throughout its history, with the recent relative underperformance weighing on the share price, which continues to underperform the NTA.

As we have mentioned previously in the report, the portfolio is expected to experience higher levels of volatility than the benchmark given the concentrated nature of the portfolio and the likely skew to growth and momentum stocks. This is highlighted by the standard deviation of the portfolio and share price when compared to the benchmark.

The Company will provide exposure to a portfolio that is vastly different from the benchmark and its peers. This is highlighted by the high tracking error of the portfolio to the benchmark.

Performance Metrics (as at 30 April 2024)

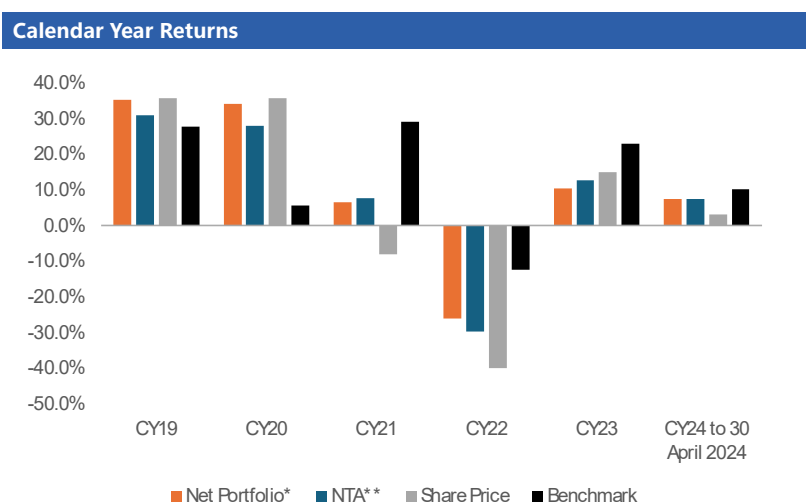
	Net Portfolio*	NTA**	Share Price	MSCI World Net Index, AUD
Cumulative Total Return:				
1 year	10.6%	10.6%	8.0%	20.5%
3 year (p.a.)	-3.5%	-3.5%	-11.7%	11.9%
5 year (p.a.)	7.0%	5.0%	1.2%	12.3%
SI (p.a.)	9.4%	7.3%	2.8%	13.5%
Standard Deviation:				
1 year	12.4%	12.4%	19.5%	10.6%
3 year (p.a.)	15.3%	16.5%	25.3%	12.1%

Performance Metrics (as at 30 April 2024)				
	Net Portfolio*	NTA**	Share Price	MSCI World Net Index, AUD
5 year (p.a.)	16.9%	16.8%	27.2%	12.2%
SI (p.a.)	17.2%	17.1%	26.5%	12.3%
Tracking Error:				
1 year	5.4%	5.3%	14.5%	na
3 year (p.a.)	9.8%	10.8%	19.3%	na
5 year (p.a.)	12.2%	11.7%	21.9%	na
SI (p.a.)	12.1%	11.7%	21.3%	na

*NTA after fees and expenses and before tax.

**NTA includes tax paid on realised capital gains.

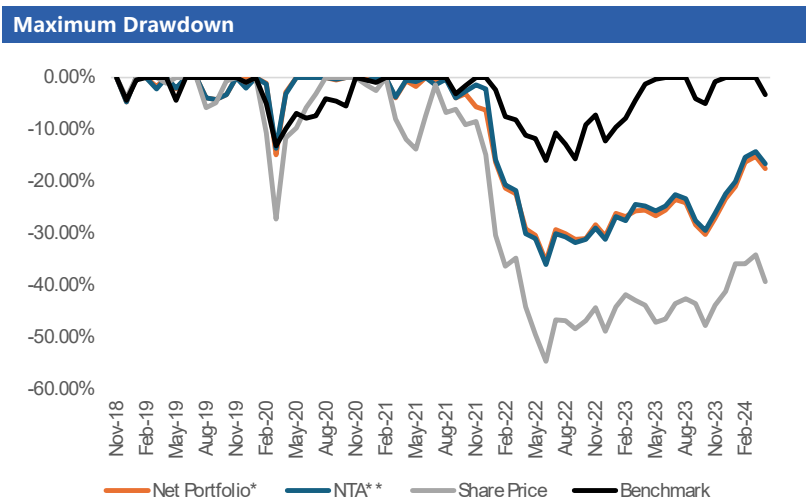
The below chart shows the calendar year returns of the portfolio and share price compared to the benchmark. The chart highlights the underperformance of the portfolio in CY2021 and CY2022. The portfolio has performed better since 2022, however has still lagged the benchmark.



*NTA after fees and expenses and before tax.

**NTA includes tax paid on realised capital gains.

The maximum drawdown of the portfolio compared to the benchmark highlights the heightened risk associated with a concentrated portfolio. While the portfolio may experience greater levels of volatility and experience elevated downside risk, the mandate also offers the potential to outperform the market over the long-term. We expect the additional risk overlay on the portfolios and increased consultation with the fund managers will have a positive impact on the downside risk in the portfolio.



*NTA after fees and expenses and before tax.

**NTA includes tax paid on realised capital gains.

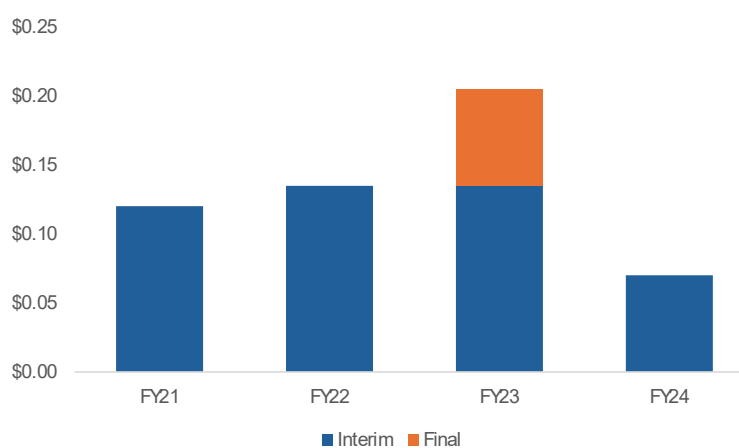
Dividends

The Company initially paid a dividend on an annual basis in March after the Conference Portfolio had been turned over. In 2023, the Company increased the dividend frequency to semi-annual with dividends now expected to be paid in April and October each year. The change in the dividend policy was announced in the FY23 period, which meant that the dividends paid for the FY23 period include the annual and inaugural interim dividend, distorting the dividends declared for that period. Looking through the distortion, the Company has paid an increasing fully franked annual dividend since the commencement of the payment of dividends in 2021.

The turnover in the portfolio on an annual basis lends itself to the realisation of capital gains and therefore franking credits. This should continue to support the payment of a fully franked dividend if the Board manage the reserves and franking credit account of the Company effectively.

As at 31 December 2023, the Company had over 4 years of dividend coverage assuming an annual dividend of 14 cents per share and a healthy level of franking credits to be able to maintain a fully franked dividend.

Dividends Declared by Financial Year



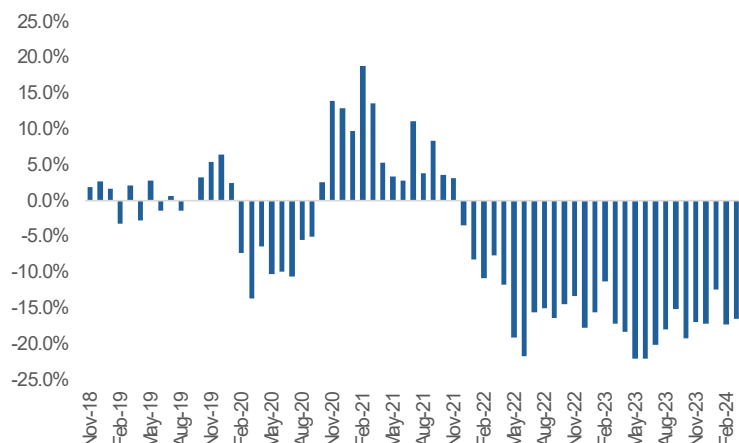
Source: HM1, IIR.

Premium/Discount

The Company has traded at both a discount and premium to NTA throughout its history. During the initial years, the strong performance relative to the global market created strong demand for the Company with the Company trading at a premium to NTA as high as 18.8%, based on month-end data. This premium was eradicated and the Company has been trading at an elevated discount to NTA since 2022 as the portfolio delivered weak performance relative to the market. The adverse impact on shareholder returns has been exacerbated by the share price coming down from a sizable premium, meaning shareholders have been hit extra hard by the underperformance of the portfolio.

The Company continues to trade at a sizable discount to NTA, with the Company trading at a discount of 20.9% as at 30 April 2024. While the discount has been a drawback for existing investors, particularly for those that bought in at premiums, it does provide opportunities for investors in the event the discount narrows. Saba Capital have jumped on the register as a result of the sizable discount and while it may well be a passive investment for them it will certainly provide an impetus for the Board to actively seek ways to narrow the discount with Saba Capital known for agitating to realise the value of their investments.

Historical Premium/Discount (month-end)



Source: ASX, Iress, IIR

PEER COMPARISON

HM1 provides exposure to a unique investment strategy when compared to its peers with the portfolio including ideas from some of the manager's of other LMIs. There are a range of LICs, LITs and ETMFs that have a focus on international equities. For the purposes of this report we have focused on the closed-ended listed vehicles, LICs and LITs, that provide exposure to a long only portfolio of global equities.

Included in the peer group is Future Generation Global Limited (ASX: FGG). This vehicle provides exposure to a portfolio of funds that provide exposure to global equities through a range of strategies. Similar to HM1, the managers and individuals associated with the company volunteer their services with the annual fee charged by the Company donated to designated charities that focus on youth mental health. In terms of philanthropic offerings, this is a key competitor for HM1.

LIC/LIT Peer Group				
Name	Ticker	Structure	Listing Date	Market Cap (\$m)*
Future Generation Global Limited	FGG	LIC	Sep-15	\$506.5
Fat Prophets Global Contrarian Fund	FPC	LIC	Mar-17	\$27.8
Hearts & Minds Investments Limited	HM1	LIC	Nov-18	\$554.1
Morphic Ethical Equities Fund	MEC	LIC	May-17	\$41.7
MFF Capital Investments	MFF	LIC	Dec-06	\$2,041.7
Magellan Global Fund	MGF	LIT	Nov-20	\$3,181.0
Pengana International Equities Limited	PIA	LIC	Jun-17	\$294.5
WAM Global Limited	WGB	LIC	Jun-18	\$786.6
WCM Global Growth Limited	WQG	LIC	Jun-17	\$266.9

*As at 30 April 2024.

Source: ASX, Iress, IIR.

The below provides the annual management fees and performance fee paid the managers of the LICs and LITs in the peer group. While HM1 charges 1.50%p.a, these fees are contributed to designated medical research organisations to fund research and development. FGG's annual management fee is also donated to designated charities.

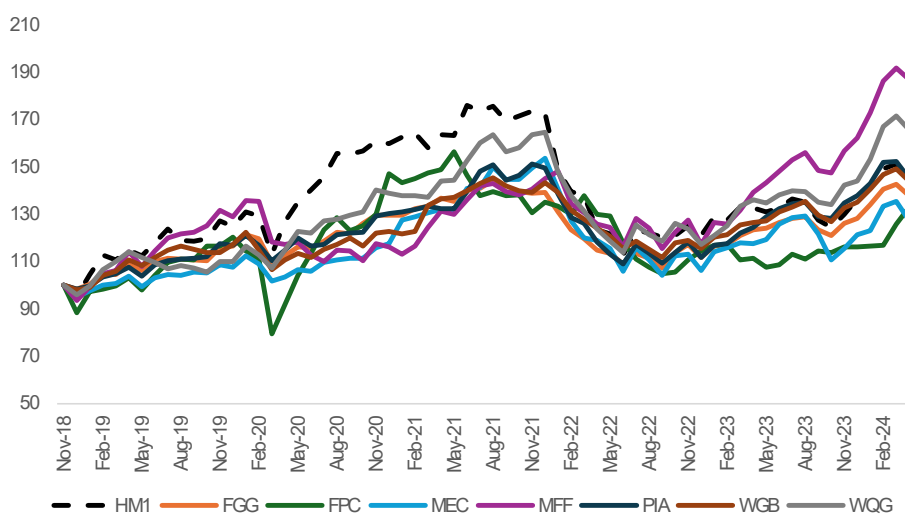
Peer Group Fee Comparison			
Ticker	Management Fee, ex GST	Performance Fee	Performance Fee Hurdle
FGG	1.00*	na	na
FPC	1.25	20.00	High Water Mark
HM1	1.50*	na	na
MEC	1.25*	15.00	MSCI All Country Total Return Daily Index
MFF	0.93**	na	na
MGF	1.23	10.00	Higher of MSCI World NTR Index/10-year Aust Gov Bond yield

Peer Group Fee Comparison			
Ticker	Management Fee, ex GST	Performance Fee	Performance Fee Hurdle
PIA	1.12	15.38	MSCI Total Return Index, Net Dividends Reinvested, AUD
WGB	1.25	20.00	MSCI World Index. Net, AUD
WQG	1.25	10.00	MSCI AWCI ex Australia, AUD

*Annual fee is donated to designated organisations.
 **MFF is internally managed. The management fee represents the MER calculated as the total expenses dividend by the total assets as at 30 June 2023.
 Source: Company/Trust documents, IIR.

From a performance perspective, HM1’s NTA has generated cumulative total returns that are in the middle of the pack since its listing. As we have previously pointed out, the portfolio performed well in the initial years, however fell materially in CY2022. MFF and WQG have been the best performers in the peer group over the period from 30 November 2018 to 30 April 2024.

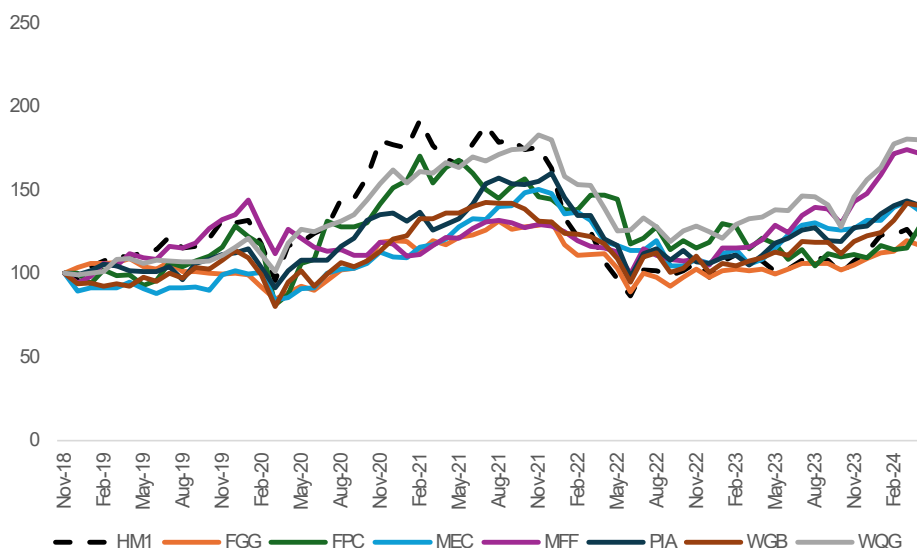
NTA*/NAV Cumulative Total Return (30 November 2018 to 30 April 2024)



*After tax on realised gains and before tax on unrealised gains.

While the portfolio performance has been in the middle of the pack with regards to the peer group, the shareholder returns have been at the lower end of the peer group, with shareholder returns materially underperforming the portfolio and experiencing significantly higher levels of volatility. The Company continues to trade at a sizable discount with the key driver to narrowing the discount likely to be delivering an improved risk-adjusted return relative to the broader market. This rests in the hands of the contributing fund managers.

Share/Unit Holder Cumulative Total Return (30 November 2018 to 30 April 2024)

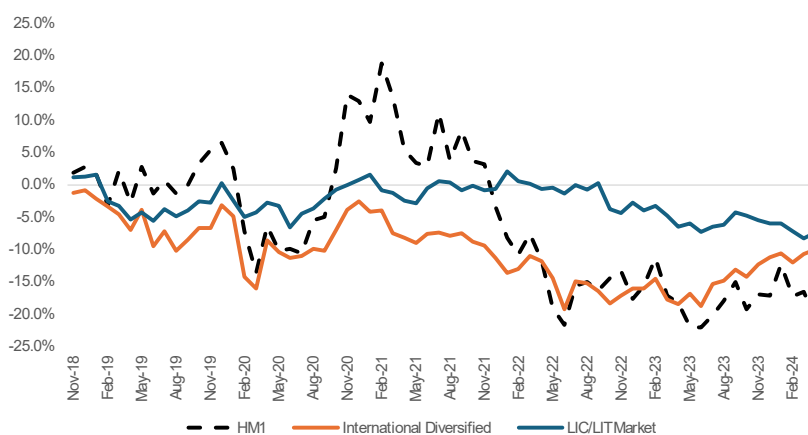


Source: ASX, Iress, IIR

The below chart shows the historical premium/discount to NTA (after tax on realised gains and before tax on unrealised gains) of HM1 compared to the market cap weighted average premium/discount of LICs/LITs in the International Diversified classification and the LIC/LIT market as a whole. With regards to the premium/discount, in the initial years when the portfolio was performing strongly there was plenty of support for the HM1 with the Company trading at a premium to NTA, however demand has softened with the weak performance.

The discounts of LICs and LITs in the international diversified classification have traded at a sizable discount in recent years. MGF was a significant contributor to the discount with a significant dislocation of the unit price from the NAV on the back of outflows from the Manager. MGF accounts for a large portion of the classification. As at 30 April 2024, MGF accounted for 39.3% of the total market cap of the classification. A number of LICs/LITs in this category are undertaking strategic reviews to address the discount at which they have been trading with MGF proposing to convert into units of the open-ended listed version of the fund, MGOC. This has resulted in the discounts of some LICs/LITs in the classification to narrow, while HM1's discount continued to trade near its biggest discount in its history.

**Market Cap Weighted Premium/Discount to NTA*/NAV
(30 November 2018 to 30 April 2024)**

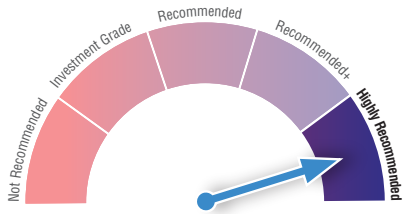
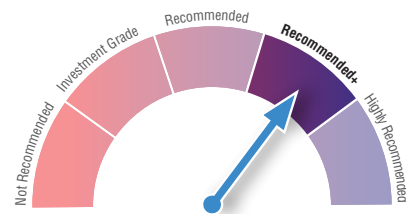
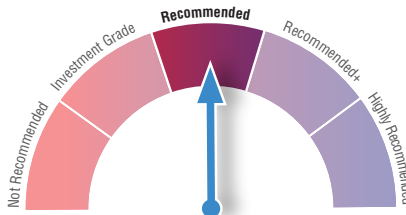
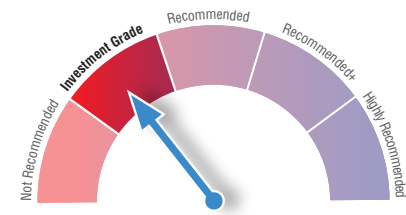
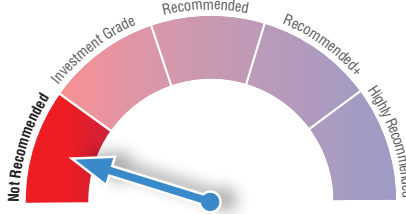


*After tax on realised gains and before tax on unrealised gains.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

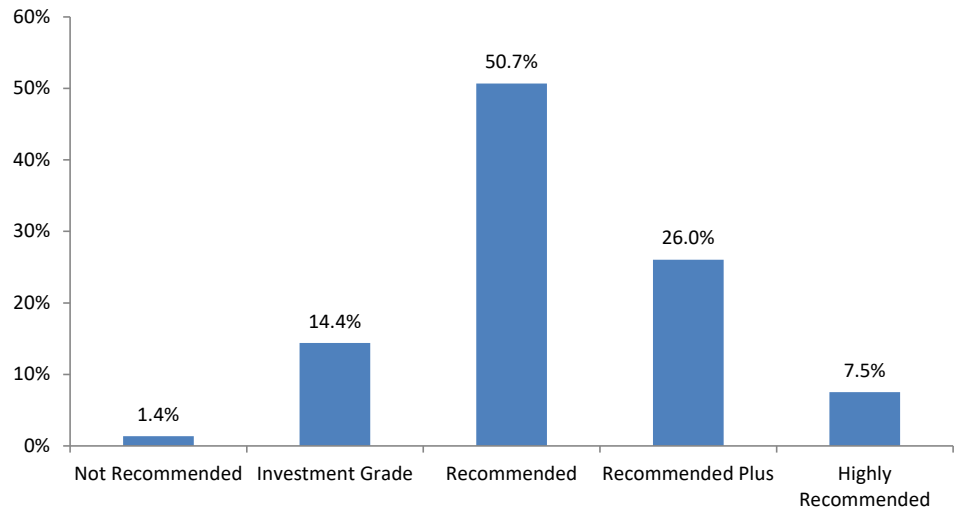
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above
	<p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
Recommended +	79–83
	<p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
Recommended	70–79
	<p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
Investment Grade	60-70
	<p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
Not Recommended	<60
	<p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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