

# **TM Hearthstone UK Residential Feeder Fund**

Interim Report & Accounts  
(unaudited) for the period ended 31st December 2018



**THEISIS UNIT TRUST MANAGEMENT LIMITED**

Authorised and regulated by the Financial Conduct Authority

# TM Hearthstone UK Residential Feeder Fund

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# TM Hearthstone UK Residential Feeder Fund

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## Management and Professional Service Providers' Details

### Manager:

Thesis Unit Trust Management Limited  
Exchange Building  
St John's Street  
Chichester  
West Sussex PO19 1UP  
Tel: 01243 531 234

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the Financial Conduct Authority*

### Dealing & Registration:

Northern Trust Global Services SE  
PO Box 3733  
Royal Wootton Bassett  
Swindon SN4 4BG  
Tel: 0333 300 0375  
Fax: 020 7982 3924

*Authorised by the Prudential Regulation Authority and  
regulated by the Financial Conduct Authority and the  
Prudential Regulation Authority*

### Trustee:

NatWest Trustee and Depositary Services Limited\*  
Drummond House, Second Floor  
1 Redheughs Avenue  
Edinburgh EH12 9RH

*Authorised by the Prudential Regulation Authority and  
regulated by the Financial Conduct Authority and the  
Prudential Regulation Authority*

\* NatWest Trustee and Depositary Services Limited  
replaced National Westminster Bank plc as  
depositary of TM home investor feeder fund in 2018

### Auditor:

Grant Thornton UK LLP  
30 Finsbury Square  
London EC2A 1AG

### Directors:

S. R. Mugford - Finance Director  
D. W. Tyerman - Chief Executive Officer  
S. E. Noone - Client Service Director  
D. K. Mytnik - Non-Executive Director<sup>1</sup>  
V. R. Smith - Non-Executive Director<sup>1</sup>

S.R. Mugford, D.W. Tyerman, D.K. Mytnik and V.R. Smith also hold directorships of other companies within the Thesis Group, and are engaged in significant business activity within these companies. Such business activities may be of significance to the business of the Trust.

<sup>1</sup>Appointed 12th April 2018.

# TM Hearthstone UK Residential Feeder Fund

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## **Report of the Manager**

*(unaudited) for the period ended 31st December 2018*

Thesis Unit Trust Management Limited, (the “Manager”) is pleased to present the Manager’s interim report for TM Hearthstone UK Residential Feeder Fund (the “Trust”) for the period ended 31st December 2018.

## **Investment Objective and Policy**

The investment objective of the Trust is capital and income growth by investing solely in the TM home investor fund, a sub-fund of TM Hearthstone ICVC, qualifying as a PAIF.

## **Important Information**

The Manager received approval from the FCA to amend the name of TM Hearthstone UK Residential Feeder Fund (Retail Unbundled) to TM home investor feeder fund effective on 13th July 2018.

Thesis Unit Trust Management Limited  
Manager  
22nd February 2019

# TM Hearthstone UK Residential Feeder Fund

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## Report of the Investment Adviser

(unaudited) for the period ended 31st December 2018

### Performance Table

Date		TM home investor feeder
30th Nov 18-31st Dec 18	1mth	-0.07%
30th Sep 18-31st Dec 18	3mth	0.15%
30th Jun 18-31st Dec 18	6mth	1.95%
31st Dec 17-31st Dec 18	1yr	2.18%
31st Dec 15-31st Dec 18	3yrs	8.29%
<b>Launch To Date</b>		<b>35.26%</b>

### Investment Report

#### Residential Market

##### Residential Market Performance

The market was dominated by a climate of unusual and prolonged uncertainty and it therefore helps to consider the UK's underlying economic health separately from the potentially disruptive influences of geopolitics.

GDP growth in 2018 was modest and looks set to come in at around 1.3%, with a lacklustre start affected by adverse weather and weak consumer spending, offset by an acceleration through the summer. Towards the end of the year, growth appeared to be faltering again, with survey evidence pointing to a decline in business confidence and investment, and reduced consumer confidence. Conversely, the labour market remained strong with record levels of employment boosting tax receipts and prompting the Chancellor to declare that the end of austerity is in sight. This has raised household spending power as earnings growth has accelerated ahead of inflation, which has eased in recent months.

The uncertainty around Brexit has weighed on consumer and business sentiment. The entrenched and starkly polarised views on Brexit and the narrowness of the 2016 "leave" mandate left politicians seemingly unable to broker an acceptable compromise. The result was that householders who would otherwise thought of moving have stayed put and sales volumes ran at between 75% and 80% of what would be considered normal. Within this, there were significant regional variations, with, in general, London, the South East and the Eastern region bearing the brunt of the slowdown, both in turnover and values.

Some local housing markets are, of course, more volatile than others. Prime properties and the most expensive locations in and around London are a good example, where prices have been falling, having initially strongly rebounded after the global financial crisis. By contrast, ONS data point to moderate price increases of over 4% during 2018 for much of the Midlands and parts of Northern England and suggest national average growth of a little over 2%. Forecasts from the Treasury's December consensus survey point to continuing subdued house price growth of 2.1% nationally for 2019. None of the 15 forecasters in the survey is predicting an overall decline, consistent with the fact that none is anticipating a recession. This assumes a Brexit deal that avoids the more doom-laden predictions of some commentators under a "no deal" scenario.

The UK population continues to grow, and figures released in June 2018 by the Office of National Statistics showed that the population of the UK at 30th June 2017 exceeded 66 million people (66,040,229), an increase of 392,000 people since mid-2016. This growth rate (0.6%) is the lowest since mid-2004 but remains significant. Anecdotal evidence suggests that the rate of growth from EU migration is slowing and the decrease in net international migration in mid-2017 has affected the rate of population growth in some places more than others, with England's growth rate decreasing more than the other countries of the UK (to 0.64%), and London's rate nearly halving to 0.63%. Even so, 59% of the population growth is through net international.

The RICS UK Residential Market Survey in for December 2018 showed results consistent with a weaker trend in sales market activity with headline indicators on both demand and supply edging further into negative territory, and forward looking metrics suggested that momentum was likely to continue slipping in the Q1 2019, although a somewhat stable trend is expected to emerge further out. Looking further forward into 2019, Chartered Surveyors envisaged sales volumes picking up.

# TM Hearthstone UK Residential Feeder Fund

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## Report of the Investment Adviser

*(unaudited) for the period ended 31st December 2018 (continued)*

### Investment Report *(continued)*

Within the national average figures, the RICS noted significant variations, with London and the South East tending to showing the worse performance than the rest of the UK. They also noted that at higher price levels, above £500,000 the majority of members reported sale prices coming in below asking prices, but below that figure a small majority noted them coming in at, or slightly above asking prices.

One factor remained consistent, and that is the continuing shortage of good quality housing in many locations. Figures from the NHBC show that housing starts and completions remain stuck at around 10,000 a month throughout the year. The social housing sector is delivering around 3,000 per month, but the combined annual total of 150,000 falls well short of the Government's assessment of need of between 250,000 and 300,000. Government figures including conversions puts the total around 200,000, but the shortfall, which has built up over two decades is still increasing.

The new homes market continued to be buoyant. With the House Builders Federation reporting continued growth in demands from first time buyers, often with the assistance of Help to Buy, slightly increasing demand from home movers and a continuing reduction in demand from Buy to Let investors. With an extension of Help to Buy until 2023, albeit with some slight changes at the upper end, housebuilders remain confident both as to volumes and prices.

The mortgage market continued to grow steadily. The Bank of England and FCA released figures showing that new mortgage commitments (new lending that lenders have agreed to) advance in coming months. Affordability remains under constant review and the proportion of high loan-to-income (LTI) lending (loans above four times the value of annual income for a single buyer or above three times the annual income for joint buyers) increased by 1.7 percentage points to 47%. The share of loans with a loan-to-value (LTV) ratio exceeding 90% also increased, to 4.3%. The value of outstanding mortgage balances with some arrears increased for the first time since 2016 Q2 to £14.5 billion, but these balances still account for only 1% of the total.

### House Prices & Transactions

The LSL Acadata House Price Index continued to rise slightly in December, reporting growth of just 0.3% pushing the average price of a house in England & Wales up slightly to £306,647. As in previous years, this average masks considerable regional variations. The rate of house price growth reported was the lowest in seven years, but more than two thirds of local authority areas reported annual growth. While the market as a whole is seeing house price growth, the overall figure at 0.6% is lower than the CPI figure, to November, at 2.2% means that average prices fell slightly in real terms. There are however significant regional variations.

There was a broad band of above inflation increases across the Midlands, into Wales and up to the North West, and the East of England, South East and London lagging behind. However, the differences are small.

Hometrack, who publish a UK Cities House Price Index, noted house price inflation of 2.7% ranging from +7% in Edinburgh to -6% in Aberdeen. All of the fund's investments in Scotland are in Edinburgh. The fund has investments in half of the top performing cities.

The pattern in London is variable, with some Boroughs at the top of the market recording falls in value, and others rises. The funds properties at Wembley Park, which represents almost all the London holding, held their value through the year, and continued to let well.

The Housebuilders Federation, in figures to October, as reported by the NHBC, noted slightly lower numbers of site visits and reservations with small rises in first time buyers and home movers outweighed by significant reductions in buy to let investors. Housebuilders of all sizes remain optimistic that new homes sales will continue to rise, with the larger companies the most optimistic.

# TM Hearthstone UK Residential Feeder Fund

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## Report of the Investment Adviser

*(unaudited) for the period ended 31st December 2018 (continued)*

### Investment Report *(continued)*

#### Rental Property

In the lettings market, the RICS Survey are indicative of demand from prospective tenants holding broadly steady through the year. Alongside this, the new landlord instructions series remained in negative territory signalling a decline in the supply of fresh rental stock coming on to the market. As a result of these dynamics, RICS expects rents to rise modestly over both the three and twelve month horizons. Further out, rental growth is expected to outpace that of prices; on average, rents are expected to rise by 3.1% per annum over the next five years, whilst price growth projections stand at 2.3% on the same basis.

Connells, one of the largest High Street agencies, recorded signs in the first half of 2018 that private landlords were looking to leave the sector, but noted the majority are holding firm despite increased legislation and regulatory pressures. Applicant activity continued to show strong demand outstripping supply for new tenancies and noted seeing demand for better quality accommodation.

The English Housing Survey notes that there is still a significant pool of poor quality, expensive to heat housing in the Private Rented Sector. As landlords, the TM Fund, which comprises only modern homes in good condition, expect to continue to outperform the market average. The ONS produces a test index The Index of Private Housing Rental Prices, while it is still in development its results are not considered to be exact, but it is nevertheless regarded as a good source of market information. Private rental prices paid by tenants in the UK increased by 0.9% in the 12 months to November 2018, unchanged since July 2018.

Rental prices for the UK excluding London increased by 1.4% in the 12 months to November 2018, unchanged from October 2018. London private rental prices were unchanged (0.0%) in the 12 months to November 2018; up from a decrease of 0.2% in October 2018.

Hearthstone Asset Management Ltd.  
Property Investment Adviser  
7th February 2019

# TM Hearthstone UK Residential Feeder Fund

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## **Constitution**

TM Hearthstone UK Residential Feeder Fund (the “Trust”) is an authorised unit trust in umbrella form and authorised by the FCA with effect from 30th April 2012. The Trust is intended to enable companies and other investors who are not able to invest directly into the TM Hearthstone PAIF to do so indirectly through its Trusts which are wholly invested in four distinct classes within the TM Hearthstone PAIF. The Trust has an unlimited duration.

The Trust is a non-UCITS retail scheme (NURS). It is structured as an umbrella unit trust, and currently has one sub-fund available for investment, TM home investor feeder fund. TM home investor feeder fund invests in share class H of TM home investor fund. Further funds may be established in the future. Unitholders are not liable for the debts of the Trust.

The annual long report of the Master fund will normally be published no later than four months from the end of each interim accounting period. This report will be supplied free of charge to any person on request, and is available at the offices of the Manager at Exchange Building, St John’s Street, Chichester, West Sussex PO19 1UP in English, for inspection during ordinary office hours.

## **Regulatory Disclosure**

This document has been issued by Thesis Unit Trust Management Limited (authorised and regulated by the Financial Conduct Authority).

Past performance is not necessarily a guide to future performance. The value of units can go down as well as up and is not guaranteed. Changes in rates of exchange may also cause the value of units to fluctuate. Any references in this report to other investments held within this Trust should not be read as a recommendation to the investor to buy and sell the same, but are included as illustration only.

# TM Hearthstone UK Residential Feeder Fund

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## **AIFMD Disclosures** *(unaudited)*

The provisions of the Alternative Investment Fund Managers Directive (“AIFMD”) took effect in full on 22nd July 2014. That legislation requires the fund manager, Thesis Unit Trust Management Limited (the “AIFM”), to establish and maintain remuneration policies for its staff which are consistent with and promote sound and effective risk management and do not encourage risk taking that is inconsistent with the risk profile and the rules of the Trust nor impair compliance with the AIFM’s duty to act in the best interests of the Trust.

The AIFM is part of a larger group within which remuneration policies are the responsibility of a Remuneration Committee comprised entirely of non-executive directors. That committee has established a remuneration policy which sets out a framework for determining the level of fixed and variable remuneration of staff, including maintaining an appropriate balance between the two.

Arrangements for variable remuneration within the group are calculated primarily by reference to the performance of each individual and the profitability of the relevant business unit. The performance of individuals working on the business of the AIFM is assessed primarily by reference to non-financial criteria, especially the effectiveness of their oversight monitoring of delegates appointed to perform investment advisory or fund administration services for the Trust.

Within the group, all staff are employed by the parent company with none employed directly by the Alternative Investment Fund Manager. A number of staff are considered, however, to devote the whole of their time to the business of the AIFM and its subsidiary, TUTMAN LLP, which also acts as an AIFM. The costs of a number of other individuals are allocated between the entities within the group based on the expected amount of time devoted to each.

The total remuneration of those individuals considered to comprise the entire staff of the AIFM and its subsidiary, including those whose time is allocated between group entities, for the financial year ending 30th April 2018, is analysed below:

	<b>£</b>
Fixed Remuneration	970,471
Variable Remuneration	131,386
<b>Total</b>	<b>1,101,857</b>
Headcount (FTE)	20.6

The staff members included in the above analysis support the entirety of the funds managed by the AIFM. A breakdown of these figures in relation to each fund managed by the AIFM does not exist.

Management have carried out a review of the general principles within the remuneration policy and the implementation of the remuneration policy during the period and following this review, no changes have been considered necessary.

## **Certification of Interim Report by Directors**

In accordance with the requirements of the Open-Ended Investment Companies Regulations 2001 (the “OEIC Regulations”) and the Collective Investment Schemes Sourcebook (“COLL Sourcebook”) and the Investment Funds Sourcebook (“FUND”), we hereby certify this Interim Report on behalf of the Manager, Thesis Unit Trust Management Limited.

D.W. TYERMAN                      Director

S. E. NOONE                         Director

22nd February 2019

# TM Hearthstone UK Residential Feeder Fund

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## TM home investor feeder fund

### Portfolio Statement

(unaudited) as at 31st December 2018

Holding	Market value £	Percentage of total net assets %
9,105,033 <b>Property Authorised Investment Funds 99.89% (99.88%)</b> TM home investor H Gross Accumulation*	<b>12,743,632</b>	<b>99.89</b>
<b>Net investments 99.89% (99.88%)</b>	<b>12,743,632</b>	<b>99.89</b>
Net other assets	14,405	0.11
<b>Total net assets</b>	<b>12,758,037</b>	<b>100.00</b>

Note: Comparative figures shown in brackets relate to 30th June 2018.

\*The Fund Property Adviser is Hearthstone Asset Management Limited and the Investment Adviser is Thesis Asset Management Limited.

# TM Hearthstone UK Residential Feeder Fund

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## TM home investor feeder fund

### Sub-Fund Information

The Comparative Table on page 11 gives the performance of the only active unit class in the sub-fund.

The 'Return after charges' disclosed in the Comparative Table is calculated as the return after operating charges per unit divided by the opening net asset value per unit. It differs from the sub-fund's performance disclosed in the Manager's report, which is calculated based on the latest published price.

Portfolio transaction costs are incurred when investments are bought or sold by a fund in order to achieve the investment objective. These transaction costs affect an investor in different ways depending on whether they are joining, leaving or continuing with their investment in the sub-fund.

Direct transaction costs include broker commission and taxes. Broker commission includes the fee paid to a broker to execute the trades.

In addition, there are indirect portfolio transaction costs arising from the 'dealing spread' – the difference between the buying and selling prices of underlying investments in the portfolio. Unlike shares whereby broker commissions and stamp duty are paid by a fund on each transaction, other types of investments (such as bonds, money instruments, derivatives, collective investment schemes) do not have separately identifiable transaction costs; these costs form part of the dealing spread. Dealing spreads vary considerably depending on the transaction value and market sentiment.

# TM Hearthstone UK Residential Feeder Fund

## TM home investor feeder fund

### Sub-Fund Information *(continued)*

Net Acc<sup>1</sup>

	31/12/2018 <sup>2</sup> <i>(pence per unit)</i>	30/06/2018 <i>(pence per unit)</i>	30/06/2017 <i>(pence per unit)</i>
<b>Change in Net Asset Value per Unit</b>			
Opening net asset value per unit	134.32	127.64	127.30
Return before operating charges*	2.69	9.30	3.02
Operating charges	(1.26)	(2.62)	(2.68)
Return after operating charges*	1.43	6.68	0.34
Distribution	(0.74)	(0.89)	–
Retained distributions on accumulation units	0.74	0.89	–
Closing net asset value per unit	135.75	134.32	127.64
* after direct transaction costs of <sup>3</sup> :	–	–	–
<b>Performance</b>			
Return after charges	1.06%	5.23%	0.27%
<b>Other Information</b>			
Closing net asset value (£'000)	12,758	12,397	14,267
Closing number of units	9,398,359	9,229,498	11,177,960
Operating charges <sup>4</sup>	1.85%	1.98%	2.10%
Direct transaction costs	0.00%	0.00%	0.00%
<b>Prices</b>			
Highest unit price	136.10	133.50	130.40
Lowest unit price	134.20	130.50	126.20

<sup>1</sup> D Acc unit class name is changed to Net Acc.

<sup>2</sup> Operating cost for the six months period ended 31st December 2018.

<sup>3</sup> Direct transaction costs are stated after deducting the proportion of the amounts collected from dilution adjustments or dilution levies that relate to direct transaction costs. A negative transactions costs figure might arise where there is a timing difference between inflows and the settlement of the resultant purchases.

<sup>4</sup> Operating charges, otherwise known as the OCF is the ratio of the sub-fund's total disclosable costs (excluding overdraft interest) to the average net assets of the sub-fund. The OCF is intended to provide a reliable figure which gives the most accurate measure of what it costs to invest in a sub-fund and is calculated based on the last period's figures. Included within the OCF are synthetic costs which includes the OCF of the underlying funds weighted on the basis of their investment proportion.

# TM Hearthstone UK Residential Feeder Fund

## TM home investor feeder fund

### Statement of Total Return

(unaudited) for the period ended 31st December 2018

	£'000	2018 £'000	£'000	2017 £'000
Income				
Net capital gains		64		500
Revenue	156		82	
Expenses	(70)		(9)	
Interest payable and similar charges	—		—	
Net revenue before taxation	86		73	
Taxation	(17)		(12)	
Net revenue after taxation for the year		<u>69</u>		<u>61</u>
<b>Total return before distributions</b>		<b>133</b>		<b>561</b>
Distributions		<u>(69)</u>		<u>(61)</u>
<b>Change in unitholders' funds from investment activities</b>		<b><u>64</u></b>		<b><u>500</u></b>

### Statement of Change in Unitholders' Funds

(unaudited) for the period ended 31st December 2018

	£'000	2018 £'000	£'000	2017 £'000
<b>Opening net assets*</b>		<b>12,397</b>		<b>14,267</b>
Amounts receivable on issue of units	2,179		2,078	
Amounts payable on cancellation of units	(1,951)		(2,196)	
		<b>228</b>		<b>(118)</b>
Change in unitholders' funds from investment activities		<b>64</b>		<b>500</b>
Retained distribution on accumulation units		<b>69</b>		<b>63</b>
<b>Closing net assets</b>		<b><u>12,758</u></b>		<b><u>14,712</u></b>

\* The opening net assets attributable to unitholders for 2018 differs to the closing position in 2017 by the change in unitholders' net assets for the second half of the comparative financial year.

# TM Hearthstone UK Residential Feeder Fund

## TM home investor feeder fund

### Balance Sheet

(unaudited) as at 31st December 2018

	31/12/2018 £'000	30/06/2018 £'000
<b>Assets</b>		
Fixed assets:		
Investments	12,744	12,382
Current assets:		
Debtors	238	119
Cash and cash equivalents	5	24
<b>Total assets</b>	<b>12,987</b>	<b>12,525</b>
<b>Liabilities</b>		
Creditors:		
Bank overdrafts	(22)	(14)
Other creditors	(207)	(114)
<b>Total liabilities</b>	<b>(229)</b>	<b>(128)</b>
<b>Net assets</b>	<b>12,758</b>	<b>12,397</b>
<b>Unitholders' Funds</b>	<b>12,758</b>	<b>12,397</b>

## Note to the Financial Statements

### Accounting Policies

The interim financial statements have been prepared in accordance with the United Kingdom Generally Accepted Accounting Practice (UK GAAP), as defined within the UK Financial Reporting Standard (FRS 102) and the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' (the "SORP"), issued by The Investment Management Association (now known as the Investment Association) in May 2014 and amended in June 2017.

# TM Hearthstone UK Residential Feeder Fund

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## TM home investor feeder fund

### Distribution Tables

*(unaudited) for the period ended 31st December 2018*

#### First Interim Accumulation (in pence per unit)\*

Group 1: Units purchased prior to 1st July 2018

Group 2: Units purchased from 1st July 2018 to 30th September 2018

Group	Net Accumulation	Equalisation	2018 Net Accumulation	2017 Net Accumulation
1	0.2098	–	0.2098	0.1314
2	0.2098	–	0.2098	0.1314

#### Second Interim Accumulation (in pence per unit)\*

Group 1: Units purchased prior to 1st October 2018

Group 2: Units purchased from 1st October 2018 to 31st December 2018

Group	Net Accumulation	Equalisation	2019 Net Accumulation	2018 Net Accumulation
1	0.5332	–	0.5332	0.4375
2	0.5332	–	0.5332	0.4375

\*There are no group 2 units for this period.



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