home investor fund
RESIDENTIAL PROPERTY BY HEARTHSTONE
www.homeinvestor.fund

March valuation update - TM home investor fund

April 2nd, 2020

Factsheets for the TM home investor fund will, as always, be published mid-month once the LSL Acadata House Price Index data is available.

However, given the exceptional circumstances we wanted to give a brief update on March fund valuations as well as our current actions and thinking in relation to the impact of Covid-19 on the TM home investor fund and the UK housing market more broadly.

1. Performance TM home investor fund, end March 2020

	To 31/03/2020					
	5 year	3 year	1 year	6 months	3 months	1 month
Class C	24.31%	8.42%	1.48%	0.63%	0.21%	-0.14%
Class D	23.04%	7.69%	1.29%	0.50%	0.21%	-0.14%
Feeder	21.20%	7.40%	1.10%	0.51%	0.15%	-0.22%
IA Property Other	8.69%	-0.93%	-12.85%	-19.49%	-18.71%	-16.22%
IA UK Direct Property	17.82%	8.92%	-1.50%	-1.59%	-1.19%	-1.58%

Source: Financial Express. Bid to Bid, net of charges with income reinvested.

As per our recent communication the Standing Independent Valuer of the TM home investor fund, CBRE, added a "Material Valuation Uncertainty" clause to the March valuations. This in turn led to the suspension of dealing in the fund.

Whilst there is valuation uncertainty, CBRE is still reviewing the portfolio and where enough data is available review the valuations.

During March, we had small downward adjustments on 18 properties based on recent regional and local transaction data. This resulted in a total reduction of 22 bps on the property portfolio.

The Income of the portfolio remains resilient. Occupancy of the standing stock is 98%. The recently acquired properties in Smethwick will be difficult to let over the short term and as a result the overall portfolio occupancy is 93%.

Last week, we signed these properties up on a portal looking to find urgent housing for NHS key workers in the short term.

2. Fund pricing

Some of you asked about fund pricing following the suspension. Given the ongoing Covid-19 situation, we are not intending to make acquisitions in the short term in order to preserve our cash buffer which is currently at 17.2% - just above our long-term target range of 10-15%.

As a result, the fund pricing basis has swung from Offer to Mid – *however* this has no impact on the fund price since. the spread between Offer and Mid is zero. This is because we have a demonstrable track record of bulk-purchasing properties at large discounts to open market value, effectively resulting in negative transaction cost.

3. Outlook for UK housing market

As you can see from the performance, the UK residential property market has been incredibly resilient so far this year.

The trajectory going forward now depends on the length of the Covid-19 spread and lock-down, and the lengths and depths of the impact on the economy, businesses and employment.

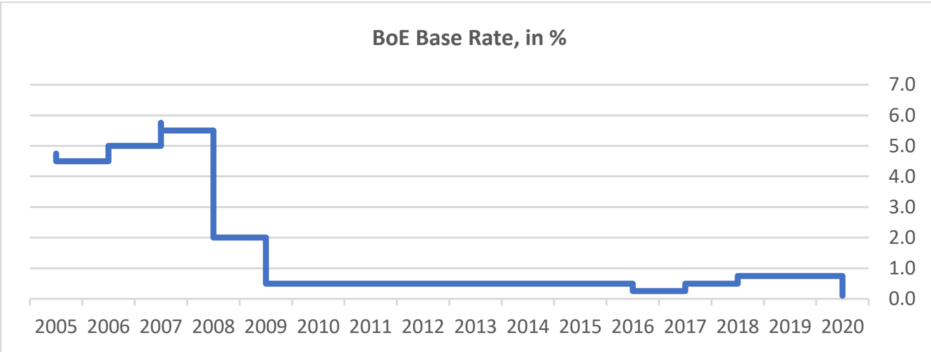
(Un)employment is one of the factors impacting both house prices and rental income. Currently, unemployment in the UK is at historic lows of 3.9% (Source: ONS) although there is quite a lag on the data. Over the coming weeks, we will monitor employment and early indicators thereof closely. The next collection of forecasts for the UK economy by the Treasury is due just after Easter and should give us a good indication of the initial assessment of Covid-19 on GDP, employment and the housing market.

While the suddenness and scale of the downturn will be unprecedented, for two reasons the recovery should be much faster than after previous recessions. Firstly, the virus will probably be a temporary shock, and this is supported by the signs that Chinese industry is now reopening and rapidly stepping up production, three months after the lockdown started. If that happens in the UK, the worst of the economic damage would be contained in the second quarter of the year.

Second, the policy response has been large and swift.

The UK has taken similar monetary action to other countries, but has gone further than most in terms of fiscal policy response to protect the economy, businesses and jobs. The UK government has put in place a support package of direct tax and spending measures amounting to more than £119bn, or 5.3% of GDP:

a) Monetary Action



Source: BoE

From already low levels, the BoE cut the base rate to 0.1% on March 19th – below the levels during the Financial Crisis in 2008/09. In addition, the BoE announced a number of measures to assist banks in their ability to lend to businesses, including an element of relaxation in terms of capital requirements.

b) Fiscal Action

The BoE together with the Treasury have announced a raft of emergency measures – the areas we pay particular attention to are measures that are supporting residential landlords (ability to let properties, ability to pay mortgages) and those supporting tenants (ability to pay rents).

The emergency measures announced so far include:

- Coronavirus Job Retention Scheme
- Deferring VAT and Self-Assessment payments

- Self-employment Income Support Scheme
- Statutory Sick Pay relief package for small and medium sized businesses (SMEs)
- 12-month business rates holiday for all retail, hospitality, leisure and nursery businesses in England
- Small business grant funding of £10,000 for all business in receipt of small business rate relief or rural rate relief
- Grant funding of £25,000 for retail, hospitality and leisure businesses with property with a rateable value between £15,000 and £51,000
- The Coronavirus Business Interruption Loan Scheme offering loans of up to £5 million for SMEs through the British Business Bank
- A new lending facility from the Bank of England to help support liquidity among larger firms, helping them bridge coronavirus disruption to their cash flows through loans
- The HMRC Time To Pay Scheme

These actions are intended to keep businesses open and retain jobs – supporting landlords and tenants alike. In addition, one specific measure to support landlords with mortgages is the ability for banks to offer mortgage holidays of up to 3 months as announced by the Chancellor of the Exchequer, Rishi Sunak, on March 17th.

Previous cycles have shown that rental demand tends to increase at times of economic uncertainty, and we expect that to be the case this time. Furthermore, the shutdown of construction sites will slow the delivery of much needed new housing, exacerbating the supply shortage when more normal conditions return.

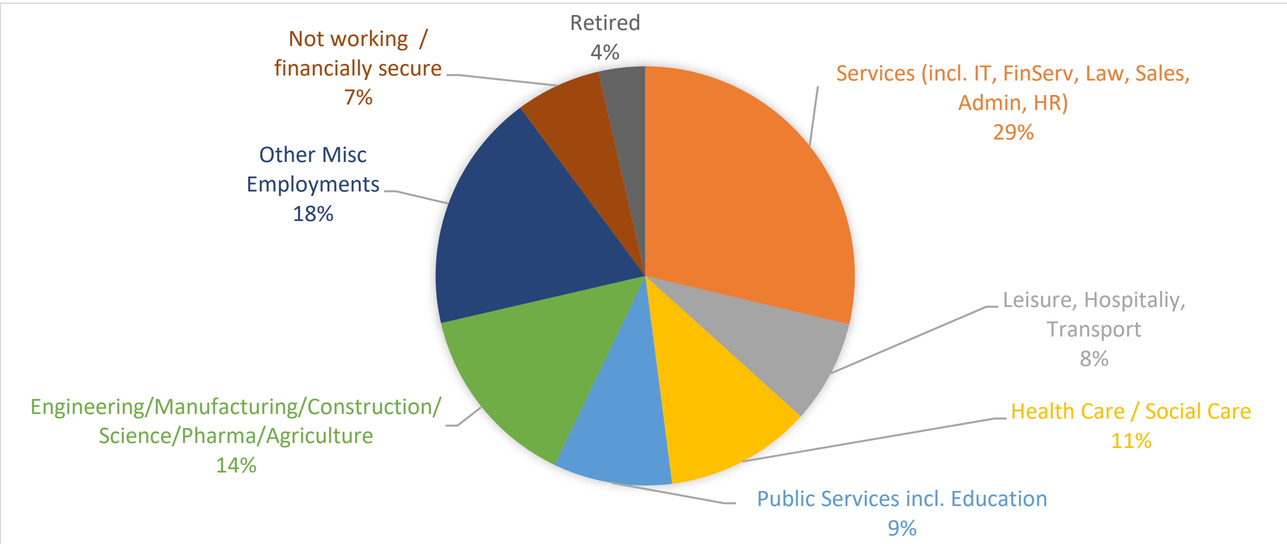
4. Managing current property portfolio and tenants

Hearthstone has weekly calls with Touchstone, our outsourced asset and tenant management provider.

As a responsible and considerate landlord, we aim to support tenants with financial difficulties or practical issues caused directly by COVID-19. As an example, a tenant who is an NHS key worker recently asked us to rescind their notice to vacate a property, which we agreed to, and immediately removed this property from the lettings market. This is important to ensure that, insofar as possible, rental incomes continue to be received and form part of the Funds' value.

Our risk management results in a diversified portfolio construction. The 207 properties in the portfolio are spread across some 60 sites, and we have a broad range of tenants:

TM home investor fund, tenant profile (March 2020)



Source: Touchstone

This level of diversification should enable us to mitigate exposure to specific sectors, regions and employers that might particularly impacted by Covid-19. Please note that, apart from small number of tenants in our Manchester flats, we have no student tenants.

5. Duration of fund suspension

We can't say how long the suspension will last. For CBRE to undertake accurate valuations they need a) sufficient transaction data for online valuations and b) ability to undertake physical inspections. In the short term, transactions are expected to drop sharply given the current lock-down measures in place and government guidance from March 26th to delay house moves.

Hearthstone has weekly calls with CBRE, and we will closely monitor the situation over the coming weeks, and we intend to update you on a regular basis.

For your information, below is a summary of CBRE's most up-to-date assessment of the UK residential property market:

Residential Market Briefing

- Following strong activity at start of 2020, we expect a period of inactivity during the period of isolation and travel restrictions.
- Likely to lead to softening of prices.
- Pent up demand in post crisis period likely to cause a spike in activity.
- Post-crisis new homes market in London is likely to outperform. Flight to safety and overseas investors encouraged by a combination of softer pricing, fall in £ and desire to beat 2% stamp duty increase.
- New letting enquiries and tenant mobility reduced hence potential for lower level of churn and lack of rental growth.
- Any impact on void rates is uncertain currently, albeit assets with high % of foreign nationals including students are at greatest risk.
- Potential reduction in supply due to breakdown of supply chain and reduced workforce.
- Potential risk for some highly indebted house builders who may be vulnerable to M&A

"At this stage it is too early to project the likely lasting impacts of the COVID-19 crisis. However, the residential sector is resilient with fundamental and compelling demand and supply dynamics. As a result, any dip in activity is likely to be followed by a relatively swift bounce back from buyers and investors."

Source: CBRE

Stuart Springham, MRICS

Deputy Fund Manager,

TM home investor fund

Important information

Past performance is not necessarily a guide to future performance and future returns are not guaranteed. Investors may get back less than the amount invested.

Residential property values are affected by factors such as interest rates, economic growth, fluctuations in property yields and tenant default.

Property investments are relatively illiquid compared to bonds and equities, and can take a significant amount of time to trade.

Hearthstone Investments PLC is the parent company of the Hearthstone Investments Group. Regulated business is carried out by Hearthstone Asset Management Limited. Hearthstone Asset Management Limited is an appointed representative of Thesis Asset Management Limited which is authorised and regulated by the Financial Conduct Authority (114354). Hearthstone Investments PLC (06379066) and Hearthstone Asset Management Limited (07458920) are both registered in England and Wales. The registered office for both companies is c/o Waterstone Company Secretaries Ltd Third Floor, 5 St. Bride Street, London, United Kingdom, EC4A 4AS.

Thesis Unit Trust Management Limited is the Authorised Corporate Director. Authorised and regulated by the Financial Conduct Authority (186882).