

TM Hearthstone UK Residential Feeder Fund

Interim Report & Accounts
(unaudited) for the period ended 31st December 2020



THEISIS UNIT TRUST MANAGEMENT LIMITED

Authorised and regulated by the Financial Conduct Authority

TM Hearthstone UK Residential Feeder Fund

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* These collectively comprise the Manager's Report.

TM Hearthstone UK Residential Feeder Fund

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

*Authorised and regulated by
the Financial Conduct Authority*

Investment Manager:

Thesis Asset Management Limited
Exchange Building
St John's Street
Chichester
West Sussex PO19 1UP

*Authorised and regulated by
the Financial Conduct Authority*

Dealing & Registration:

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

*Authorised and regulated by
the Financial Conduct Authority*

Trustee:

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

*Authorised and regulated by
the Financial Conduct Authority*

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 Services Director
D. K. Mytnik - Non-Executive Director
V. R. Smith - Non-Executive Director
W. D. Prew - Independent Non-Executive Director
C. J. Willson - Independent Non-Executive Director
N. C. Palios - Non-Executive Chair

D.W. Tyerman and S.R. Mugford also hold directorships of other companies within the Thesis group and perform senior management roles within these companies, particularly Thesis Asset Management Limited, which acts as an investment manager for some authorised funds operated by the Manager.

D.K. Mytnik, V.R. Smith and N.C. Palios also hold non-executive directorships of other companies within the Thesis group. They are not engaged in other business activities that are of significance to the Trust. W. D. Prew is a Director of Indos Financial Limited, the primary business of which is the provision of Alternative Investment Fund Managers Directive independent depositary services to Alternative Investment Funds. Indos Financial Limited is not appointed as depositary on any alternative investment funds managed by the Manager.

TM Hearthstone UK Residential Feeder Fund

Report of the Manager

(unaudited) for the period ended 31st December 2020

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 2020.

The Trust is an umbrella unit trust with only one sub-fund namely, TM home investor feeder fund.

Investment Objective and Policy

The investment objective of the sub-fund 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.

The sub-fund will invest solely in the TM home investor fund.

Investment of the assets of the sub-fund must comply with the COLL Sourcebook.

Derivative instruments may be used in the TM home investor fund for the purposes of Efficient Portfolio Management (“EPM”). The use of derivatives for EPM should not lead to an increase in the risk profile of the TM home investor fund.

Performance Comparator

The sub-fund uses the e.surv House Price Index (previously known as LSL Acadata) for performance comparison purposes only. The benchmark is not a target benchmark and the Trust is not constrained by it.

This Index has been chosen as a comparator benchmark as it is based upon actual sales completed and is mix-adjusted. There is a detailed comparison of the various indices on the e.surv House Price Index (previously known as LSL Acadata) website but, put simply, it is the result of taking the average of the price at which every residential transaction in England & Wales took place, smoothed over rolling 3 month periods, mix-adjusted to eliminate the effect of monthly changes in the types of properties sold, and seasonally adjusted to account for times in the year when house buying activity traditionally experiences peaks or troughs.

Thesis Unit Trust Management Limited
Manager
26th February 2021

TM Hearthstone UK Residential Feeder Fund

Report of the Investment Manager

(unaudited) for the year ended 31st December 2020

Performance Table

Date		TM home investor feeder
30th November 2020 - 31st December 2020	1 month	0.07%
30th September 2020 - 31st December 2020	3 months	0.73%
30th June 2020 - 31st December 2020	6 months	1.09%
31st December 2019 - 31st December 2020	1 year	0.87%
31st December 2017 - 31st December 2020	3 years	4.44%
Launch To Date		38.25%

Source: Financial Express Analytics

Investment Report

Residential Market

The year kicked off positively, buoyed by the confidence instilled by the election of a majority government, and house prices increased by 1% during January and February 2020. The market was then stopped in its tracks by the COVID-19 pandemic in March 2020. The nationwide lockdown effectively closed the housing market, resulting in the Royal Institution of Chartered Surveyors (RICS) inserting a Material Uncertainty clause into all residential and commercial property valuations, subsequently causing the Fund to suspend dealing. As lockdown restrictions began to ease and activity returned to the housing market, this clause was removed on 20th July and the fund was re-opened for dealing. However, during this time, according to e.surv, the housing market had fallen 2.4%.

Once open again, the housing market kicked on with aplomb, initially due to the pent-up demand and lack of supply from the 3-month lockdown, and increased by 3% over July and August 2020 thereby nullifying the previous losses. This pent-up demand was further exacerbated by the announcement on 8th July 2020 that no Stamp Duty Land Tax (SDLT) would be payable in England for purchases of residential properties below £500,000 until March 2021. The other devolved governments of the UK introduced similar 'Stamp Duty Holidays'. We have also seen a surge of people reassessing their living situation in recent months due to the COVID-19 pandemic, looking to purchase larger properties with outside space further away from city centres highlighting the current lack of commuting and working from home that will inevitably continue in the future. These buyers have tended to be cash rich, job secure and at the upper end of the market. This has resulted in the e.surv England and Wales House Price Index increasing by 9.19% from July 2020 to December 2020, but mainly driven by the upper end of the market in the £500,000 plus price bracket.

You will note below that the Fund's valuation growth has not mirrored this market uplift and that is mainly due to the fact that the average value of its properties is c.£250,000 – materially below the segment of the market that is driving headline UK house price growth. Having said that, the Fund did benefit from upward valuations each month July 2020 to November 2020 totalling 1%. Furthermore, it should be noted that the fund valuer cannot adjust valuation on properties in the Fund until comparable properties to those held by the Fund have exchanged; the surge in housing activity over the past 6 months led to significant delays in the home purchasing process.

Rental demand continued to grow, and with some Buy to Let landlords exiting the market, demand for good quality modern homes, such as those owned by the Fund, continued. Rents across the Fund's property portfolio has grown by 1.9% year to date, despite our suspension of rent reviews due to COVID-19, and the market as a whole has continued averaging 1.4% year to date according to the Office for National Statistics (ONS).

Hearthstone Asset Management Limited
Property Investment Adviser of TM home investor fund
26th January 2021

TM Hearthstone UK Residential Feeder Fund

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 annual 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.

The base currency of the Trust is Pounds Sterling.

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

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 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 2020, is analysed below:

	£
Fixed Remuneration	856,753
Variable Remuneration	86,788
Total	943,541
Headcount (FTE)	16

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 & Accounts by Directors

In accordance with the requirements of the Collective Investment Schemes sourcebook (“COLL sourcebook”) and the Investment Funds sourcebook (“FUND”), we hereby certify this Interim Report & Accounts on behalf of the Manager, Thesis Unit Trust Management Limited.

D.W. TYERMAN Director

S. E. NOONE Director

26th February 2021

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Portfolio Statement

(unaudited) as at 31st December 2020

Holding	Market value £	Percentage of total net assets %
10,465,378		
Property Authorised Investment Funds 100.20% (100.16%)		
TM home investor H Gross Accumulation*	15,331,778	100.62
Net investments 100.62% (100.90%)	15,331,778	100.62
Net other liabilities	(94,494)	(0.62)
Total net assets	15,237,284	100.00

Note: Comparative figures shown in brackets relate to 30th June 2020.

* The Fund's Property Investment Manager is Hearthstone Asset Management Limited and the Investment Manager is Thesis Asset Management Limited.

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Sub-fund Information

The Comparative Table on page 10 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 period-end 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)*

D Accumulation

Accounting Period to -	01/07/2020 - 31/12/2020 <i>(pence per unit)</i>	01/07/2019 - 30/06/2020 <i>(pence per unit)</i>	01/07/2018 - 30/06/2019 <i>(pence per unit)</i>
Change in Net Asset Value per Unit			
Opening net asset value per unit	137.15	136.76	134.32
Return before operating charges*	2.79	2.86	4.80
Operating charges	(1.20)	(2.47)	(2.36)
Return after operating charges*	1.59	0.39	2.44
Distribution	(0.41)	(0.73)	(1.30)
Retained distributions on accumulation units	0.41	0.73	1.30
Closing net asset value per unit	138.74	137.15	136.76
* after direct transaction costs of ² :	-	-	-
Performance			
Return after charges	1.16%	0.29%	1.82%
Other Information			
Closing net asset value (£'000)	15,237	15,992	13,314
Closing number of units	10,982,759	11,659,993	9,735,074
Operating charges ³	1.73%	1.79%	1.74%
Direct transaction costs	0.00%	0.00%	0.00%
Prices			
Highest unit price	138.90	138.10	136.80
Lowest unit price	137.30	136.70	134.20

¹ Operating costs for the six months period ended 31st December 2020.

² 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.

³ 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 include 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 2020

	£'000	2020 £'000	£'000	2019 £'000
Income				
Net capital gains		132		28
Revenue	118		152	
Expenses	(59)		(81)	
Interest payable and similar charges	(1)		–	
Net revenue before taxation	58		71	
Taxation	(13)		(11)	
Net revenue after taxation for the year		<u>45</u>		<u>60</u>
Total return before distributions		177		88
Distributions		(45)		(60)
Change in unitholders' funds from investment activities		<u><u>132</u></u>		<u><u>28</u></u>

Statement of Change in Unitholders' Funds

(unaudited) for the period ended 31st December 2020

	£'000	2020 £'000	£'000	2019 £'000
Opening net assets*		15,992		13,314
Amounts receivable on issue of units	1,429		5,092	
Amounts payable on cancellation of units	(2,361)		(2,576)	
		(932)		2,516
Change in unitholders' fund from investment activities		132		28
Retained distribution on accumulation units		45		60
Closing net assets		<u><u>15,237</u></u>		<u><u>15,918</u></u>

* The opening net assets attributable to unitholders for 2020 differs to the closing position in 2019 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 2020

	31/12/2020 £'000	30/06/2020 £'000
Assets		
Fixed assets:		
Investments	15,332	16,128
Current assets:		
Debtors	128	134
Cash and bank balances	19	–
Total assets	15,479	16,262
Liabilities		
Creditors:		
Bank overdrafts	(64)	(139)
Other creditors	(178)	(131)
Total liabilities	(242)	(270)
Net assets	15,237	15,992
Unitholders' Funds	15,237	15,992

Note to the Financial Statements

Accounting Policies

The interim financial statements have been prepared on the same basis as the audited financial statements for the year ended 31st May 2020. They are 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

TM home investor feeder fund

Distribution Tables

(unaudited) for the period ended 31st December 2020

First Interim Accumulation (in pence per unit)*

Group 1: Units purchased prior to 1st July 2020

Group 2: Units purchased from 1st July 2020 to 30th September 2020

Group	Net Accumulation	Equalisation	2020 Net Accumulation	2019 Net Accumulation
1	0.1617	–	0.1617	0.2794
2	0.1617	–	0.1617	0.2794

Second Interim Accumulation (in pence per unit)*

Group 1: Units purchased prior to 1st October 2020

Group 2: Units purchased from 1st October 2020 to 31st December 2020

Group	Net Accumulation	Equalisation	2020 Net Accumulation	2019 Net Accumulation
1	0.2482	–	0.2482	0.2496
2	0.2482	–	0.2482	0.2496

* There are no group 2 units for this period.



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