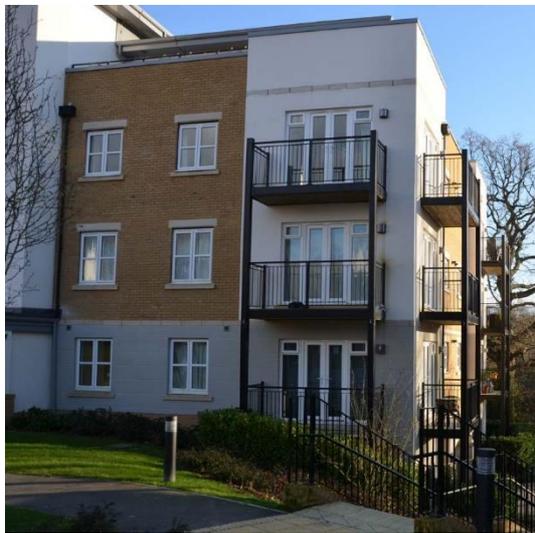




# home investor fund

RESIDENTIAL PROPERTY BY HEARTHSTONE

[www.homeinvestor.fund](http://www.homeinvestor.fund)



**Residential property investment  
for everyone.**

# Important information

This financial promotion has been approved under Section 21 of the Financial Services and Markets Act 2000 by Thesis Asset Management Limited.

This guide describes the TM home investor fund, with the objective of allowing clients of financial intermediaries to gain an overview of the features and potential benefits of the TM home investor fund. This document is not in itself a prospectus, invitation or recommendation to invest, nor is it financial advice.

Please speak to the Financial Adviser who sent you this guide for further information on the Fund, and to discuss whether it is suitable for your particular financial needs and circumstances.

Where estimated or projected figures are used in this document these are clearly stated. Hearthstone or Thesis Unit Trust Management Limited cannot be held responsible for investment decisions made on the basis of those estimates.

Investors may get back less than the amount invested. Information on past performance is not necessarily a guide to future performance. The value of investments in the Fund can go down, and there can be no assurance that any appreciation in the value of investments will occur.

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.

The Authorised Corporate Director of the TM home investor fund, a sub fund of the TM Hearthstone ICVC, is Thesis Unit Trust Management Limited, Exchange Building, St John's Street, Chichester, West Sussex, PO19 1UP which is authorised and regulated by the Financial Conduct Authority.

Summary of other funds are shown in order to provide more background to Hearthstone Investments PLC activities.

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# Introduction

The TM home investor fund (the Fund) is the UK's first Financial Conduct Authority regulated residential Property Authorised Investment Fund (PAIF) available for private client and retail investors.

Hearthstone believes the long-term economic drivers impacting UK residential property investing are compelling. On one hand, there is a structural undersupply of good quality homes. On the other hand, the proportion of the population renting privately has already increased from 10 to 20% over the past decade and is expected to grow further in line with other developed markets such as Germany, the Netherlands, and the US.

Major pension funds from the UK and worldwide are committing £billions to the UK residential sector, and this trend has gained further momentum over the past year – driven by the resilience the sector demonstrated during the Covid-19 pandemic. Hearthstone's belief is that residential property fund investing will become established beyond the institutional sector and develop into a mainstream asset class for retail investors.

Established in 2012, the TM home investor fund invests in new and modern houses and flats across mainland UK.

Share of investment volumes by sector, 2010-October 2020

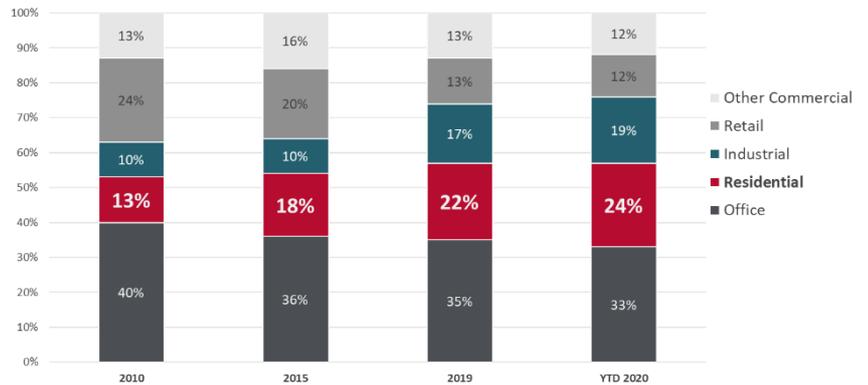


Fig 1. Global investment volumes (source: JLL, October 2020)



Crocketts Lane, Smethwick, B66. Acquired 2020



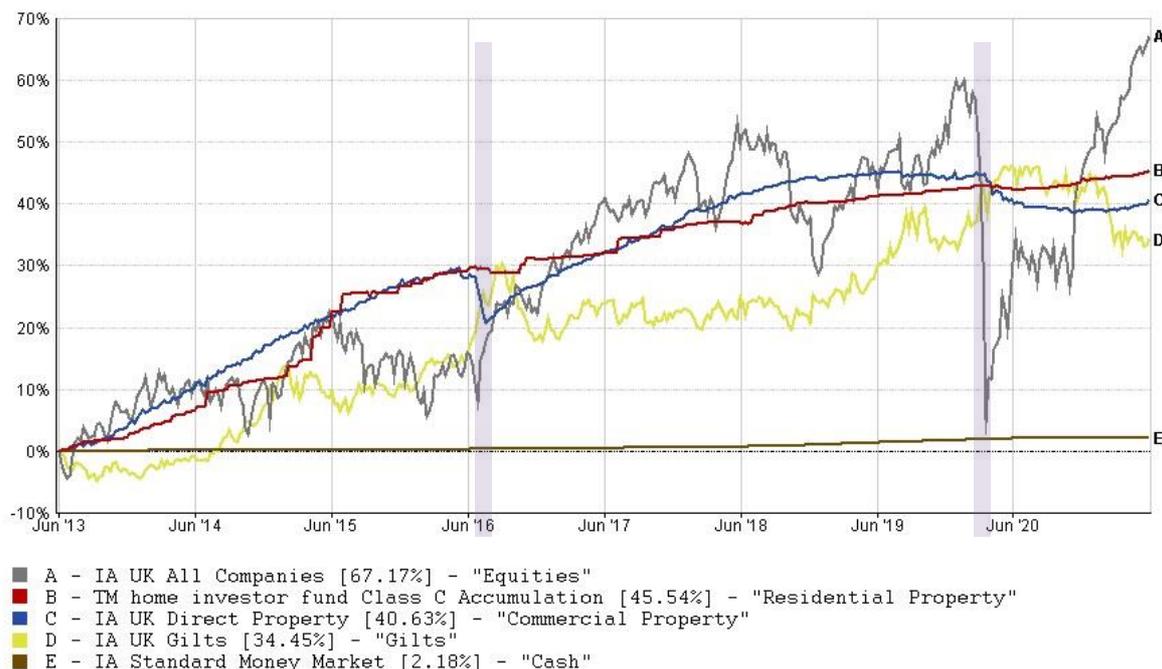
It aims to generate returns from house price growth and rental income. Typically, 85% to 90% of the Fund is invested in housing and 10% to 15% is held in cash and cash liquidity funds. Most of the houses and flats are let at market rents, which are reviewed annually or on change of tenant, but there may also be a small number of Show Homes on new developments leased back to the developer.

Returns from market let residential property have a low correlation with the other principal asset classes including commercial property. Investment returns have very low levels of volatility because all properties are bought outright without any mortgage debt or borrowing.

As this is a mainstream 'retail' fund, it can be held in tax-efficient 'wrappers' such as pension/SIPP and ISA as well as in General Investment Accounts.

# Diversification of your investment portfolio

Over the past eight years, the TM home investor fund has delivered positive absolute returns with relatively low volatility compared to other asset classes:



31/05/2013 - 31/05/2021 Data from FE fundinfo2021

The above chart shows that whilst Equities have delivered the highest total returns over the period, that has not been without significant levels of volatility – particularly during times of economic shocks such as the result of the EU Referendum in June 2016, and the onset of the Covid-19 crisis in February 2020 which are both indicated by the shaded bars in the chart.

Gilts, despite often being considered as low-risk, have also been quite volatile. Although Gilt prices may be generally assumed to move in the opposite direction to Equities, it's clear from the chart this is not always the case and that simply constructing an investment portfolio with Equities and Gilts shouldn't be relied upon to reduce volatility.

Commercial property – such as offices, industrial, leisure and retail buildings – is frequently used in investment portfolios to provide greater diversification. However, whilst typically less volatile than Equities and Gilts, it is not immune to economic shocks.

Cash, whilst important to hold for short-term needs and emergencies, has generated very little return.

Residential property has proved to be very resilient through both 'Brexit' and the Covid pandemic, with stable capital values and high levels of rent collection. These performance characteristics mean that it can add valuable diversification to investment portfolios alongside other asset classes.

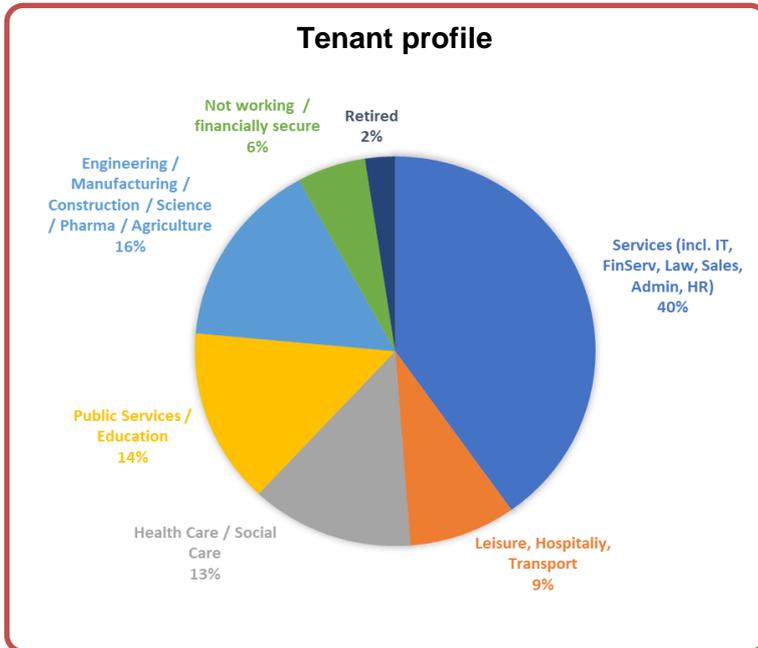
	Total return (%) over 1 year to the end of March:							
	2021	2020	2019	2018	2017	2016	2015	2014
IA UK All Companies	37.99	-19.17	2.86	2.65	17.95	-2.41	5.77	14.24
TM home investor fund Class C Accumulation	1.18	1.48	2.67	4.06	2.15	12.24	8.82	6.77
IA UK Direct Property	-2.13	-1.5	3.3	7.04	1.33	6.76	11.26	9.68
IA UK Gilts	-5.92	10.75	3.49	0.55	7.35	2.28	14.97	-3.52
IA Standard Money Market	0.31	0.63	0.61	0.13	0.25	0.08	0.06	0.12

All performance is shown bid to bid with income reinvested over the periods stated, and is net of all charges (0% initial charge; 1.54% ongoing annual charges "OCF", which includes the 0.9% Annual Management Charge). 'IA' denotes an Investment Association sector. Sources: Hearthstone and Financial Express

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

# Rental income

With over 200 private-rental homes in its portfolio, TM home investor fund collects rental income each month from a very broad tenant base.



Our investment process leads us to invest in properties located in areas which have diverse public and private sector employment. Consequently, the Fund's tenants represent a wide range of occupations and professions.

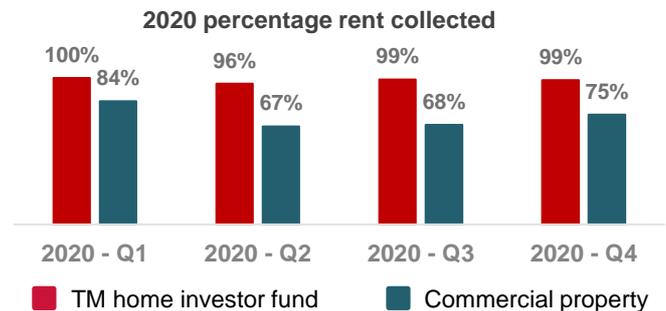
One of the greatest drains on rental income for a property investor is experienced when a property is vacant, or 'void', between one tenant moving out and a new one moving in. Currently, the average stay for one of the Fund's tenants is 30 months, and we do have some tenants who have 'lived with us' for almost 9 years – significantly longer than the 6 or 12-month period of a typical Assured Shorthold Tenancy – which is a result of our philosophy to:

- Offer longer-term tenancies up to 3 years
- Provide modern, energy-efficient homes for private-rental, and ensure they are maintained to a high standard
- Use market-leading technology to enable tenants to raise maintenance issues efficiently and get them resolved quickly
- Conduct fair rent reviews

The Fund also invests in a mix of property types, holding both flats which appeal to individual tenants; as well as terraced, semi-detached, and detached houses which appeal to families.

## Rent collection rates

The Fund collected 100% of rent invoiced each year from 2016 to 2019 and, despite the Covid pandemic, collected 98% of rent invoiced during 2020. This was in stark contrast to the commercial property sector as can be seen from the chart opposite. Commercial rents fall due four times per year, and the figures in the chart are the percentage of rent actually collected 60 days after the respective quarterly rent due date (source: Re-Leased).



## Stability of income

Residential property is a growing asset class for institutional investors such as corporate and Local Government pension schemes, and the nature of rental income is one of the major reasons for that. The Investment Property Forum conducts an annual survey of 48 institutional investors who own or manage investments worth in excess of £13.9 trillion, approximately £255 billion of which comprises UK commercial and residential property. In its 'UK Residential Property: Institutional Attitudes and Investment Survey 2020', they stated:

*"Stability of income was seen as a key driver for investing in residential, the first time that this factor has been ranked as the leading motivation, with 13 investors categorising it as their primary reason and three-quarters of all respondents identifying it as one of their top three criteria."*

## Income or Accumulation shares?

The TM home investor fund offers a range of share classes, some of which distribute income to an investor (known as Income Shares), and others which reinvest the income back into the Fund (known as Accumulation Shares). Some investors prefer the simplicity of receiving the regular income distributed by the Fund, but others prefer to make use of annual Capital Gains Tax allowances by encashing a percentage of their Accumulation shares. We recommend that you speak to your Financial Adviser to determine what the best course of action is for your personal financial circumstances.

Income distribution dates for all share classes are 28<sup>th</sup> February, 31<sup>st</sup> May, 31<sup>st</sup> October and 30<sup>th</sup> November. Basic rate income tax will be deducted for 'net' share classes. The amount of income distributed will depend on rents collected by the fund, less property management and maintenance costs and fund management expenses. Income shares deduct most of the fund management charges from capital and, whilst this may increase the level of income distributed, capital may be eroded if growth is less than charges taken.

# Ethical

## Environmental, Social, and Governance (ESG)

The Private Rented Sector (PRS) currently makes up approximately 19% of the 28 million households in England, Scotland and Wales – almost double the share of the market it had in the early 2000's. Much of the increase in PRS households has been as a result of demand from those who earn too much to qualify for social housing but cannot afford to purchase their own home or one which adequately meets their housing needs.

Central to Hearthstone's ESG impact strategy is that, as a professional landlord, we can raise the standard of PRS homes through deployment of Fund investors' capital into modern, energy efficient, and well-maintained housing, and to manage those homes to a high standard.

### Environmental impact

The average home in the UK has an Energy Performance Certificate rating (EPC) of 'D', and emits 6 tonnes of CO<sub>2</sub> per annum. The Fund's property portfolio is significantly more energy efficient – with 98% of its homes above the average EPC rating, and 96% with an above average Environmental Impact Rating. A typical 'B' rated property emits just 1.4 tonnes of CO<sub>2</sub> per annum.

Since higher energy efficiency also means lower fuel bills, tenants are naturally attracted to our properties when looking for somewhere to call home.

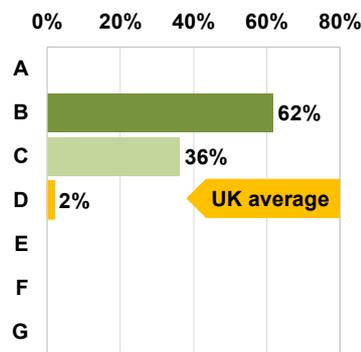


Fig 1. EPC Ratings

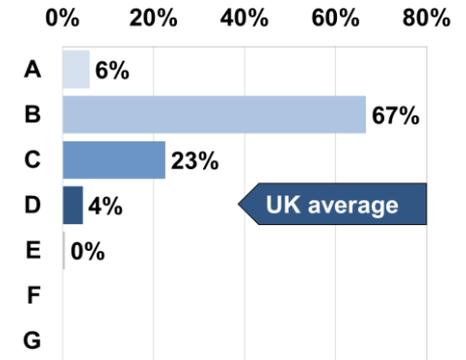


Fig 2. Environmental Impact Ratings

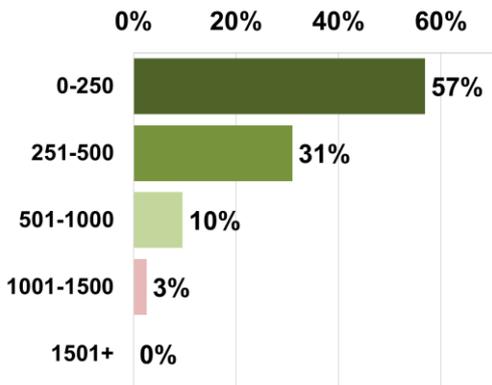


Fig 3. Distance to public transport (metres)

One of the key selection criteria for Hearthstone when acquiring properties for the TM home investor fund is the proximity to public transport. Currently, 87% of properties are within 500 metres of a bus stop, train station, or tram stop.

Such convenient access means our tenants are encouraged to use public transport which helps them to reduce their own carbon footprint. Wherever possible, we also aim to provide covered, secure storage for bicycles.

### Social impact

The latest English Housing Survey found that 25% of Private Rented Sector housing fails to meet the Decent Homes standard, and that 13.2% of PRS homes exposed tenants to a category 1 hazard deemed to pose a serious and immediate risk to health. All of the Fund's properties exceed the required standard and our Property Manager is targeted to ensure 100% compliance with gas and electrical safety certificates.

Shelter, the housing and homelessness charity, published research in March 2020 which found that "over a third of tenants (35%) worry about losing the home they live in, rising to almost half (44%) for those renting with children. For families renting with children, almost a third (27%) said fear of eviction has harmed their health". We believe it is in our interest to provide longer tenancies. Although the legal minimum Assured Shorthold Tenancy is 6 months, we offer a minimum tenancy of one year and the average tenant stay is around 30 months. Far from making tenants fearful of raising maintenance issues, they are encouraged to report problems using the 'FixFlo' maintenance app to ensure a fast and efficient resolution.

There has been increased focus over recent years on the benefits that access to greenspace can have on our physical and mental wellbeing. This has become even more apparent during the 'lockdowns' imposed to manage the Covid-19 pandemic. 92% of the Fund's homes are within 500 metres of public green space, and all are within 1,000 metres. Furthermore, 95% of them have access to a private or communal garden.

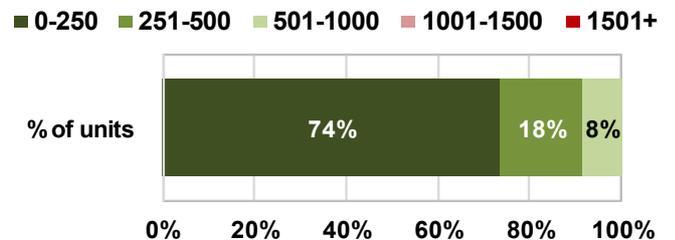


Fig 4. Access to greenspace (metres)

### Governance

Governance is an essential element of managing the risks associated with sustainability and for ensuring positive outcomes for the environment, society and ultimately our investments. More information is available on request, but our processes have been assessed by the research company 3D Investing, part of the Square Mile group, and has been awarded 'Certified Fund' status by them.

3D's analysis and audit of funds determines how strictly they the governing philosophy of 'doing good', 'avoiding harm' and 'leading change'. In addition, all fund holdings are scrutinised using objective data and critical analysis.



# An alternative to 'Buy to Let'

The idea of owning investment property is something many aspire to, and the UK now has many thousands of private 'Buy to Let' landlords doing exactly that. As mentioned earlier in this guide, around 1 in 5 homes in the UK are Private Rented Sector properties. Whilst some of these landlords have large portfolios of many properties, most landlords typically own just one or two homes.

Without investing significant amounts of capital or taking on high levels of mortgage debt, it is difficult to build a truly diverse portfolio of properties. Owning just one or two properties exposes a landlord to high risks and, should one tenant vacate or fall into arrears, the rental income stream stops. With over 200 homes in its portfolio, the TM home investor fund reduces those risks as it has a diverse tenant base. Its properties are distributed across 60 sites within mainland UK, and in areas which are not overly reliant on a single employer.

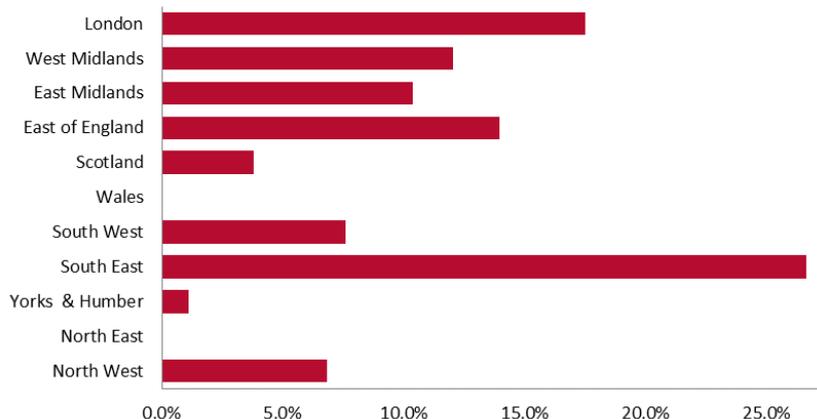


Fig 1. Regional spread of property portfolio by value

Over recent years, changes in UK tax legislation have had significant impact on private landlords, and many have seen their incomes diminish and the costs of buying new properties rise as a result. The greatest impact has been on those who have high loan-to-value mortgages on the properties they own, and this has caused many of them to rethink their strategy – some have decided to sell up, whilst others have decided to set up a Limited Company structure in which to run their rental business.

TM home investor fund provides a hassle-free way of investing in private-rented residential property, without the administrative burden of running your own company or taking on high levels of mortgage debt. The minimum investment is usually £1,000, but most Financial Advisers use investment platforms where this minimum is waived.

As the Fund can be held in ISAs and pensions, it can offer greater tax-efficiency than Buy to Let. Furthermore, investors are able to sell part of their holdings in the Fund which can help to manage Capital Gains Tax.

The Fund owns all of its properties outright and does not take on any mortgage debt. This does mean it has a different returns profile when compared with those from more traditional Buy to Let investing but, as we take care of property selection, management, maintenance, and finding tenants, we think it provides a lower-risk and much more enjoyable way to invest in residential property.

We also have an established track record of being able to negotiate discounts with house builders when acquiring multiple properties from them in bulk-purchase deals, and this can mitigate costs such as Stamp Duty Land Tax. In the example below, we acquired 18 three- and four-bedroomed houses on The Limes development in Nottingham in 2017/18 at a discount of 12% to open market value.



The Limes, Nottingham



# Help onto the property ladder

Becoming a home-owner is one of the greatest financial challenges people face today in the UK. The minimum deposit necessary for a first-time buyer to put down on a flat or house is generally assumed to be 5%, although they will usually be able to secure a better mortgage deal if they had a deposit of 10%, 15%, or 20%.

If we assume the average price of a first-time buyer home in the UK is £200,000, that will require a deposit of at least £10,000. Of course, there will also be legal fees and many other costs which need to be covered, and more money needed for furnishings.

Many people do try to save regularly – typically into cash based bank or building society accounts – but when house prices rise faster than it's possible to save, and those savings generate barely any additional return because of low interest rates, it can feel like chasing an ever moving target.

The 'bank of mum and dad' is a well-coined phrase which has come about as a result of parents and grandparents helping children onto the property ladder by giving them money towards a deposit. Very often, this is done with little forward planning and may give rise to potential Inheritance tax issues, or inefficient tax-planning.

## In the market

Cash-based savings and investments have historically failed to keep pace with rising house prices. A residential property fund has the advantage of being invested in physical 'bricks and mortar', so could be thought of as being 'in the market'. Whilst the TM investor fund is not a house price tracker, it does own a diverse portfolio of properties – the type and average value of which are typical of those a first-time buyer might purchase. This means it is more likely to provide returns which are in line with changing house prices, and could offer an advantage over cash-based investments when the ultimate goal is a deposit for house purchase.

## Little and often

Forward planning can help to avoid the financial stress of trying to raise large sums of capital to help with an deposit at short notice, so many investors chose instead to put a relatively small amount into the fund on a regular basis from when their children or grandchildren are young.

Saving regularly for perhaps 10, 15 or even 20 years does make the task more affordable but, over such timescales, the Fund's exposure to the housing market brings real advantages over cash-based bank or building society accounts.



Elizabethan Way, Teignmouth



Carter Drive, Horsham

# About Hearthstone

Hearthstone Investments Limited is a private company with a wide variety of shareholders, some corporate and many individuals. It is the parent company of the Hearthstone Group was founded in 2009 as the UK's first specialist residential property fund manager with the aim of making residential property investment accessible to everyone.

The group's companies currently manages four UK residential property funds with consolidated assets of over £380 million, including the TM home investor fund managed by Hearthstone Asset Management Limited. Investors in all of these funds include institutional investors such as Local Government Pension Schemes and Property 'Fund of Funds', as well as private clients and retail investors advised by Wealth Managers and Financial Advisers.

## Hearthstone Asset Management Limited – Board and Investment Committee



Andrew Smith is the Chief Investment Officer at Hearthstone Investments. His 30 year property investment career has included international fund management and strategy roles at Aberdeen Asset Management, where he ultimately served as Global Head of Property, and previously at Henderson Global Investors.

He is a past Chairman of the Investment Property Forum, and has served on a variety of industry steering groups for organizations such as INREV, the Royal Institution of Chartered Surveyors and the Bank of England Property Forum.

Stuart Springham is Fund Manager for the TM home investor fund. He was previously Associate Director within the Residential Advisory Department at Jones Lang LaSalle (JLL), a leading global real estate adviser.

Stuart is experienced in advising on residential investments ranging from small blocks to large scale institutional Private Rented Sector and Build to Rent for acquisition, disposal, and equity/loan security purposes, and is a member of the Investment Property Forum (IPF).



Cedric Bucher is the Chief Executive Officer of Hearthstone Investments plc. He was with Architas from 2011-2017, and previously held senior strategic and commercial positions with Barclays Wealth, SEI and Cardano. Cedric has a proven track record in the UK investment management industry, with responsibilities including Strategy, Business Development, P&L, Sales, Marketing and Product Development.

Born and educated in Switzerland, Cedric spent the first part of his career with McKinsey&Co. in Zurich and London. He holds a Masters in Finance from London Business School and is a CFA Charterholder.

Alan Collett is a previous Fund Manager of the TM home investor fund, and now a Non-Executive Director of Hearthstone Asset Management Limited and member of the Investment Committee. As a Past President of the Royal Institution of Chartered Surveyors, he brings a lifetime of residential investment experience to Hearthstone.

A Chartered Surveyor and former Senior Partner of Allsop & Co, he has worked in all aspects of the acquisition, development, management and sale of residential property. He is a member of the NHBC Council, and Chairman of the Hyde Housing Group which owns and manages 50,000 properties.



Darren Stent is Head of Business Development for Hearthstone Investments Limited. He joined Hearthstone at the start of 2012 in preparation for the launch of the TM home investor fund.

During his career he has worked for some of the UK's largest Investment Management and Life and Pensions providers in investor and intermediary facing roles, and has gained a high degree of knowledge and experience in financial services distribution, fund regulation and portfolio construction.

# Further information

Hearthstone is not authorised to provide financial advice.

Please contact your Financial Adviser for more information on the TM home investor fund, and to discuss its suitability for your own financial needs and circumstances.

