

TM Hearthstone UK Residential Feeder Fund

Annual Report & Accounts
for the year ended 30th June 2021



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*

Administrator, Registrar and Fund Accountant:

Northern Trust Global Services SE, UK Branch
50 Bank Street
Canary Wharf
London E14 5NT

*Authorised and regulated by
the Financial Conduct Authority*

Dealing Office:

Thesis Unit Trust Management Limited
Sunderland SR43 4AZ
Tel: 0333 300 0375
Fax: 020 7982 3924

*Authorised and regulated by
the Financial Conduct Authority*

Trustee:

NatWest Trustee and Depositary Services Limited
House A, Floor 0
Gogarburn
175 Glasgow Road
Edinburgh EH12 1HQ

*Authorised and regulated by
the Financial Conduct Authority*

Auditor:

Grant Thornton UK LLP
30 Finsbury Square
London EC2A 1AG

Directors of the Manager:

S. R. Mugford - Finance Director
D. W. Tyerman - Chief Executive Officer
S. E. Noone - Client Service 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 TM Hearthstone UK Residential Feeder Fund. 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

for the year ended 30th June 2021

Thesis Unit Trust Management Limited, (the “Manager”) is pleased to present the Manager’s Annual Report & Accounts for TM Hearthstone UK Residential Feeder Fund (the “Trust”) for the year ended 30th June 2021.

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

The Manager reserves the right to change the benchmark following consultation with the Trustee and in accordance with the rules of COLL. A change could arise, for example, where the Manager determines that an alternative may be more appropriate. Unitholders will be notified of such a change through an update to the Prospectus and the change noted in the subsequent annual and half yearly reports.

Important Information

The following information relates to the TM home investor fund, into which the TM home investor feeder fund wholly invests.

In accordance with COLL 8.4.11 [2] [c] [ii] of the Collective Investment Schemes Sourcebook (Release 21, dated November 2017), as published by the Financial Conduct Authority, we can confirm that the ‘immovables’ would, if acquired by the scheme, be capable of being disposed of reasonably expeditiously at the values reported. We have assumed ‘reasonably expeditiously’ to represent a normal marketing period appropriate for the Properties.

We would however draw your attention to the fact that the Material Valuation Uncertainty clause has been attached in respect of the Spectrum Apartments, held by the TM home investor fund, for non-COVID-19 related reasons which are explained in further detail below. The SIV attached a Material Valuation Uncertainty clause to the Spectrum Apartments in Manchester in April 2021 following a failed EWS1 (external wall safety) assessment. These assessments were introduced by the Government to improve fire safety of high-rise buildings including external cladding.

Market Valuation Uncertainty (Spectrum Apartments, Blackfriars Road, Manchester, M3)

In view of the fact that the information presently available concerning the building safety defects for Spectrum Apartments specifically, the remediation budget costs, impact on service charge and saleability is limited, we would draw your attention to the fact that less certainty can be attached to the valuation of the 17 long leasehold units within Spectrum Apartments, than would otherwise be the case.

The valuation of these units is therefore reported as being subject to ‘Material Valuation Uncertainty’, as set out in VPS 3 and VPGA 10 of the RICS Valuation Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuation of these units than would normally be the case.

TM Hearthstone UK Residential Feeder Fund

Report of the Manager

for the year ended 30th June 2021 (continued)

Market Valuation Uncertainty (Spectrum Apartments, Blackfriars Road, Manchester, M3) (continued)

For the avoidance of doubt, the 'Material Valuation Uncertainty' declaration does not mean that the valuation cannot be relied upon, rather, it has been included to ensure transparency of the assumptions made in preparing this valuation.

In view of the documentation provided in relation to the Spectrum Apartments, around the estimation of any remedial work and the timings of such work, the impact of the waking watch in terms of management costs and any subsequent impact on the service charge and the uncertainty as to impact upon saleability, the above clause has been attached to our valuation. Please refer to 'Important Information' on page 4 for more details. There is no material impact or material changes to rental income.

In view of limited market information, such as proceeds achieved from sales of similar properties with fire safety defects in the area, the Standing Independent Valuer have made recourse to a 'Material Valuation Uncertainty', as set out in VPS 3 and VPGA 10 of the RICS Valuation Global Standards. Therefore, the valuation of the properties has been prepared in accordance with the RICS Valuation Global Standards and COLL.

At the current time, the saleability of the units within the Spectrum Apartments has likely been significantly impacted, units within the block are likely to be considered unmortgageable, currently only available to cash purchasers. We consider that the time to achieve a sale of the individual units will be extended beyond the usual 3-6 month time frame we would expect. If the units were to be marketed for sale by auction, we would expect a discount to the vacant possession value to reflect the current uncertainty and safety implications within the building. At the present time, it is not possible to accurately reflect what impact the building safety and associated issues have on the achievable values for the Spectrum Apartments.

Investors should refer to the <https://homeinvestor.fund/> website for further updates.

Thesis Unit Trust Management Limited
Manager
20th July 2022

TM Hearthstone UK Residential Feeder Fund

Report of the Investment Manager

for the year ended 30th June 2021

Performance Table

Date		TM home investor feeder fund
31st May 21-30th Jun 21	1mth	0.21%
31st Mar 21-30th Jun 21	3mth	0.93%
31st Dec 20-30th Jun 21	6mth	1.22%
30th Jun 20-30th Jun 21	1yr	2.33%
30th Jun 18-30th Jun 21	3yrs	5.48%
Launch To Date		39.94%

Source: Financial Express Analytics

Investment Report

Residential Market

Although prior to this reporting date, in order to get a full picture of the last 12 months, it is pertinent to note that 2020 started 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 up to £500,000 until March 2021, which was subsequently extended to the end of June 2021 with it then tapering to properties below £250,000 until the end of September 2021 when the scheme will end in England & Wales. This holiday ended in March 2021 in Scotland with levels reverting to normal at that point.

As is well documented, the house prices indices have seen a surge over the past twelve months, due to people reassessing their living situation because of the COVID-19 pandemic, looking to purchase larger properties with outside space further away from city centres highlighting the 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 over the last twelve months indicating the average price of a home sold in England and Wales has increased by some £32,500, or 10.7%. If we exclude London from this then the figure is a very considerable 14%. Nevertheless, even including the capital, this is the highest annual rate since February 2005.

Any reversal of house prices in the period of March 2021 to May 2021 because of the originally expected end of the stamp duty holiday has been short-lived. This is in part because of the extension of the holiday but, more generally, due to optimism in the economy which has seen many previously postponed transactions come back online. Mid-April, even before the stamp duty holiday ended, the government introduced further fiscal support in the shape of its 95% Loan to Value (LTV) mortgage guarantee scheme. This assisted borrowers by giving mortgage lenders more confidence to lend, many of which have now re-introduced higher LTV products to the market. Such fiscal support has been positive for the housing market as, combined with the UK's monetary policy of historically low interest rates and many potential home-movers being able to save faster during lockdown, more have found house purchase to be more affordable or to be achievable sooner than anticipated.

What must be noted from the e.surv data is that this is based on SOLD prices over the last 12 months – this as mentioned has been driven chiefly by cash rich buyers looking at larger detached properties and buying in the upper-echelons of the market. This does not mean in reality that each property is worth 10.7% more than it was a year before.

TM Hearthstone UK Residential Feeder Fund

Report of the Investment Manager

for the year ended 30th June 2021 (continued)

Investment Report *(continued)*

Zoopla's annual report however states that it takes a more analytical approach with property type weightings and seasonal changes and their view is that house prices have increased by an average of 4.7% over the past 12 months – which in our view is a more realistic figure. What is true is the fact that the demand is still significantly outstripping supply which will continue to drive the market going forwards.

House price indices (HPIs) can be confusing at the best of times, but especially when the apparent average house price, and annual and monthly percentage changes vary as greatly as they do now. This is because they are not all measuring the same point in the transaction process, typically use different datasets, and apply their own methodology to adjust for the mix of property types and 'seasonality' of peaks and troughs in house buying activity. The discrepancies in the indices illustrate the difficulty in tracking a £7 trillion market and, with so few transactions comparatively (less than 5% of UK homes changing hands per annum), they can be skewed by short-term changes in buying activity at specific price points and particular locations. It is important to note that the Fund is not an 'index tracker', and its properties are all valued individually by the Standing Independent Valuer, CBRE, each month. CBRE does this by reference to transaction data on comparable local properties where a sale has progressed to at least exchange of contracts, and not by reference to any of the HPIs.

As such, the Fund's valuation growth has not directly mirrored this market uplift and that is mainly because 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 property valuations in 10 of the last 12 months (excluding December 2020 and March 2021) totalling 2.47% annually.

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 have grown by 1.75% year to date, despite our suspension of rent reviews due to COVID-19 for the majority of the reporting period, and the market as a whole has continued averaging 1.2% year to date according to the Office for National Statistics (ONS).

Hearthstone Asset Management Limited
Property Investment Manager of TM home investor fund
6th September 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 home investor fund (the "Master") to do so indirectly through its sub-fund which is wholly invested in one distinct class within the TM home investor fund. The registered head office of the Trust is at Exchange Building, St John's Street, Chichester, West Sussex P019 1UP.

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 (the "sub-fund"). TM home investor feeder fund invests in share class H Accumulation 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 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 interest 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, some staff are employed directly by the AIFM and others are employed by a service company Thesis Services Limited. The costs of staff employed by Thesis Services Limited are allocated between entities within the group based on the estimate of time devoted to each.

The table below shows the total remuneration paid by the AIFM and the service company to all the staff working on its business for the financial year ended 30th April 2021.

	Senior Management	Risk Takers	Control	Other	Total
Number of Staff	5	11	3	22	41
Fixed remuneration	£708,093	£817,571	£139,201	£807,887	£2,472,752
Variable remuneration	£91,078	£75,000	£5,000	£39,250	£210,328

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 Annual Report & Accounts by Directors

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

D.W. TYERMAN Director

S. E. NOONE Director

20th July 2022

TM Hearthstone UK Residential Feeder Fund

Responsibilities of the Manager

The Collective Investment Schemes sourcebook (“COLL Rules”) and the Investment Funds Sourcebook (“FUND”) published by the FCA requires the Manager to prepare financial statements for each annual accounting year which give a true and fair view of the financial position of the Trust and of the net revenue and net capital gains/(losses) on the property of the Trust for the year.

In preparing the financial statements, the Manager is responsible for:

- selecting suitable accounting policies and then apply them consistently;
- making judgements and estimates that are reasonable and prudent;
- following UK accounting standards, including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland and the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Management Association (now known as The Investment Association) in May 2014 and amended in June 2017;
- keeping proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- assessing the Trust’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to liquidate the Trust; terminate a sub-fund or to cease operations, or have no realistic alternative but to do so;
- such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error; and
- taking reasonable steps for the prevention and detection of fraud and irregularities.

The Manager is responsible for the management of the Trust in accordance with its Trust Deed, the Prospectus, FUND and the COLL Rules.

Application of Material Valuation Uncertainty Clause (MVUC) to the Spectrum Apartments

Grant Thornton UK LLP has concluded their audit of these financial statements and issued an opinion that contains a qualification. The qualification relates specifically to the valuation of 17 leasehold properties owned by the TM home investor fund- in which the fund wholly invests- known as the Spectrum apartments.

The 17 Spectrum apartments are part of the Spectrum development which is located in an area of Manchester close to the university. The development comprises 580 self-contained apartments in 8 purpose built blocks. The 8 blocks are not uniform and range between 12 to 36 metres above ground. Of the 17 apartments owned by the TM home investor fund, 12 are located in Block 6 which is a low-rise building.

The circumstances which have arisen are that the buildings in the Spectrum development were inspected for fire safety and in January 2021 failed to achieve a satisfactory External Wall Safety (EWS1) assessment. EWS assessments were introduced by the government following the Grenfell Tower fire in London to improve fire safety of high-rise buildings including external cladding. Lenders are however generally unwilling to provide mortgages for the purchase of apartments in such buildings. This has severely restricted the number of sale and purchase transactions.

A secondary issue is that there is also considerable uncertainty associated with the extent of any remediation costs, the allocation of costs to the subject apartments and the potential recovery of costs from third parties.

The apartments are held by the TM home investor fund on a long-term basis to generate rental income and continue to be occupied at market rates.

When preparing their independent valuation certificate for 30th June 2021, CBRE, the Standing Independent Valuer, concluded that in view of the issues noted above “less certainty, and a higher degree of caution, should be attached to the valuation of the 17 long leasehold units within Spectrum Apartments than would otherwise be the case. Our valuation of these units is therefore reported as being subject to ‘Material Valuation Uncertainty’, as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards”. CBRE further emphasised in their report that “the ‘Material Valuation Uncertainty’ declaration does not mean that the valuation cannot be relied upon, rather it has been included to ensure transparency of the assumptions that we have made in

TM Hearthstone UK Residential Feeder Fund

Responsibilities of the Manager

for the year ended 30th June 2021 (continued)

Application of Material Valuation Uncertainty Clause (MVUC) to the Spectrum Apartments*(continued)*

preparing this valuation”. Further information on this is included in the financial statements under ‘Important Information’ and in Note 2 Summary of Significant Accounting Policies.

Whilst the valuation of the properties and the decision to apply the MVUC rests with CBRE, the directors of Thesis Unit Trust Management Limited considered this valuation very carefully and performed additional steps to satisfy themselves as to its appropriateness. Those steps were to make additional enquiries of CBRE about the process followed in determining the valuation and then to seek further independent advice. Based on this additional work, the directors reached the following conclusions.

- The decision to apply the MVUC is subjective. CBRE however applied their professional judgement and carefully considered both the specific circumstances and other options available in the RICS Valuation –Global Standards as part of the process. The decision was taken by a team comprising highly experienced and professionally qualified residential property valuers and independently validated by the Quality Risk Manager;
- CBRE paid due consideration to the range of information available (albeit sparse when compared to normal circumstances). Whilst there is greater uncertainty attached to the valuation CBRE have prepared a market valuation;
- The valuation has been prepared in accordance with RICS Valuation- Global Standards and COLL;
- The professional and independent position of CBRE, that when applying the MVUC it would be neither appropriate or practical to try and quantify the uncertainty within the valuation, was accepted. Indeed any attempt to do so would be contradictory and there can be no certainty that an adjustment would add greater accuracy to the valuation; if there were a greater range of information available to enable a reliable quantification to be calculated CBRE would not have deemed it appropriate to apply the MVUC to the Spectrum apartments.

Finally, when there is reliable information available relating to the level of remediation works that may be required and the potential for recovery from third parties, the Board will consider commissioning a report from a specialist independent cost consultant. The requirement to proceed will depend upon the specific level of detail supplied by the Managing Agent in relation to the 17 subject apartments; the Board has however approved the budget for this work to be carried out if appropriate.

In the meantime, we continue to pay close attention to information as it becomes available and the on-going appropriateness of CBRE’s decision to continue to apply the MVUC to the Spectrum apartments. We will also continue to engage with our independent advisers until such time as the MVUC is no longer appropriate.

Thesis Unit Trust Management Limited
Manager
West Sussex
20th July 2022

TM Hearthstone UK Residential Feeder Fund

Statement of the Trustee's Responsibilities and Report of the Trustee to the Unitholders of TM Hearthstone UK Residential Feeder Fund (the "Trust") for the Year Ended 30th June 2021

The Trustee must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Investment Funds Sourcebook, the Financial Services and Markets Act 2000, as amended, (together the "Regulations"), the Trust Deed and Prospectus (together the "Scheme documents") as detailed below.

The Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors.

The Trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Trust in accordance with the Regulations.

The Trustee must ensure that:

- the Trust's cash flows are properly monitored and that cash of the Trust is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units in the Trust is calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits;
- the Trust's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager (the "AIFM") are carried out (unless they conflict with the Regulations).

The Trustee also has a duty to take reasonable care to ensure that the Trust is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Trust.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Trustee of the Trust, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Trust, acting through the AIFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Trust's units and the application of the Trust's income in accordance with the Regulations and the Scheme documents, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Trust.

NatWest Trustee and Depositary Services Limited
Edinburgh
20th July 2022

TM Hearthstone UK Residential Feeder Fund

Independent Auditor's Report to the Unitholders of TM Hearthstone UK Residential Feeder Fund

Opinion

We have audited the financial statements of TM Hearthstone UK Residential Feeder Fund (the 'Trust') for the year ended 30th June 2021. These financial statements comprise the statement of accounting policies, Distribution Policies and Risk Management Policies and the financial statements of the following sub-fund of the Trust:

- TM home investor feeder fund (the 'sub-fund')

The financial statements of the sub-fund comprise the statement of total return, the statement of change in unitholders' funds, the balance sheet, notes to the financial statements and the distribution tables.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' issued by the Investment Association in May 2014.

In our opinion, except for the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the financial position of the Trust and the sub-fund as at 30th June 2021 and of the net revenue and net capital gains/(losses) on the scheme property of the Trust and the sub-fund for the year then ended, and
- have been properly prepared in accordance with the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' issued by the Investment Association in May 2014, the Collective Investment Schemes sourcebook, and the Trust Deed.

Basis for qualified opinion

Included in the sub-fund's investments shown in the balance sheet is an amount of £678,000 reflecting the sub-fund's portion of the valuation of 17 leasehold properties ("the Spectrum Apartments") that have not been recorded at their fair value in the TM Hearthstone ICVC (master fund) as at 30th June 2021. The Spectrum Apartments were recorded at their fair value as at 30th June 2020 due to the inability of the independent valuer to ascribe a reliable value to the properties. These events are discussed in note 2c to the financial statements, however, the effect on the financial statements has not been determined. Consequently, we were unable to determine whether any adjustment to this amount was necessary.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

TM Hearthstone UK Residential Feeder Fund

Independent Auditor's Report to the Unitholders of TM Hearthstone UK Residential Feeder Fund *(continued)*

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the and the Trust's and the sub-fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Trust and the sub-fund to cease or continue as a going concern.

In our evaluation of the Manager's conclusions, we considered the inherent risks associated with the Trust's and the sub-fund's business model including effects arising from macro-economic uncertainties such as Brexit and COVID-19, we assessed and challenged the reasonableness of estimates made by the Manager and the related disclosures and analysed how those risks might affect the Trust's and the sub-fund's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Trust's and the sub-fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Manager with respect to going concern are described in the 'Responsibilities of the Manager for the financial statements' section of this report.

Other information

The Manager is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the basis for qualified opinion section above, we were unable to obtain sufficient appropriate evidence concerning the valuation of the Spectrum Apartments which is represented by the sub-fund's investments value of £678,000. This valuation is based on their fair value as at 30th June 2020 due to the inability of the independent valuer to ascribe a reliable fair value to the properties as at 30th June 2021. These events are discussed in note 2c, however, the effect on the financial statements has not been determined.

Accordingly, we are unable to conclude whether or not the other information linked to the Spectrum Apartments is materially misstated with respect to this matter.

TM Hearthstone UK Residential Feeder Fund

Independent Auditor's Report to the Unitholders of TM Hearthstone UK Residential Feeder Fund *(continued)*

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- we have been given all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit, and
- the information given in the Manager's Report (which comprises: on page 3, the Management and Professional Service Providers' Details; on page 4, the Report of the Manager; on page 6, the Report of the Investment Manager; on page 22, the Portfolio Statement; and on page 8, the Constitution) is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if in our opinion:

- proper accounting records for the Trust or the sub-fund have not been kept, or
- the financial statements are not in agreement with those accounting records.

Responsibilities of the Manager

As explained more fully in the Responsibilities of the Manager, the Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Trust's and the sub-fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to terminate the sub-fund, wind up the Trust or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

TM Hearthstone UK Residential Feeder Fund

Independent Auditor's Report to the Unitholders of TM Hearthstone UK Residential Feeder Fund *(continued)*

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Trust and the industry in which it operates. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management. We determined that the most significant laws and regulations were the Collective Investment Schemes Sourcebook, the Investment Association Statement of Recommended Practice (SORP) 'Financial Statements of UK Authorised Funds' and Financial Reporting Standard 102;
- We enquired of management to obtain understanding of how the Trust Complying with those legal and regulatory frameworks and whether there were any instances of non-compliance with laws and regulations and whether they had any knowledge of actual or suspected fraud. We corroborated the results of our enquiries through our review of the breaches register;
- In assessing the potential risks of material misstatement, we obtained an understanding of the Trust's operations, including the nature of its revenue sources, and of its objective in order to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement and the Trust's control environment, including the policies and procedures implemented to mitigate risks of fraud or non-compliance with the relevant laws and regulations and the Trust's policies and procedures for valuing the investment properties, together with their use of independent valuers and the assessment of the reasonableness of the valuations reported;
- We assessed the susceptibility of the Trust's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included an evaluation of the risk of management override of controls. Audit procedures performed by the engagement team in connection with the risks identified included:
 - evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud;
 - testing journal entries, including manual journal entries processed at the year-end for financial statements preparation; and
 - challenging the assumptions and judgements made by management in its significant accounting estimates.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the industry in which the Trust operates; and
 - understanding of the legal and regulatory frameworks applicable to the Trust.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

TM Hearthstone UK Residential Feeder Fund

Independent Auditor's Report to the Unitholders of TM Hearthstone UK Residential Feeder Fund *(continued)*

Use of our report

This report is made solely to the Trust's unitholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook. Our audit work has been undertaken so that we might state to the Trust's unitholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London, United Kingdom
20th July 2022

TM Hearthstone UK Residential Feeder Fund

Statement of Accounting Policies, Distribution Policies and Risk Management Policies

for the year ended 30th June 2021

1. Statement of Compliance

The financial statements have been prepared in accordance with the United Kingdom Generally Accepted Accounting Practice (UK GAAP), as defined within UK Financial Reporting Standard 102 (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 June 2017.

2. Summary of Significant Accounting Policies

a) Basis of Preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

The principal accounting policies which have been applied consistently are set out below.

b) Functional and Presentation Currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Trust operates (the "functional currency"). The financial statements are presented in Pounds Sterling, which is the Trust's functional and presentation currency rounded to the nearest £'000.

c) Valuation of Investments

The sole investments of the sub-fund are units in TM home investor fund (PAIF).

The PAIF's Standing Independent Valuer (SIV) attached a Material Valuation Uncertainty clause to the Spectrum Apartments in Manchester in April 2021 following a failed EWS1 (external wall safety) assessment. These assessments were introduced by the Government to improve fire safety of high-rise buildings including external cladding.

In view of the documentation provided in relation to the Spectrum Apartments, around the estimation of any remedial work and the timings of such work, the impact of the waking watch in terms of management costs and any subsequent impact on the service charge and the uncertainty as to impact upon saleability, the above clause has been attached to valuation.

Following an announcement from the Government that EWS1 forms should not be requested for buildings below 18 metres, and given that 12 out of 17 flats owned by the fund fall in the category of low-rise blocks, the costs that should be allocated to the fund cannot be reliably estimated.

Moreover, management are unable to make a provision for potential costs due to the uncertainty arising from the following factors:

- Possible changes to Government guidance and legislation.
- Changes to remediation cost estimates once works are underway.
- Whether claims on insurance policies are successful and to what degree.
- The extent of funding that could be received from the Buildings Safety Fund.
- What actions are taken against the developer, whether these are successful and to what extent.

Therefore, management and the SIV have concluded that to provide an arbitrary quantification of the impact of costs to the market value of properties is not appropriate given limited comparable market transactions in the Spectrum Apartments.

We will review the situation closely each month and when we have clearer guidance, we will consider the best course of action pertaining to our valuation.

Investors should refer to the <https://homeinvestor.fund/> website for further updates.

All investments are valued at their fair value as at close of business on the last working day of the accounting year.

Investments are valued using the NAV as provided by the relevant managers, in accordance with industry practice and the SORP.

TM Hearthstone UK Residential Feeder Fund

Statement of Accounting Policies, Distribution Policies and Risk Management Policies

for the year ended 30th June 2021 (continued)

2. Summary of Significant Accounting Policies (continued)

c) Valuation of Investments (continued)

Where values cannot be readily determined, the investments are valued at the Manager's best assessment of their fair value.

All realised and unrealised gains and losses on investments are recognised as net capital gains/(losses) in the Statement of Total Return. Unrealised gains and losses comprise changes in the fair value of investments for the period. Realised gains and losses represent the difference between an instruments' initial carrying amount and disposal amount.

d) Revenue

The sub-fund invests directly into the TM home investor fund (PAIF). Revenue received from this fund will be streamed for tax purposes into property income distributions (PID), PAIF dividend or PAIF interest depending on the nature of the revenue generated by the TM home investor fund (PAIF).

All other revenue is recognised on an accruals basis.

e) Expenses

For accounting purposes, all expenses (other than those relating to the purchases and sales of investments) are charged against revenue for the year on an accruals basis.

The Manager's periodic charge rebates are at the Manager's discretion and is recognised upon their confirmation that the rebate is due to the Trust.

f) Taxation

The charge for taxation is based on the net revenue for the year. Provision is made for any taxation liability arising in respect of the income recognised in the accounting year. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. The current tax charge for the Trust excludes capital gains and losses for the reason that Authorised Unit Trusts are not subject to Corporation Tax on these items.

3. Distribution Policies

a) Basis of Distribution

When appropriate, the Trust will allocate any surplus net revenue as a dividend distribution. Distributions of income of the Trust are made on or before the annual income allocation date and on or before the interim income allocation date, where applicable, in each year. The income available for distribution is determined in accordance with COLL. It comprises all revenue received or receivable for the account of the Trust in respect of the accounting year concerned, after deducting net charges and expenses paid or payable out of such revenue.

b) Equalisation

Distributions received from TM home investor fund may include an element of equalisation which represents the average amount of revenue included in the price paid for units. The equalisation is treated as a return of capital for taxation purposes and does not carry a tax credit. Equalisation received has been treated as a reduction in the book cost of the investments and not distributed.

c) Unclaimed distributions

All distributions unclaimed for a period of six years after having become due for payment shall be forfeited and shall revert to the capital of the Trust in accordance with COLL.

TM Hearthstone UK Residential Feeder Fund

Statement of Accounting Policies, Distribution Policies and Risk Management Policies

for the year ended 30th June 2021 (continued)

4. Risk Management Policies

In pursuing their investment objectives, the Trust invests directly into unit classes of TM home investor fund (PAIF). The PAIF's financial instruments comprise direct investment in UK Residential Property and other investments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income. The main risks arising from the Trust's financial instruments and the Investment Manager's policies for managing these risks are summarised below. These policies have been applied throughout the year.

Market price risk

The investments of the Trust are subject to normal market fluctuations and other risks inherent in investing in real estate securities. There can be no assurance that any appreciation in the value of investments will occur. The value of investments and the income derived from them may fall as well as rise and investors may not recoup the original amount they invest in the Trust. There is no certainty that the investment objective of a Trust will actually be achieved and no warranty or representation is given to this effect. Past performance is no guide to the future performance.

Property risk

The performance of a Trust invested substantially in real estate (as TM home investor feeder fund is by virtue of its investment in TM home investor fund) could be adversely affected by a downturn in the property market in terms of capital value or a weakening of rental yields. Residential property values are affected by factors such as the level of interest rates, economic growth, fluctuations in property yields and tenant default. Certain significant expenses on a property, such as operating expenses, must be met by the owner even if a property is vacant.

In the event of a default by an occupational tenant, there will be a rental shortfall and additional costs, including legal expenses are likely to be incurred in maintaining, insuring and re-letting the property.

Foreign currency risk

Foreign currency risk is the risk that the value of the Trust's investment holdings will fluctuate as a result of changes in foreign currency exchange rates. At the balance sheet date, the Trust had no significant exposure to currencies other than Sterling.

Interest rate risk

Interest rate risk is the risk that the value of the Trust's investment holdings will fluctuate as a result of changes in interest rates. At the balance sheet date the Trust had no significant exposure to interest rate risk.

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

Liquidity risk

The Trust will encounter liquidity risk when attempting to realise assets or otherwise raise funds to meet financial commitments.

The Trust's liquidity can be affected by unexpected or high levels of unit redemptions.

The Manager may, at its absolute discretion, defer redemptions to a Valuation Point on the following Dealing Day, where the requested redemptions exceed 10% of the net asset value of the class of units in the TM home investor fund in which the relevant sub-fund is invested.

The Manager may provide for limited redemptions of the units in a sub-fund provided the Trust provides redemptions at least once every six months.

TM Hearthstone UK Residential Feeder Fund

Statement of Accounting Policies, Distribution Policies and Risk Management Policies

for the year ended 30th June 2021 (continued)

4. Risk Management Policies *(continued)*

Counterparty risk

If a Trust enters into a derivative contract it will be exposed to the credit of the other party (usually referred to as 'counterparty') and their ability to wholly or partly satisfy the terms of the contract. It is not anticipated that the value of investments in any Trust subject to counterparty risk will be a significant part of the Trust's investments.

In the event of a bankruptcy or insolvency of a counterparty, the Trust could experience delays in liquidating the position and may incur significant losses. The Manager may use one or more counterparties to undertake derivative transactions on behalf of the Trust and may be required to pledge the assets of the Trust as collateral against these transactions. There may be a risk that counterparty will be unable to meet its obligations with regards to the return of the collateral and may not meet other payments due to the sub-funds.

Due to the nature of the investments held, the risk to the Trust is insignificant and is therefore not actively managed.

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Portfolio Statement

as at 30th June 2021

Holding	Market value £	Percentage of total net assets %
Property Authorised Investment Funds 100.90% (100.90%)		
9,089,698 TM home investor fund 'H' Gross Accumulation*	13,559,104	101.26
Net investments 100.90% (100.90%)	13,559,104	101.26
Net other assets	(169,076)	(1.26)
Total net assets	13,390,028	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 24 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 year-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.

Assessment of Value *(unaudited)*

A statement on the Assessment of Value will be available for all applicable funds managed by Thesis Unit Trust Management Limited. This report will be published at www.tutman.co.uk within four months of the annual accounting reference date.

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Sub-fund Information *(continued)*

Comparative Table

D (Unbundled Net) Accumulation

	2021 <i>(pence per unit)</i>	2020 <i>(pence per unit)</i>	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*	5.48	2.86	4.80
Operating charges	(2.19)	(2.47)	(2.36)
Return after operating charges*	3.29	0.39	2.44
Distributions	(0.53)	(0.73)	(1.30)
Retained distributions on accumulation units	0.53	0.73	1.30
Closing net asset value per unit	140.44	137.15	136.76
* after direct transaction costs of:	–	–	–
Performance			
Return after charges	2.40%	0.29%	1.82%
Other Information			
Closing net asset value (£'000)	13,390	15,992	13,314
Closing number of units	9,534,037	11,659,993	9,735,074
Operating charges ¹	1.58%	1.79%	1.74%
Direct transaction costs	0.00%	0.00%	0.00%
Prices			
Highest unit price	140.50	138.10	136.80
Lowest unit price	137.30	136.70	134.20

¹ 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 year'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. The OCF does not take into account the property operating expenses, also known as the PER, incurred indirectly via TM home investor fund.

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Statement of Total Return

for the year ended 30th June 2021

	Notes	£'000	2021 £'000	£'000	2020 £'000
Income					
Net capital gains/(losses)	5		274		(40)
Revenue	7	202		283	
Expenses	8	(131)		(178)	
Interest payable and similar charges		<u>(1)</u>		<u>(1)</u>	
Net revenue before taxation		70		104	
Taxation	9	<u>(15)</u>		<u>(22)</u>	
Net revenue after taxation for the year			<u>55</u>		<u>82</u>
Total return before distributions			329		42
Distributions	10		<u>(55)</u>		<u>(83)</u>
Change in unitholders' funds from investment activities			<u>274</u>		<u>(41)</u>

Statement of Change in Unitholders' Funds

for the year ended 30th June 2021

	Note	£'000	2021 £'000	£'000	2020 £'000
Opening net assets			15,992		13,314
Amounts receivable on issue of units		4,750		6,158	
Amounts payable on cancellation of units		<u>(7,683)</u>		<u>(3,522)</u>	
			(2,933)		2,636
Change in unitholders' funds from investment activities (see above)			274		(41)
Retained distribution on accumulation units	10		57		83
Closing net assets			<u>13,390</u>		<u>15,992</u>

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Balance Sheet

as at 30th June 2021

	Notes	2021 £'000	2020 £'000
Assets			
Fixed assets:			
Investments		13,559 ¹	16,128
Current assets:			
Debtors	11	1,848	134
Cash and bank balances		4	–
Total assets		15,411	16,262
Liabilities			
Creditors:			
Bank overdrafts		(152)	(139)
Other creditors	12	(1,869)	(131)
Total liabilities		(2,021)	(270)
Net assets		13,390	15,992
Unitholders' funds		13,390	15,992

¹ Represents the valuation of the TM home investor fund. A Material Valuation Uncertainty clause has been attached to the valuation of the Spectrum properties which have been certified by the SIV, held by the TM home investor fund. For further information refer to the 'Important Information' section.

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2021

1. Accounting Policies

The statement of compliance together with the accounting, distribution and risk management policies for the sub-fund are provided on pages 18 to 21.

5. Net Capital Gains/(Losses)

Net capital gains/(losses) comprise:

	2021	2020
	£'000	£'000
Non-derivative securities ¹	272	(39)
Transaction charges	2	(1)
Net capital gains/(losses)	<u>274</u>	<u>(40)</u>

¹ Includes realised gains of £246,448 and unrealised gains of £26,183 (30th June 2020: realised gains of £130,693 and unrealised losses of £169,766).

The realised gains on investments in the accounting period include amounts previously recognised as unrealised losses in the prior accounting year.

6. Purchase, Sales and Transaction Costs

As the TM home investor feeder fund invest solely in TM home investor fund, there are no associated transaction costs.

7. Revenue

	2021	2020
	£'000	£'000
Unfranked PID revenue	202	283
	<u>202</u>	<u>283</u>

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2021 (continued)

8. Expenses

	2021 £'000	2020 £'000
Payable to the Manager or associates of the Manager:		
Manager's periodic charge	127	140
Manager's periodic charge rebates	(53)	(42)
	74	98
Payable to the Trustee or associates of the Trustee:		
Trustee's fee	6	6
Safe custody charges	1	1
	7	7
Other expenses:		
Administration fees	18	20
AIFMD fees	1	1
Audit fees ¹	12	11
Calastone fees	4	6
Euroclear fees	–	1
Legal fees	1	4
Printing fees	1	2
Registration fees	13	28
	50	73
Total expenses	131	178

¹ Total audit fees of £10,068 (30th June 2020: £9,589), exclusive of VAT.

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2021 (continued)

9. Taxation

	2021 £'000	2020 £'000
a) Analysis of charge for the year:		
Corporation tax	15	22
Irrecoverable income tax	–	–
Total current tax	15	22
Deferred tax charge	–	–
Total taxation	15	22
b) Factors affecting taxation charge for the year:		
Net revenue before tax	70	104
Net revenue multiplied by the standard rate of corporation tax of 20% (2020: 20%)	14	21
Effects of:		
Excess management expenses not utilised	–	–
Taxation due to timing differences	1	1
Total tax charge (note 9a)	15	22
c) Deferred tax		
Deferred tax charge (note 9a)	–	–
Provision at start of year	–	–
Provision at end of year	–	–

The sub-fund has not recognised a deferred tax asset of £Nil (30th June 2020: £Nil).

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2021 (continued)

10. Distributions

The distributions take account of revenue received on the creation of units and revenue deducted on the cancellation of units and comprise:

	2021 £'000	2020 £'000
First interim accumulation	18	31
Second interim accumulation	27	29
Third interim accumulation	–	16
Final accumulation	12	7
	57	83
Add: Revenue deducted on units cancelled	–	–
Deduct: Revenue received on units issued	(2)	–
	55	83
Net distribution for the year	55	83

11. Debtors

	2021 £'000	2020 £'000
Amounts receivable for creation of units	1,679	–
Sales awaiting settlement	67	–
Accrued revenue	60	65
CIS income tax recoverable	–	6
Manager's periodic charge rebates receivable	42	63
	1,848	134
	1,848	134

12. Other creditors

	2021 £'000	2020 £'000
Amounts payable for cancellation of units	66	–
Purchases awaiting settlement	1,739	57
Accrued expenses	49	52
Corporation tax payable	15	22
	1,869	131
	1,869	131

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2021 (continued)

13. Related Parties

Thesis Unit Trust Management Limited is regarded as a related party by virtue of having the ability to act in respect of the operations of the sub-fund in its capacity as the Manager.

Thesis Unit Trust Management Limited acts as principal on all the transactions of units in the sub-fund. The aggregate monies received through creations and liquidations are disclosed in the Statement of Change in Unitholders' Funds. Amounts due to/from Thesis Unit Trust Management Limited in respect of unit transactions at the year end are disclosed in within notes 11 and 12 as applicable.

Amounts paid to Thesis Unit Trust Management Limited in respect of the Manager's periodic charge and any rebates received are disclosed in note 8. £8,843 (30th June 2020: £11,888) is the amount payable at the year end.

Thesis Unit Trust Management Limited did not enter into any other transactions with the sub-fund during the year.

14. Equalisation

Equalisation is accrued income included in the price of units purchased during the accounting year, which, after using monthly groupings to average, is refunded as part of a unitholder's first distribution, resulting in the same rate of distribution on all units. As a capital repayment, it is not liable to income tax but must be deducted from the cost of units for Capital Gains Tax purposes.

15. Contingent Assets, Liabilities and Outstanding Commitments

There were no contingent assets, liabilities and outstanding commitments as at 30th June 2021 (30th June 2020: £Nil).

16. Unit Class

The sub-fund currently has one class of units: D (Unbundled Net) Accumulation. The distribution per unit is given in the distribution tables on page 33.

The Manager's periodic charge for the unit is as follows:

D (Unbundled Net) Accumulation 0.90%

The following table shows the units in issue during the year:

Class	Opening Units	Units Created	Units Liquidated	Units Converted	Closing Units
D (Unbundled Net) Accumulation	11,659,993	3,409,161	(5,535,117)	–	9,534,037

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2021 (continued)

17. Fair Value measurement

The Fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements.

Valuation technique as at 30th June 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £000
Assets				
Collective Investment Schemes	–	13,559	–	13,559
<hr/>				
Valuation technique as at 30th June 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £000
Assets				
Collective Investment Schemes	–	16,128	–	16,128
<hr/>				

Level 1: The unadjusted quoted price in an active market for identical instrument that the entity can access at the measurement date.

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1 (i.e., developed using market data).

Level 3: Valuation techniques using unobservable inputs (i.e., for which market data is unavailable).

18. Leverage

In accordance with the AIFMD we are required to disclose the ‘leverage’ of the sub-fund. Leverage is defined as any method by which the sub-fund increases its exposure through borrowing or the use of derivatives. ‘Exposure’ is defined in two ways ‘gross method’ and ‘commitment method’ and the sub-fund must not exceed maximum exposures under both methods.

The ‘commitment’ method shall be the sum of the absolute value of all positions and each derivative position (excluding forward currency positions) will be converted into the equivalent position in the underlying assets. The ‘gross’ method shall be the sum of the absolute value of all positions and each derivative position will be converted into the equivalent position in the underlying assets. The ‘gross’ method shall exclude the value of any cash and cash equivalents from the sum of the absolute value of all positions. The Manager must set maximum leverage levels and operate the sub-fund within these levels at all times.

There are two ways in which the Manager can introduce leverage to the sub-fund. These are by borrowing money using its overdraft facility, and by investing in derivative positions. Neither of these are important features in terms of how the Manager manages the sub-fund. There are no collateral, asset re-use or guarantee arrangements involved in the Manager’s current approach to leverage.

The maximum gross leverage permitted in the sub-fund is 300%. The maximum commitment leverage permitted is 200%. It is expected that the Manager will operate the sub-fund well within these limits.

As at year end 30th June 2021, the total leverage in the sub-fund, using the commitment approach, did exceed 100% (gross 103.50%, commitment 102.12%). Given that the exposure of the sub-fund is 102.12% of NAV this means that some leverage was employed by the sub-fund.

19. Post Balance Sheet Events

The latest NAV per Class D (Unbundled Net) Accumulation of 146.12p as at the close of business on 18th July 2022 had increased by 4.04% compared to the NAV at the year end of 140.44p.

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Distribution Tables

for the year ended 30th June 2021

First Interim Accumulation Class D Unbundled Net 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 (note 14)	2020 Net Accumulation	2019 Net Accumulation
1	0.1617	–	0.1617	0.2794
2	0.1617	0.0000	0.1617	0.2794

Second Interim Accumulation Class D Unbundled Net 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 (note 14)	2020 Net Accumulation	2019 Net Accumulation
1	0.2482	–	0.2482	0.2496
2	0.2482	0.0000	0.2482	0.2496

Third Interim Accumulation Class D Unbundled Net Accumulation (in pence per unit)**

Group 1: Units purchased prior to 1st January 2021

Group 2: Units purchased from 1st January 2021 to 31st March 2021

Group	Net Accumulation	Equalisation (note 14)	2021 Net Accumulation	2020 Net Accumulation
1	0.0000	–	0.0000	0.1373
2	0.0000	0.0000	0.0000	0.1373

Final Accumulation Class D Unbundled Net Accumulation (in pence per unit)*

Group 1: Units purchased prior to 1st April 2021

Group 2: Units purchased from 1st April 2021 to 30th June 2021

Group	Net Accumulation	Equalisation (note 14)	2021 Net Accumulation	2020 Net Accumulation
1	0.1202	–	0.1202	0.0589
2	0.1202	0.0000	0.1202	0.0589

* There were no group 2 units for this period.

** Expenses exceeded revenue during the period, as a result no distribution was allocated.



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