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## 3D Fund Profile – TM home investor fund

January 2020

Our View

As its name suggests, this fund invests in residential housing focused on renting to lower income households. There is a real need for such housing, with a well-publicised national shortage of decent, affordable homes. The fund seeks to acquire, let and manage houses with improved environmental standards, located near public transport in areas of low flood risk. Energy and environmental standards of the fund's housing stock are significantly above the national average, demonstrating the fund's standing as 'best in class'.



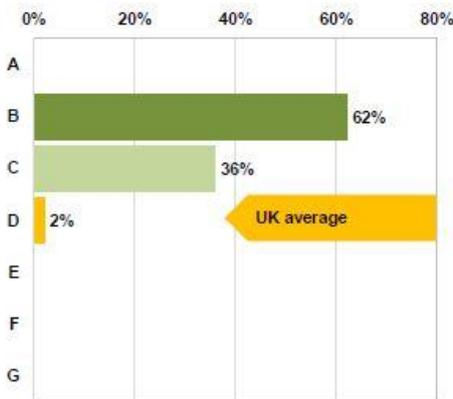
Investment Strategy & Fund Composition

The fund invests in residential housing in the UK, split roughly equally between houses and flats. These are rented to below average income households, with a typical combined income of around £40,000, against a national average single income of £29,000. The managers only buy the best property from housebuilders such as Bellway or Miller Homes. These properties have significantly better environmental characteristics than the average UK housing stock:

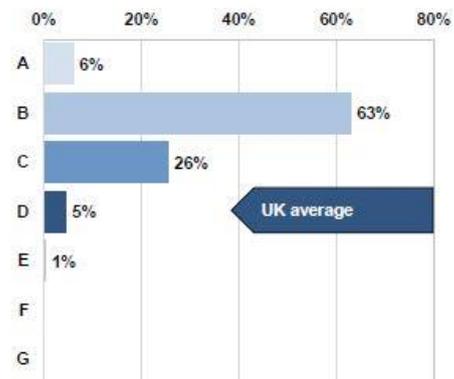
ENVIRONMENTAL RATINGS TM HOME INVESTOR FUND

Nov 2019, in % of units

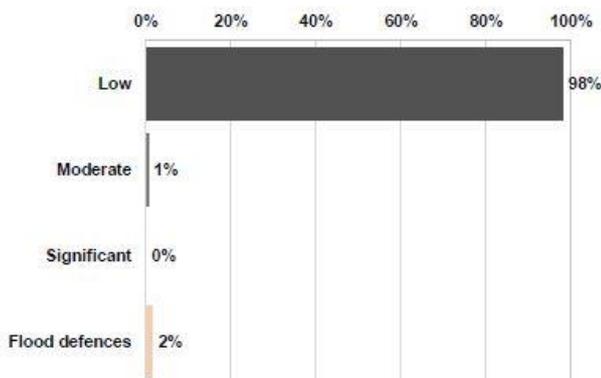
Energy performance certificate rating



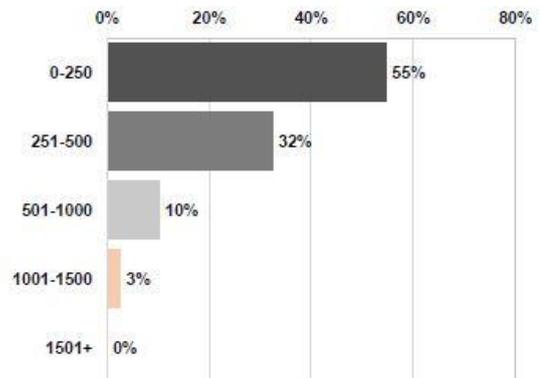
Environmental impact rating



Flood risk



Distance to public transport (metres)



The focus is on towns and cities with strong private or key worker employers, good infrastructure and transport links. The fund takes no development risk, investing in new or modern homes, resulting in higher energy efficiency, lower maintenance cost and typically higher occupation. There is a preference for clusters of homes for more efficient property management, maintenance and lower costs. A buy and hold approach is taken with a low turnover of 12% since fund inception in 2012. The average property value is £250,000, and the average tenant stay being 28 months.

## Avoidance of Controversies

The fund has no exposure to significant ethical controversies since it only invests in residential housing and works with carefully selected developers.

## Environmental, Social & Corporate Governance

**Internal Resource:** ESG is embedded in the fund by the managers. An investment committee of 5 oversees the decision making.

**External Screening:** None.

**Engagement:** The managers engage with developers to encourage them to improve environmental standards.

**ESG Practice:** ESG is a key element of the acquisitions, ongoing management, disposals process and decision-making. The overall

aim is to 'future proof' the properties – to improve the environmental standard of property and thereby make it more attractive as a home and investment. Initiatives include the installation of solar power, planting of trees and environmental upgrading of the worst performing properties. In 2020 the investment team will identify some 10 -15 properties for a controlled trial. A contractor will develop a proposal for environmental improvements to homes included in the trial. Once the environmental improvements have been implemented, an assessment will be made of cost and financial / non-financial benefits to tenants as well as investors in the fund. This will form the basis for the future ESG programme.

## Risk Management

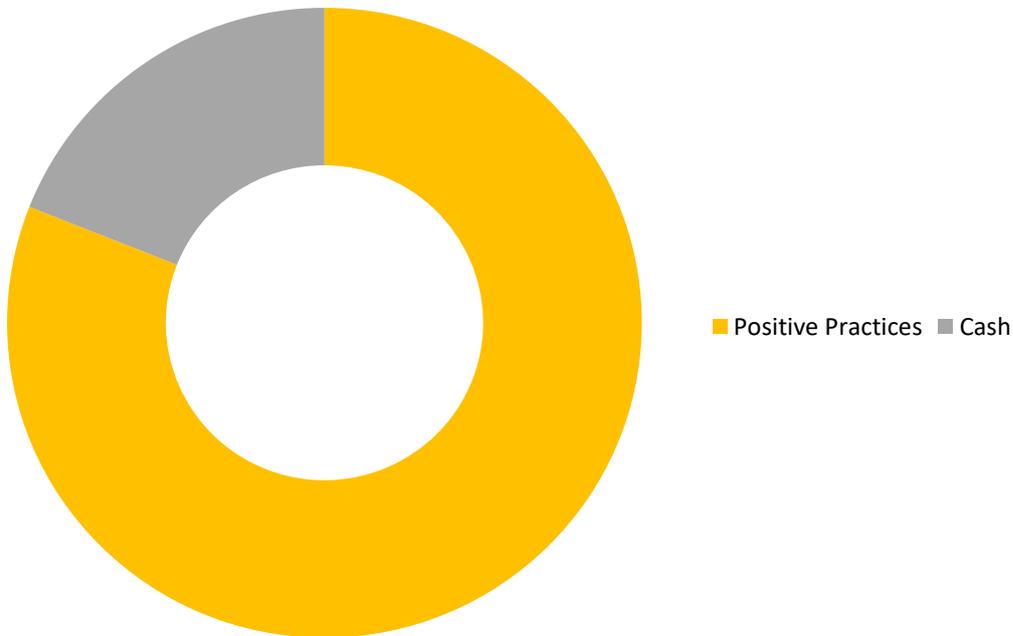
The fund invests in physical properties and cash only, with no gearing. There is little correlation with other asset classes including commercial property. No development risk is taken and the portfolio is diversified across the UK, with nearly 200 properties currently held.

FUND RISK LEVEL 2 / 5



## Social Impact

The fund invests in residential properties with better than average environmental standards and as such, is invested in properties that exhibit 'positive practices' with any balance being held in cash for liquidity purposes.



100% of homes in the fund meet Decent home standards, versus an average of 80% across the UK. All tenants benefit from an app called FixFlo <https://www.fixflo.com/> which supports the ongoing maintenance of properties and shortens repair times, both reducing maintenance costs and unnecessary travel by engineers.

## Transparency

All Holdings publicly stated: Yes.

Justification of Holdings: N/A – all holdings are residential properties.

Strategy Statement: Yes, the ESG policy is clearly documented.

The level of transparency is fair with ESG metrics incorporated into the factsheets.

Engagement: The managers encourage the developers with whom they work to improve environmental standards.

Impact Report: Reporting includes metrics on energy performance, CO2, flood risk and accessibility to public transport.

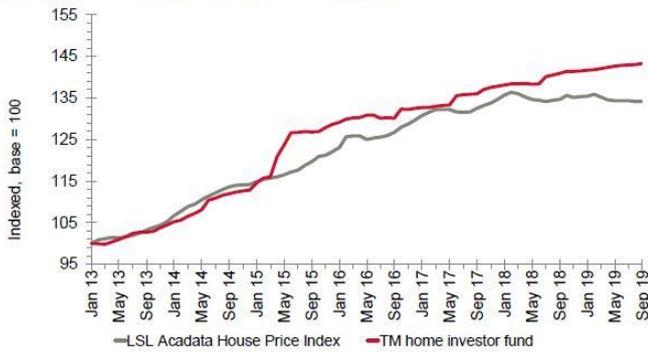
External Validation: No.

Hearthstone Investments was formed in 2009 and now has consolidated assets under management of around £285 million. Property management is outsourced to a subsidiary of a major housing association, Touchstone, who oversee tenant satisfaction and safety. Sourcing of properties is via a broad network, with an ongoing service agreement with estate agency, Connells. Thorough due diligence is undertaken including site visits. An independent property valuer, CBRE, reports monthly and on all acquisitions/holdings, whilst an annual external audit on the Fund is carried out by Grant Thornton. The overall strategy is one of buy and hold, with selective disposals informed by bottom-up and top-down assessment of capital and rental prospects. Cash is held for liquidity purposes, with a target of 10-15%.

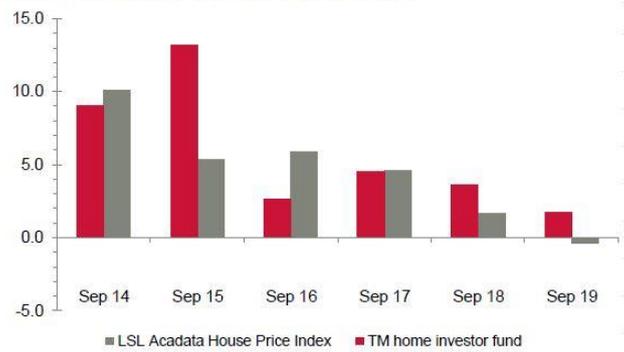
The senior investment team is led by the fund manager, Alan Collett, who is also Chair at Hyde Housing Group who own and manage 50,000 properties. The CIO, Andrew Smith, was formerly Global Head of Property at Aberdeen Asset Management.

**Fund v. Performance Comparator**

Cumulative total return since share class inception



Discrete year until end of latest calendar quarter (%)



Cumulative total return (%) over period:

	1m	3m	6m	1y	3y	5y
TM home investor fund	0.21	0.35	0.84	1.70	10.15	27.95
LSL Acadata House Price Index	0.04	-0.12	-0.76	-0.36	5.90	18.09

Discrete total return (%) 12 months ending:

	Sep 15	Sep 16	Sep 17	Sep 18	Sep 19
TM home investor fund	13.21	2.60	4.53	3.60	1.70
LSL Acadata House Price Index	5.32	5.88	4.59	1.62	-0.36

Performance shows unbundled gross Class C, launched 07/01/2013. Bid to bid with income reinvested to 30/09/2019 unless otherwise indicated.

All performance figures are net of fees (0% initial charge; 1.57% OCF, which includes the 0.9% AMC).

## Key Facts as at 30/09/2019

<b>Manager</b>	Hearthstone Asset Management
<b>Launch Date</b>	25/07/2012
<b>Structure</b>	OEIC with PAIF status
<b>ISIN Code</b>	GB00B95VYK84
<b>Currency</b>	£
<b>Size</b>	£61 million
<b>Sector</b>	IA Property Other
<b>Benchmark</b>	LSL Acadata House Price Index
<b>Number of holdings</b>	195
<b>Estimated Yield</b>	1.48% (gross)
<b>Ongoing Charges</b>	1.53%

## Important Notes

The 3D Star Rating is intended to facilitate quick and easy identification of those funds that best meet the 3D Investing objectives of making a positive social impact, avoiding ethically controversial companies and delivering a decent financial return. The 3D Star Rating is a demanding ranking that seeks to identify the very best funds. As such, a three star rating is far from average and in fact means the fund is likely to be amongst the best in its sector. A five star rating is reserved for the very best funds and is an aspirational standard.



The fund is a real pioneer in the industry. It has delivered financial returns in line with expectations, excellent levels of transparency, a high social impact and has a low level of exposure to ethically controversial companies.



The fund carries a high level of conviction for the same reasons as five star funds, but with a relative weakness in impact, transparency, or sustainability management



The fund is positively rated where the advantages outweigh the disadvantages, and where the fund might be considered for inclusion in 3D Portfolios.



The fund may be worth considering, but there are significant weaknesses in terms of financial track record, social impact or avoidance of ethical controversy.



The fund is negatively rated because of major concerns over its financial track record or stock selection that fundamentally undermines our confidence in the fund.

The above reflects consideration of the following:

**Avoidance of Controversies** – our assessment of the likely avoidance of ethical controversies, based on an analysis of all stocks in the portfolio, checking them for ethical controversies or common ethical concerns. Areas of controversy include mining, fossil fuels, unscreened finance, intensive agriculture, nuclear power, alcohol, tobacco, armaments, tax avoidance and human rights abuses.

### ESG Rating

- \* ESG used as risk tool, predominantly focussed on corporate governance
- \*\* Exclusion policies applied
- \*\*\* Integration into investment process with internal ESG specialists
- \*\*\*\* Systematic engagement strategy on environmental and social issues including targets and progress monitoring
- \*\*\*\*\* Systematic evidence of positive ESG impacts of portfolio versus the benchmark

### Social Impact Rating

- \* 0-20% Solutions Based
- \*\* 20-40% Solutions Based
- \*\*\* 40-60% Solutions Based (75-95% infrastructure funds)
- \*\*\*\* 60-80% Solutions Based (100% Infrastructure funds)
- \*\*\*\*\* > 80% Solutions Based or high % of unlisted

A solutions based company is defined as deriving >50% of turnover from one or more of clean air and water, healthcare, inclusive and ethical finance, low carbon transport, renewable energy, resource efficiency, social infrastructure, safety and security, education and sustainable food.

### Transparency Rating

- \* Statutory listing of stocks in report and accounts but nothing more.
- \*\* Clear documentation of ethical approach and methodology, topical updates
- \*\*\* Position papers, sustainability reporting
- \*\*\*\* Engagement report, very clear criteria, ethical news, descriptions of ethical purchases
- \*\*\*\*\* Impact report & Descriptions of all holdings in fund

### Financial Confidence Rating

- \* Poor historical performance. Very little confidence in fund
- \*\* Unconvincing track record of less than 3 years, or underperformance against benchmark since launch
- \*\*\* Performance in line with benchmark or consistent level of absolute returns
- \*\*\*\* Consistent above benchmark performance
- \*\*\*\*\* Top quartile performance on a consistent basis over more than 5 years

## About Ethical Money

Ethical Money provides research and communication services to help investment managers and advisers to deliver a high quality and distinctive service for the socially motivated investor.

## Developing your own 3D Investing Portfolios

If you'd like to make 3D Investing part of your investment proposition, then talk to us. We make it easy to offer 3D portfolios and provide ongoing, totally independent research, generic recommendations, a searchable online database, due diligence and a full reporting service. You stay in control and we do much of the background work! A one-off fee is charged to cover the initial set-up and thereafter an annual fee applies which is based on funds under management. Please contact John Fleetwood in the first instance to see how we can best work with you.

## Important Information

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