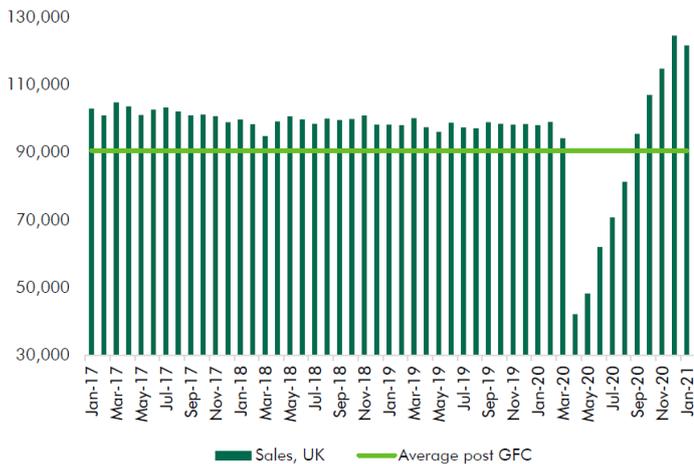


Hearthstone Investments: Strong rent collection for TM home investor fund and positive 2021 outlook for UK housing

UK residential property market

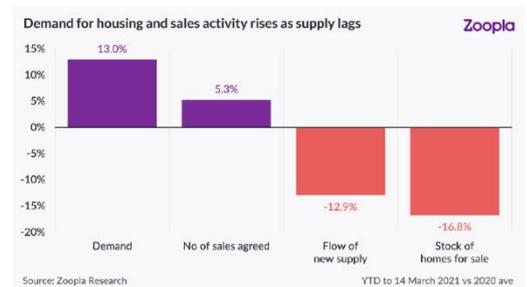


Source: HMRC

Activity in the UK housing market remains high. Monthly transactions historically average circa 90,000 per month. After the collapse during the first lockdown volumes increased gradually since the re-opening of the housing market. Completed sales totalled over 120,000 in January 2021 and in March over 160,000 sales were agreed. Activity is expected to remain strong during 2021. CBRE assume that the extension of the stamp duty holiday announced in the recent Budget could benefit an additional 600,000 transactions. The 95% mortgage guarantee scheme, also announced at the Budget, helped in its original form (Help-To-Buy 2013-2018) around 35,000 (mainly first time) buyers (Source: CBRE).

The supply/demand imbalances remain a dominant characteristic of the current market and provide a support to house prices for the remainder of 2021.

The vast majority of new forecasts published recently predict positive house price growth for 2021. Strong demand is also reducing average times to sell - excluding London, the average time from listing a property to agreeing a sale fell from 50 days last year to 44 (Source: Zoopla).



There has been further good news from HMRC on the housing market, and specifically for investors looking to allocate to property funds such as the TM home investor fund. Legislation that came into force in April 2019 meant that 'UK property rich funds' held in an offshore bond became subject to UK corporation tax. It transpired that this was an unintended consequence of broader tax changes.

In a very welcome update, the government recently issued amending legislation which in effect means that 'UK property rich funds' held in an offshore bond will not be subject to UK corporation tax as long as the bond provider doesn't hold over certain percentage threshold (less than 10% of the market value of the fund). Offshore bond providers are in the process of updating their policies towards property funds – many have already indicated that new investments will again be allowed.

TM home investor fund

The TM home investor fund recorded 0.34% total return in the first quarter of 2021 (net of charges). Another quarter of steady, positive returns in a volatile environment for investors in other asset classes.

Rent collection continues to be strong at c. 101% for the month of March maintaining its long-term trend and demonstrating the validity of the Private Rented Sector as a resilient source of income to investors.

In a further sign of solid rental growth, rents on re-lets increased by 5% over the past quarter, versus a market average of 1.5% according to the Office for National Statistics, whilst percentage occupancy levels are in the high 90's.

When the pandemic started a year ago, the Fund had 24 vacant units having just acquired 11 new units and, with the market closed under the first 'lockdown', there was an obvious struggle to fill these voids which were running at c. 10-11%. However, as the market has progressed over the last 8 months, lettings have increased and at one point in March 2021 there were only 6 units vacant (c. 3%), the lowest number since December 2019.

The above has led to the best Net Yield (3%) at property level since summer last year when the post-lockdown 1.0 optimism was in full effect. With the continuing success of the vaccination rollout and easing of restrictions we are cautiously confident this performance will continue throughout 2021.

Whilst the headline figures for the UK housing market both in terms of indices and transactions remain impressive, it is worth remembering that the circa 90,000 housing transactions per month count for less than 0.5% of UK households. Importantly, a higher-than-normal proportion of transactions are currently for premium homes which means the data feeding into national indices is not truly representative of the 'average' UK home. This requires a significant number of adjustments by index providers and, factoring in the significant lags from transactions yet to be completed, it is likely some published indices will be adjusted retrospectively.

The Fund's property valuations for March remained static following increases in January and February, but its Standing Independent Valuer, CBRE, continues to monitor deals progressing on comparable properties.

The following table summarises the latest performance metrics for the Fund:

TM home investor fund

Key Performance Metric	2019 Full Year	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2020 Full Year	Jan-21	Feb-21	Mar-21
Total return, C-Class Acc, period stated	1.70%	0.21%	-0.28%	0.35%	0.76%	1.04%	0.28%	0.07%	0.00%
Property valuations, as % of property portfolio	0.53%	0.01%	-0.46%	0.30%	0.67%	0.60%	0.33%	0.09%	0.00%
Rent collected as % of rent invoiced	100%	100%	96%	99%	98%	98%	99%	96%	101%

Class C performance shown bid to bid, net of charges with gross income reinvested (Source: Financial Express).

Stuart Springham

Fund Manager

6th April 2021

Important information

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

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

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

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