

TM Hearthstone UK Residential Feeder Fund

Annual Report & Accounts
for the year ended 30th June 2023



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
G. Stewart – 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 and C. J. Willson and G. Stewart are not engaged in other business activities that are of significance to the TM Hearthstone UK Residential Feeder Fund (the "Trust").

TM Hearthstone UK Residential Feeder Fund

Report of the Manager

for the year ended 30th June 2023

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 2023.

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.

A detailed statement of the investment and borrowing restrictions and the extent to which the sub-fund may employ efficient portfolio management techniques is set out in Appendix V of the prospectus.

Performance Comparator

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

From time to time, major macroeconomic events occur and cause significant short-term volatility to capital markets. Russia’s military action is an example of such an event. The recent sharp increases in inflation were initially due to rising energy and food costs, largely caused by global events such as the war in Ukraine. Other factors, like wage increases in the UK, have also helped keep prices high. High inflation may lead to slower house price growth, particularly when interest rates rise rapidly with the aim of controlling inflation which makes buying a home more expensive. In addition, when inflation is rising, more is spent on daily necessities such as food, petrol and heating. These factors reduce affordability when purchasing a home, which may slow house price growth. We are monitoring the situation closely and will continue to manage the Trust in line with its objectives.

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 reasons which are explained in further detail below. The 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.

Material 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.

TM Hearthstone UK Residential Feeder Fund

Report of the Manager

for the year ended 30th June 2023 (continued)

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

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.

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, and the uncertainty 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 inserted to the valuation. Please refer to 'Important Information' above 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 SIV 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 expected. If the units were to be marketed for sale by auction, a discount to the vacant possession value would be expected to reflect the current uncertainty and safety implications within the building.

There has been some useful evidence reflecting activity in the market, albeit the building is limited to cash buyers. Based on recent sales activity in the block, the SIV's opinion of value represents a discount of broadly 5%. However, it is important to note that sales evidence is still limited as at the valuation date and consequently the SIV continues to monitor the local market and any listings within the subject schemes. To confirm, the SIV still consider there to be a material uncertainty particularly in relation to what impact the building safety and associated issues will have on the achievable values for the apartments within Spectrum.

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

Suspension of dealing in TM home investor fund and TM home investor feeder fund, together "the Funds"

Thesis Unit Trust Management Limited ("Tutman") as the Authorised Fund Manager ("AFM") of the Funds has, as of Monday 31st July 2023, obtained the agreement of the Funds' Depository and Trustee to suspend dealing in the Funds, effective from 10:30pm on 31st July 2023 until further notice.

The Funds have been reducing in size because investors have been selling their shares and the rate of investor redemption requests has increased recently. The AFM repays investors who are selling their shares using the cash it maintains on the portfolio, and this needs to be replenished periodically by selling underlying property assets. The sale of property assets can take many months to complete, and although the AFM still holds 7% of the TM home investor fund assets as cash, it is likely that this will be used up quickly if the rate of investor redemptions continues.

The AFM has, however, carefully considered all relevant circumstances relating to the Funds, including the likelihood of further redemptions. It has concluded that it is in the best interests of all existing and potential investors in the Funds to suspend the issue, cancellation, sale and redemption of shares in the Funds with immediate effect. The period of suspension is intended to protect the remaining investors in the Funds. The AFM has concluded that, by accepting any further redemption requests, the Property Investment Manager (Hearthstone Asset Management Limited) may, depending on the volume and size of the deals, be required to start selling properties at a substantial discount to market value.

The AFM notes that the current property disposal programme planned to increase liquidity levels includes the sale of five properties, which are currently under offer at close to market value. If the programme were to be accelerated to accommodate further redemptions, it is likely that this position could not be maintained. In accordance with the prospectus, the AFM has therefore assessed that the circumstances are exceptional and that the suspension is required to ensure that the liquidity of the Funds is not significantly depleted and that property is not required to be sold at a substantial discount to its open market value.

TM Hearthstone UK Residential Feeder Fund

Report of the Manager

for the year ended 30th June 2023 (continued)

Suspension of dealing in TM home investor fund and TM home investor feeder fund, together “the Funds” (continued)

During the period that share dealing is suspended, the AFM will not be able to accept requests from investors to redeem or purchase shares in the Funds. The Funds will, however, continue to be managed in accordance with their investment objective and be priced daily.

Any income distributions that are due to be paid will be paid as usual and in accordance with the prospectus relating to the Funds.

Closure of the TM home investor fund and TM home investor feeder fund, together “the Funds”

As a result of the suspension, the AFM considered a range of options available to it, including the termination of the Funds. The AFM has now decided to close the Funds.

Several factors including, we believe, ongoing uncertainty over the future of open-ended funds invested in direct (physical) property, and the potential introduction of between 90 and 180 day notice periods for redemptions, together with reduced investor sentiment caused by rising interest rates have combined to cause existing investors to redeem their shares and acted as a disincentive to new investors to subscribe for shares.

If the existing suspension was lifted in the near future, the AFM anticipates increased redemptions in an environment where it would still be difficult to attract new investors and, as a consequence, would not be able to meet these requests and retain liquidity in the Funds which would result in another suspension.

After careful consideration, it has been agreed that the Funds are no longer commercially viable for it to operate efficiently, as such, it is not in the interests of investors to remain invested in the Funds in the long-term. Additionally, the AFM does not believe that the Funds will attract new investment or grow in the future.

Thesis Unit Trust Management Limited
Manager
31st October 2023

TM Hearthstone UK Residential Feeder Fund

Report of the Investment Manager

for the year ended 30th June 2023

Performance Table

Date		TM home investor feeder fund
31st May 23-30th Jun 23	1mth	0.07%
31st Mar 23-30th Jun 23	3mth	0.34%
31st Dec 22-30th Jun 23	6mth	0.41%
30th Jun 22-30th Jun 23	1yr	1.58%
30th Jun 20-30th Jun 23	3yrs	8.01%
Launch To Date		47.71%

Source: Financial Express Analytics

Investment Report

Residential Market

Financial markets have remained unsettled by worries about high inflation. Otherwise, positive news on labour market resilience has stoked fears of higher interest rates, adding to the risk of a hard landing. For example, a recent release of US data showing strong private sector job creation sent equity markets lower, while the yield on two-year US government bonds briefly reached its highest level since 2007.

The same has happened in the UK, which has seen one of the sharpest rises in interest rate expectations of any major economy. Since April, rates on two-year UK bonds have risen by 210bp, compared with 90bp in the US and just 70bp in Germany. Markets are now pricing in a peak in the UK Bank Rate of over 6% early next year, compared with 0.15% in late 2021 and a current level of 5% - higher than the expected peaks for the US and the euro area (5.5% and 4.0%, respectively).

Financial markets see the UK facing a higher peak in rates than elsewhere because inflation risks appear to be greater. UK headline inflation has fallen less than in the US and the euro area since the start of the year. Meanwhile, core inflation, which has moderated across most large economies, has hit a 30-year high in the UK. Nevertheless, there are some signs that despite the resilience of the UK labour market so far, conditions are becoming more difficult.

A weakening in the labour market, and especially moderating wage settlements, would bring interest rate expectations down, offering relief to households hit by five-year mortgage rates that are now over 6%. The sharp rise in new mortgage rates will weigh heavily on housing market transactions and house prices. The stock of unsold properties has risen steadily since last autumn, and is likely to increase further as demand is depressed by the cost of borrowing.

While the downward adjustment in house prices is cushioned to some extent by the proportion of fixed rate loans, savings accumulated during the pandemic and a sharp reduction in new housing supply as developers cut production, we believe the process has further to run.

There are, however, signs that the squeeze on households' disposable incomes is starting to ease. Higher wage settlements are starting to feed through, and the 10% increase in the value of the state pension, the National Living Wage and some benefits from April is also a factor. Energy prices are falling sharply, and producer price data suggest a sharp slowdown in food and core goods price inflation over the next six months.

The Treasury's survey of independent forecasters shows that fears of a recession in the UK have receded in recent months. Much will depend on how the delayed impact of successive interest rate rises feeds through over the next few months, and the pace at which inflation moderates.

The consensus continues to point to insipid growth in 2024, which runs the risk of stagflation if inflation proves stickier than the Bank of England expects.

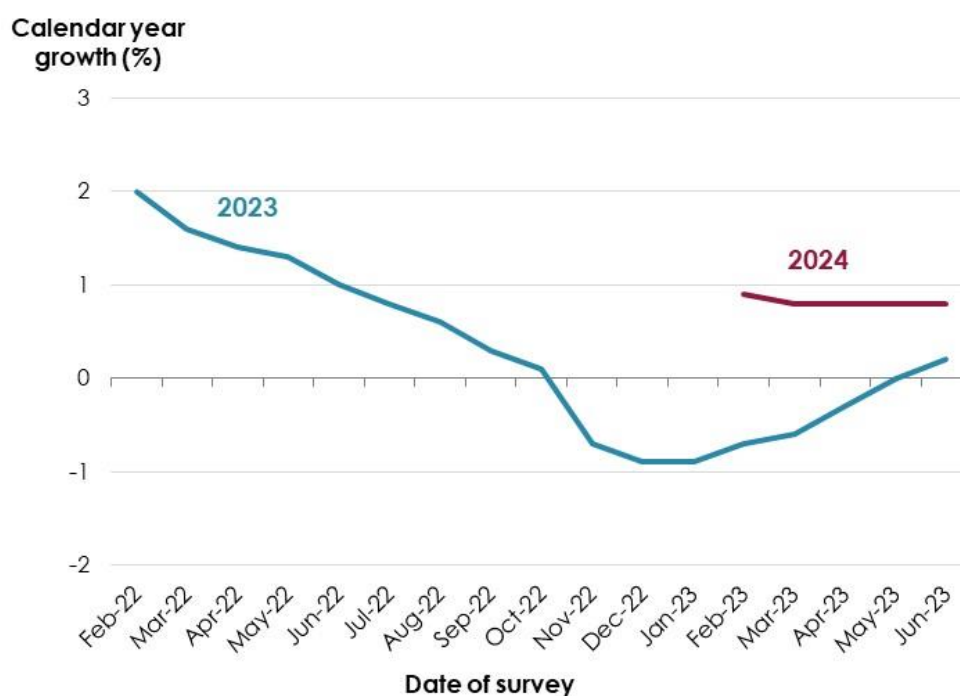
TM Hearthstone UK Residential Feeder Fund

Report of the Investment Manager
for the year ended 30th June 2023 (continued)

Investment Report (continued)

Residential Market (continued)

Evolution of consensus GDP forecasts (UK)



Source: HM Treasury Comparison of Independent Forecasts, June 2023

The above economic pressures have led to a cooling of the housing market with Nationwide data to June showing prices down 3.5% over the year across all regions except Northern Ireland. Of the GB regions, the East Midlands, Scotland and Wales were the most resilient regions, while East Anglia was the weakest.

The e.surv Acadata 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 £4,000, or 1.2%, however we expect that to fall as more data comes through the conveyancing system – it is worth noting that according to this Index 2023 has shown the following monthly changes (for comparison we also show the Fund’s property portfolio valuation changes during these months via its investment in TM home investor fund).

Month	Index Change %	Fund IV Change %
January 2023	0.0%	-0.06%
February 2023	-0.1%	-0.03%
March 2023	-0.7%	0.03%
April 2023	-0.6%	0.28%
May 2023	-0.2%	-0.15%
June 2023	-0.3%	-0.03%

Annually the Fund’s Investment Value (IV) has increased by 1.29% against the e.surv Index’s 1.22%, and Zoopla’s 1.2% increase.

TM Hearthstone UK Residential Feeder Fund

Report of the Investment Manager

for the year ended 30th June 2023 (continued)

Investment Report *(continued)*

Residential Market *(continued)*

With the continued record levels of inflation and rising base and mortgage rates there is continued pressure on the housing market that has driven buyer enquiries to weaken although mortgage approvals have remained unexpectedly resilient.

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 5.79% year to date, and the market as a whole has continued averaging 5.1% year to date according to the Office for National Statistics (ONS).

Hearthstone Asset Management Limited
Property Investment Manager of TM home investor fund
1st August 2023

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 PO19 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 Gross Accumulation of the Master. Further funds may be established in the future.

Unitholders are not liable for the debts of the Trust.

The annual long report of the Trust 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 together with the allocated remuneration from the service company for the year ended 30th April 2023.

	Headcount (FTE)	Fixed Remuneration £'000	Variable Remuneration £'000	Total Remuneration £'000
All Staff	62	2,642	227	2,869
Of which:				
Senior Management	5	613	67	680
Material Risk Takers	14	760	83	843
Control	10	443	23	466
Other	33	826	54	880

Following the implementation of the Investment Firms Directive (IFD), the group has amended its remuneration policy during the year ended 30th April 2023, to introduce malus and clawback provisions. The AIFM’s remuneration policy is published at: www.tutman.co.uk.

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

31st October 2023

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 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 for the third year in succession. Consistent with the prior year’s audit opinion, the qualification relates specifically to the valuation of 17 leasehold properties owned by the TM home investor fund, in which the Trust wholly invests, known as the Spectrum apartments.

In the Report of the Manager for last year, we provided detailed commentary relating to the Spectrum apartments and the additional steps that we had taken as a result. Due to the on-going nature of the matter and the continued uncertainty we have provided you with the same level of information in this year’s report, along with any noteworthy updates.

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 fund, 12 are located in a low-rise block.

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. Whilst uncertainty still remains, two positive developments have however occurred over the past 12 months. Firstly, a construction material used in the Spectrum apartments, Panablock, has been reassessed from a fire safety perspective and it is likely that it may be retained as a result. The extent of any remediation works will therefore reduce significantly and residents will not need to be decanted if any works are undertaken in the future. Secondly, the Government announced that remediation costs of high-rise buildings should not fall to leaseholders and should in fact be borne by freeholders and developers. The original developer has now formally committed to this contract, but a detailed remediation plan has not yet been submitted.

TM Hearthstone UK Residential Feeder Fund

Responsibilities of the Manager

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

The apartments continue to be held to generate rental income and continue to be occupied at market rates.

When preparing their independent valuation certificate for 30th June 2023, CBRE, the Standing Independent Valuer, concluded for the third year in succession 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”. Consistent with last year, 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 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 continue to carefully monitor the situation. We sought independent advice earlier this year and have satisfied ourselves, for the third year in succession, of the following:

- 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 it continues to be 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.

We will 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.

Thesis Unit Trust Management Limited
Manager
West Sussex
31st October 2023

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 2023

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
31st October 2023

TM Hearthstone UK Residential Feeder Fund

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

Qualified opinion

We have audited the financial statements of TM Hearthstone UK Residential Feeder Fund (the 'Trust') for the year ended 30th June 2023. 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 as amended in June 2017, the rules of the Collective Investment Schemes sourcebook and the Trust deed.

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 2023 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 as amended in June 2017, the rules of 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 £568,109 reflecting the sub-fund's portion of the value for 17 leasehold properties ("the Spectrum Apartments") that have not been recorded at their fair value in the master fund as at 30th June 2023. Due to the inability of the independent valuer to ascribe a reliable value to the properties at 30th June 2023, the Manager has applied a discount to the fair value as recorded at 30th June 2020. 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 at 30th June 2023 or 30th June 2022 was necessary or whether there was any consequential effect on the net capital gains for the years ended 30th June 2023 and 30th June 2022. Our audit opinion on the financial statements for the year ended 30th June 2022 was qualified for the same reason.

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.

Emphasis of matter – basis of preparation of the financial statements

We draw attention to note 2(a) 'Basis of Preparation' to the financial statements of the Trust, which describes the basis of preparation of the financial statements. As described in that note, due to the intention of winding up the Trust and the sub-fund, the financial statements have been prepared on a basis other than going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report & accounts, other than the financial statements and our auditor's report thereon. The Manager is responsible for the other information contained within the annual report & accounts. 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.

TM Hearthstone UK Residential Feeder Fund

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

Other information *(continued)*

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 themselves. 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 of our report, we were unable to obtain sufficient appropriate evidence concerning the valuation of the Spectrum Apartments, which represents £568,109 of the sub-fund's investments value. Due to the inability of the independent valuer to ascribe a reliable value to the properties at 30th June 2023, the Manager has applied a discount to the fair value as recorded at 30th June 2020. These events are discussed in note 2c, however, the effect on the financial statements has not been determined.

We have concluded that where the other information refers to the investment balance or related balances such as net capital gains, it may be materially misstated for the same reason.

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

Except for the matter described in the basis for qualified opinion section of our report, 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 7, the Report of the Investment Manager; on page 10, the Constitution; and on page 23, the Portfolio Statement) 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.

TM Hearthstone UK Residential Feeder Fund

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

Auditor's responsibilities for the audit of the financial statements *(continued)*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 significant 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 is 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 by comparing to 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)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the entity's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
 - the applicable statutory provisions;
 - the rules and interpretative guidance issued by the Financial Conduct Authority; and
 - the entity's control environment, including the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation, rules and other regulations of the regulator, the adequacy of procedures for authorisation of transactions, internal review procedures over the entity's compliance with regulatory requirements, the authority of, and resources available to the compliance officer and procedures to ensure that possible breaches of requirements are appropriately investigated and reported.

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.

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
31st October 2023

TM Hearthstone UK Residential Feeder Fund

Statement of Accounting Policies, Distribution Policies and Risk Management Policies

for the year ended 30th June 2023

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 (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

Following a review of the Fund and of its feeder fund, the TM home investor Feeder Fund (the "Feeder Fund"), the AFM along with the funds' Depository and Trustee (NatWest Trustee and Depository Services Limited) agreed to suspend dealing in both the Fund and the Feeder Fund effective from 10:30pm on 31st July 2023 until further notice.

The Fund has been reducing in size because investors have been selling their shares and the rate of redemption requests has increased. More detailed information is set out under the 'Important Information' section, page 4.

After careful consideration, it has been agreed that the Fund is no longer economically viable for it to operate efficiently, as such, it is not in the interests of investors to remain invested in the Fund in the long term. Additionally, the AFM does not believe that the Fund will attract new investment or grow in the future. As a result, the AFM applied to the FCA to terminate the Funds on the 29th September 2023. FCA approval was received on 23rd October 2023.

Therefore, the financial statements have been prepared on a basis other than going concern, the ACD have considered the company's accounting policies and the appropriateness as a result of the change in the basis of preparation. The ACD consider the measurement and recognition principles of FRS 102, as previously adopted within the accounting policies of the company, to remain appropriate. As such, the ACD do not consider there to be an impact on the financial statements and there have been no adjustments to any of the balances as a result of the change in basis. Investment property held by the TM home investor fund, in which the Feeder Fund solely invests, have been valued at net realisable value, defined in Accounting Standards as 'estimated selling prices less costs to sell'.

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 or as stated otherwise.

c) Valuation of Investments

The sole investment of the Trust are shares in the TM home investor fund (the PAIF).

The PAIF's 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, and the uncertainty 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 inserted to the valuation.

Please refer to 'Important Information' on page 4 for more details.

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:

TM Hearthstone UK Residential Feeder Fund

Statement of Accounting Policies, Distribution Policies and Risk Management Policies

for the year ended 30th June 2023 (continued)

2. Summary of Significant Accounting Policies (continued)

c) Valuation of Investments (continued)

- 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 as at close of business on the last working day of the accounting year. Investment property held by the TM home investor fund, in which the Feeder Fund solely invests, have been valued at net realisable value, defined in Accounting Standards as 'estimated selling prices less costs to sell'.

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

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.

Judgements, key assumptions and other key sources of estimation uncertainty

Please refer to 'Important Information' on page 4.

d) Revenue

The Trust 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 Trust is exempt from United Kingdom tax on capital gains realised on the disposal of its investment in the TM home investor fund.

TM Hearthstone UK Residential Feeder Fund

Statement of Accounting Policies, Distribution Policies and Risk Management Policies

for the year ended 30th June 2023 (continued)

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.

4. Risk Management Policies

In pursuing its investment objectives, the Trust invests directly into unit class 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 revenue. The main risks arising from the Trust's financial instruments or investments 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 weakening of rental yields. Residential property values (i.e. the PAIF on behalf of a sub-fund) 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.

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.

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

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.

TM Hearthstone UK Residential Feeder Fund

Statement of Accounting Policies, Distribution Policies and Risk Management Policies

for the year ended 30th June 2023 (continued)

4. Risk Management Policies (continued)

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

TM home investor feeder fund

Portfolio Statement

as at 30th June 2023

Holding	Market value £	Percentage of total net assets %
8,475,425 Property Authorised Investment Funds 100.30% (100.40%) TM home investor fund 'H' Gross Accumulation*	13,296,247	100.30
Net investments 100.30% (100.40%)	13,296,247	100.30
Net other liabilities	(39,811)	(0.30)
Total net assets	13,256,436	100.00

Note: Comparative figures shown in brackets relate to 30th June 2022.

*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 25 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 sub-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 sub-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

A statement on the Assessment of Value is 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

For the year to	30/06/2023 <i>(pence per unit)</i>	30/06/2022 <i>(pence per unit)</i>	30/06/2021 <i>(pence per unit)</i>
Change in Net Asset Value per Unit			
Opening net asset value per unit	145.98	140.44	137.15
Return before operating charges*	0.73	7.84	5.48
Operating charges	(2.37)	(2.30)	(2.19)
Return after operating charges*	(1.64)	5.54	3.29
Distributions	(1.33)	(0.70)	(0.53)
Retained distributions on accumulation units	1.33	0.70	0.53
Closing net asset value per unit	144.34	145.98	140.44
*After direct transaction costs of:	–	–	–
Performance			
Return after charges	(1.12%)	3.94%	2.40%
Other Information			
Closing net asset value (£'000)	13,256	16,474	13,390
Closing number of units	9,184,338	11,285,266	9,534,037
Operating charges ¹	1.61%	1.61%	1.58%
Direct transaction costs	0.00%	0.00%	0.00%
Prices			
Highest unit price	148.50	146.00	140.50
Lowest unit price	146.00	140.50	137.30

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 2023

	Notes	£'000	2023 £'000	£'000	2022 £'000
Income					
Net capital (losses)/gains	5		(250)		580
Revenue	7	326		286	
Expenses	8	(157)		(182)	
Interest payable and similar charges		(3)		(1)	
Net revenue before taxation		166		103	
Taxation	9	(33)		(19)	
Net revenue after taxation for the year			133		84
Total return before distributions			(117)		664
Distributions	10		(133)		(84)
Change in unitholders' funds from investment activities			(250)		580

Statement of Change in Unitholders' Funds

for the year ended 30th June 2023

	Note	£'000	2023 £'000	£'000	2022 £'000
Opening net assets			16,474		13,390
Amounts receivable on issue of units		2,095		10,459	
Amounts payable on cancellation of units		(5,196)		(8,040)	
			(3,101)		(2,419)
Change in unitholders' funds from investment activities (see above)			(250)		580
Retained distribution on accumulation units	10		133		85
Closing net assets			13,256		16,474

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Balance Sheet

as at 30th June 2023

	Notes	2023 £'000	2022 £'000
Assets			
Fixed assets:			
Investments		13,296 ¹	16,540 ¹
Current assets:			
Debtors	11	177	196
Total assets		13,473	16,736
Liabilities			
Creditors:			
Bank overdrafts		(13)	(28)
Other creditors	12	(204)	(234)
Total liabilities		(217)	(262)
Net assets		13,256	16,474
Unitholders' funds		13,256	16,474

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 2023

1. Accounting Policies

The statement of compliance together with the accounting, distribution and risk management policies for the sub-fund are provided on pages 19 to 22.

5. Net Capital Gains

Net capital gains comprise:

	2023 £'000	2022 £'000
Non-derivative securities ¹	(250)	577
Transaction charges	-	3
Net capital gains	<u>(250)</u>	<u>580</u>

¹ Includes realised gains of £268,965 and unrealised losses of £519,069 (30th June 2022: realised gains of £254,073 and unrealised gains of £322,630).

The realised gains on investments in the accounting period include amounts previously recognised as unrealised gains/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

	2023 £'000	2022 £'000
Unfranked PID revenue	<u>326</u>	<u>286</u>
	<u>326</u>	<u>286</u>

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2023 (continued)

8. Expenses

	2023 £'000	2022 £'000
Payable to the Manager or associates of the Manager:		
Manager's periodic charge	136	158
Manager's periodic charge rebates	(57)	(57)
	79	101
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	20	20
AIFMD fees	1	1
Audit fees ¹	15	13
Calastone fees	4	4
Euroclear fees	3	3
Legal fees	4	5
Printing fees	1	2
Registration fees	23	26
	71	74
Total expenses	157	182

¹ Total audit fees of £12,150 (30th June 2022: £10,550), 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 2023 (continued)

9. Taxation

	2023 £'000	2022 £'000
a) Analysis of charge for the year:		
Corporation tax	33	19
Irrecoverable income tax	–	–
Total current taxation	33	19
Deferred tax charge	–	–
Total taxation	33	19
b) Factors affecting taxation charge for the year:		
Net revenue before taxation	166	103
Net revenue multiplied by the standard rate of corporation tax of 20% (2022: 20%)	33	21
Effects of:		
Taxation due to timing differences	–	(2)
Total tax charge (note 9a)	33	19
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 2022: £Nil).

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2023 (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:

	2023 £'000	2022 £'000
First interim accumulation	45	17
Second interim accumulation	43	36
Third interim accumulation	22	17
Final accumulation	23	15
	133	85
 Add: Revenue deducted on units cancelled	 –	 –
Deduct: Revenue received on units issued	–	(1)
Net distribution for the year	133	84

11. Debtors

	2023 £'000	2022 £'000
Accrued revenue	70	70
Amounts receivable for creation of units	14	7
Manager's periodic charge rebates receivable	39	28
Sales awaiting settlement	54	91
	177	196
	177	196

12. Other creditors

	2023 £'000	2022 £'000
Accrued expenses	42	47
Amounts payable for cancellation of units	54	91
Corporation tax payable	33	19
Purchases awaiting settlement	75	77
	204	234
	204	234

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2023 (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. The amount payable at year end is £10,305 (30th June 2022: £12,637).

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 2023 (30th June 2022: £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 34.

The Manager's periodic charge for the unit class 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	11,285,266	1,419,163	(3,520,091)	–	9,184,338

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Notes to the Financial Statements

for the year ended 30th June 2023 (continued)

17. Fair Value measurement

In the opinion of the Manager, there is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value.

Valuation technique as at 30th June 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £000
Assets				
Collective Investment Schemes	–	13,296	–	13,296
Valuation technique as at 30th June 2022				
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £000
Assets				
Collective Investment Schemes	–	16,540	–	16,540

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.

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 2023, the total leverage in the sub-fund, using the commitment approach, did exceed 100% (gross 100.96%, commitment 100.86%). Given that the exposure of the sub-fund is 100.86% of NAV this means that some leverage was employed by the sub-fund.

19. Post Balance Sheet Events

The AFM along with the funds’ Depository and Trustee (NatWest Trustee and Depository Services Limited) agreed to suspend dealing in both the Fund and the Feeder Fund effective from 10:30pm on 31st July 2023 until further notice.

On the 29th September 2023, the AFM applied to the FCA to terminate the Funds. FCA approval was received on 23rd October 2023.

The latest NAV per Class D (Unbundled Net) Accumulation of 144.89p as at the close of business on 25th October 2023 had increased by 0.38% compared to the NAV at the year end of 144.34p.

TM Hearthstone UK Residential Feeder Fund

TM home investor feeder fund

Distribution Tables

for the year ended 30th June 2023

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

Group 1: Units purchased prior to 1st July 2022

Group 2: Units purchased from 1st July 2022 to 30th September 2022

Group	Net Accumulation	Equalisation (note 14)	2022 Net Accumulation	2021 Net Accumulation
1	0.4126	–	0.4126	0.1446
2	0.4096	0.0030	0.4126	0.1446

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

Group 1: Units purchased prior to 1st October 2022

Group 2: Units purchased from 1st October 2022 to 31st December 2022

Group	Net Accumulation	Equalisation (note 14)	2022 Net Accumulation	2021 Net Accumulation
1	0.4377	–	0.4377	0.2898
2	0.4377	–	0.4377	0.2898

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

Group 1: Units purchased prior to 1st January 2023

Group 2: Units purchased from 1st January 2023 to 31st March 2023

Group	Net Accumulation	Equalisation (note 14)	2023 Net Accumulation	2022 Net Accumulation
1	0.2306	–	0.2306	0.1399
2	0.2264	0.0042	0.2306	0.1399

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

Group 1: Units purchased prior to 1st April 2023

Group 2: Units purchased from 1st April 2023 to 30th June 2023

Group	Net Accumulation	Equalisation (note 14)	2023 Net Accumulation	2022 Net Accumulation
1	0.2526	–	0.2526	0.1300
2	0.2524	0.0002	0.2526	0.1300



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