Hearthstone Investment Management Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2019

Company number: 9651293

Hearthstone Investment Management Limited

Report and financial statements 2019

Contents

Hearthstone Investment Management Limited

Strategic report
For the year ended 31 December 2019

The directors present their strategic report on the affairs of the company for the year ended 31 December 2019.

Review of the business

Hearthstone Investment Management Limited (HIML) is established to offer investment management services to institutional clients looking to invest in private rented residential property funds.

Activities have focused on the structuring and marketing of a new product, **Hearthstone Residential Fund 1** ("HRF1"), a 10-year English Limited Partnership with a strategy to invest in mainstream private residential assets across the UK, consisting principally of clusters of houses and unbroken blocks of flats.

HRF1 had its First Close on 7 December 2017, raising £100m of commitments from five local government pension schemes. At the Final Close on 7 February 2019, the fund had raised £200m of commitments from seven UK local government pension schemes

Business review

The profit for the year after taxation is £805,127. (2018: £235,223).

Financial Position

The company's third year of trading saw net liabilities b/fwd of £119,416 switch to net assets at the balance sheet date of £685,711 as set out on page 8.

Principal risks and uncertainties

The key risk facing the company arises from short term economic instability ultimately impacting on the tenant demand for private rented property within HRF1 and the country as a whole. Management look to address the risk arising from tenant demand through its letting strategy, which is set according to prevailing market conditions, and through a robust asset selection process that all potential transactions undergo including ensuring tenant demand is supported in the local area. Further oversight on potential acquisitions and the tenant demand associated with these is provided by an independent Investment Committee. The risks in relation to COVID-19 and Brexit are laid out below.

COVID-19 impact

At the date of signing the impact and duration of COVID-19 disruption is not fully understood but may include a reduction of house price growth and reduced rental income for the funds managed by Hearthstone. This in turn could impact the ability for further business growth. The circumstances are largely unprecedented so predicting the impact on the business is not realistically possible at this time. The business will continue to adjust its cost and operating model as necessary. The Directors believe that sufficient flexibility exists to mitigate these risks. Revenue from HRF1 is unimpacted by COVID-19 as fees are charged on investor commitments not as a percentage of assets under management and forecasts have been prepared on this basis which show the company is a going concern. Accordingly, the accounts are prepared on the going concern basis (refer to note 1).

Brexit impact

HRF1 is UK domiciled and all the investors are domiciled in the UK. Furthermore, all properties acquired, let and managed are in the UK. As such, our operating model is not materially impacted by Brexit apart from potential uncertainties during the transition impacting investor sentiment and house price growth.

Hearthstone Investment Management Limited

Strategic report
For the year ended 31 December 2019

Future Developments

Management are focusing on making HRF1 fully income-producing as deliveries of new stock continue, and on pro-active asset management strategies. Now that HRF1 has reached scale, management is focusing on launching follow-on funds within the private rented residential sector.

Approved by the Board of Directors on 18 August 2020 and signed on its behalf by

A Tarbit
Director

23 Austin Friars
London
EC2N 2QP

Hearthstone Investment Management Limited

Directors' report
For the year ended 31 December 2019

The directors present their annual report on the affairs of the company, together with the strategic report, the financial statements and auditor's report, for the year ended 31 December 2019.

Principal activities

The principal activity of the company is the provision of fund management and property advisory services.

Going concern

Having reviewed the operational profile of the business on the basis of the information available to them and having considered all potential uncertainties facing the company, the directors have a reasonable expectation that the company has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, the directors consider it appropriate to adopt the going concern basis in preparing the financial statements. Further detail is provided in note 1 to the financial statements. Any potential impacts upon the company in respect of Brexit & COVID-19 are outlined in the Strategic Report.

Dividends

The directors do not recommend a dividend (2018: £nil).

Directors

The directors who served during the year and to the date of signing these accounts were as follows:

R Otten
A Smith
C Rocco (resigned 25 April 2019)
M Drysdale
A Collett
A Tarbit
C Bucher
R Twigg

Auditor

During the year, PKF Francis Clark were re-appointed auditors for the company and group.

Information for the Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board of Directors on 18 August 2020 and signed on its behalf by

A Tarbit
Director

23 Austin Friars
London
EC2N 2QP

Directors' responsibilities statement
For the year ended 31 December 2019

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether Financial Reporting Standard 101 *Reduced Disclosure Framework* has been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Hearthstone Investment Management Limited

Opinion

We have audited the financial statements of Hearthstone Investment Management Limited (the 'company') for the year ended 31 December 2019, which comprise the Statement of Income, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101, Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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 company 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 opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditor's report to the members of Hearthstone Investment Management Limited (continued)

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities [set out on page 5], the directors are 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 directors determine 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 directors are responsible for assessing the company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

....

Duncan Leslie (Senior Statutory Auditor)
PKF Francis Clark, Statutory Auditor

North Quay House
Sutton Harbour
Plymouth
Devon
PL4 0RA

Date: 20 August 2020

Hearthstone Investment Management Limited

Statement of income
For the year ended 31 December 2019

	Note	Year ended 2019 £	Year ended 2018 £
Turnover	2	1,829,364	886,100
Operating expenses		(807,842)	(643,979)
Operating profit		1,021,522	242,121
Interest receivable & similar income		120	-
Interest payable and similar charges		(24,048)	(28,130)
Profit before taxation	3	997,594	213,991
Taxation on profit	5	(192,467)	21,232
Profit after taxation		805,127	235,223

Statement of comprehensive income

There are no recognised gains or losses in the current or preceding year other than the profit for that year. Accordingly, no separate statement of comprehensive income is presented. All activities derive from continuing operations.

Hearthstone Investment Management Limited

Statement of financial position
As at 31 December 2019

	Note	2019	2018
		£	£
Fixed assets			
Intangible fixed assets	6	60,000	70,000
Investments	7	65,366	4
		125,366	70,004
Current assets			
Debtors	8	344,225	191,696
Cash at bank & in hand		789,787	263,257
		1,134,012	454,953
Creditors: amounts falling due within one year	9	(348,667)	(94,373)
Net current assets		785,345	360,580
Total assets less current liabilities		910,711	430,584
Creditors: amounts falling due after one year	10	(225,000)	(550,000)
Net assets/(liabilities)		685,711	(119,416)
Capital and reserves			
Called up share capital	11	9,278	9,278
Share premium account		4,481	4,481
Profit and loss account		671,952	(133,175)
Shareholders' funds/(deficit)		685,711	(119,416)

The financial statements of Hearthstone Investment Management Limited (registered number 9651253) were approved by the Board of Directors on 18 August 2020.

Signed on behalf of the Board of Directors

A Tarbit
Director

Hearthstone Investment Management Limited

Statement of changes in equity
Year ended 31 December 2019

	Issued share capital	Share premium account	Profit & loss account	Total shareholders' funds
	£	£	£	£
At 1 January 2019	9,278	4,481	(133,175)	(119,416)
Profit for the year	-	-	805,127	805,127
Balance at 31 December 2019	9,278	4,481	671,952	685,711

	Issued share capital	Share premium account	Profit & loss account	Total shareholders' funds
	£	£	£	£
At 1 January 2018	9,000	-	(368,398)	(359,398)
Share capital issued (note 11)	278	4,481	-	4,759
Profit for the year	-	-	235,223	235,223
Balance at 31 December 2018	9,278	4,481	(133,175)	(119,416)

Notes to the financial statements
For the year ended 31 December 2019

1. **Accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

Statement of compliance

The company meets the definition of a qualifying entity under Financial Reporting Standard ("FRS") 100: 'Application of Financial Reporting Requirements issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

Basis of preparation

The financial statements have been prepared on the historical cost convention.

Summary of disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Hearthstone Investments Limited. The group accounts of Hearthstone Investments Limited are available to the public and can be obtained as set out in note 14.

Turnover

Turnover represents the net amounts receivable from the Hearthstone Residential Fund 1 for investment management services. Turnover is recognised on an accruals basis for both management and transaction fees.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the strategic report. The strategic report on page 2 describes the financial position of the company and its business risks.

Taxation

Current tax, being UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Financial instruments

Classification

The company holds the following financial instruments:

• Short term trade and other debtors and creditors;
• Loans; and
• Cash and bank balances.
All financial instruments are classified as basic.

Recognition and measurement

The company has chosen to apply the recognition and measurement principles in FRS102.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument and derecognised when in the case of assets, the contractual rights to cash flows from the assets expire or substantially all the risks and rewards of ownership are transferred to another party, or in the case of liabilities, when the company's obligations are discharged, expire or are cancelled.

Except for loans, such instruments are initially measured at transaction price, including transaction costs, and are subsequently carried at the undiscounted amount of the cash or other consideration expected to be paid or received, after taking account of impairment adjustments.

Loans are initially measured at the present value of future payments, discounted at a market rate of interest, and are subsequently carried at amortised cost using the effective interest method.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The directors do not consider there to be any key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2. Segment information

The Company's sole activity is that of a fund manager and all turnover will arise within the United Kingdom.

3. Profit before tax

Profit before taxation is stated after charging:

	Year ended 2019	Year ended 2018
	£	£
Amortisation	10,000	10,000

Notes to the financial statements
For the year ended 31 December 2019 (continued)

The relevant portion of the group audit fee relating to the company was borne by the ultimate holding company, Hearthstone Investments Limited. The audit fee payable by Hearthstone Investments Limited was £10,000 (2018 - £9,500).

4. **Staff costs**

The average monthly number of employees (including executive directors) was:

	Year ended 2019 No	Year ended 2018 No
Administration	6	4

	Year ended 2019 £	Year ended 2018 £
Their aggregate remuneration comprised:		
Wages and salaries	518,705	331,691
Social security costs	59,166	41,602
Pensions	3,722	2,396
	581,593	375,689

Directors' remuneration and transactions

Directors' remuneration comprised:

	2019 £	2018 £
Salary	361,933	227,583
Fees	-	-
Pensions	1,180	-

The highest paid director received £107,905 (2018: £85,000) during the year. The number of directors who were accruing retirement benefits was 1. (2018: 1).

5. Tax on profit

The tax charge comprises:

	2019	2018
	£	£
Current tax		
UK corporation tax	171,478	-
Total current tax	171,478	-
Deferred tax asset recognised	20,989	(21,232)
Total tax on profit/(loss)	192,467	(21,232)

A deferred tax asset of £243 has been recognised in respect of the short-term timing differences (2018: £21,232 cumulative losses) as its recoverability is likely within one year arising from the company's continuing profitability.

	2019	2018
	£	£
Profit before tax	997,594	213,991
Tax charge/(credit) at standard UK corporation tax rate of 19.00%. (2018: 19.00%)	189,543	(40,658)
Effects of:		
Expenses not deductible for tax purposes	1,047	(3,669)
Income not taxable for tax purposes	(23)	-
Deferred tax not recognised	1,900	-
Tax losses utilized	-	44,327
Current tax charge for year	192,467	-

6. Intangible Assets

During 2016 the company acquired the investment business of Mill Group for an agreed fee of £100,000. The purpose of this was to enable the company to structure and market a new product, Hearthstone Residential Fund I ("HRF1"), a 10-year English Limited Partnership with a strategy to invest in mainstream private residential assets across the UK, consisting principally of residential property.

	Goodwill
	£
Cost	
At 31 December 2018 & 2019	100,000
Amortisation	
At 1 January 2019	30,000
Charge for the year	10,000
At 31 December 2019	40,000
Net book value **At 31 December 2019**	60,000
Net book value **At 31 December 2018**	70,000

7. Fixed asset investments

	2019	2018
	£	£
Subsidiary undertakings	6	4
Other investments	65,360	-
	65,366	4

The company has investments in the following subsidiary undertakings. All subsidiaries are incorporated in the United Kingdom and operated from the same registered address as the parent company, given in note 14. The company has a 100% holding in the following entities:

Hearthstone Investments (FP) Limited

Hearthstone Investments (GP) Limited

Hearthstone Investments (GP2) Limited

8. Debtors: amounts falling due within one year

	2019	2018
	£	£
Trade debtors	314,222	154,162
Amounts owed by group undertakings	3,581	-
Other debtors	25,060	5,333
Deferred tax recognised	243	21,232
Prepayments & accrued income	1,119	10,969
	344,225	191,696

9. Creditors: amounts falling due within one year

	2019	2018
	£	£
Directors' current accounts (refer note 13)	7,581	7,620
Other tax & social security	146,822	52,899
Amounts owed to group undertakings	-	18,622
Current taxation	171,478	-
Accruals	22,786	15,232
	348,667	94,373

10. Creditors: amounts falling due after one year

	2019	2018
	£	£
Directors' loans (refer note 13)	75,000	150,000
Amounts owed to group undertakings	150,000	400,000
	225,000	550,000

Notes to the financial statements
For the year ended 31 December 2019 (continued)

11. Share capital

	2019		2018	
	No	£	No	£
Issued and fully paid				
Ordinary shares of £1 each	9,278	9,278	9,278	9,278

12. Contingent liabilities

At 31 December 2019 the company was engaged in the early stages of litigation proceedings with a former director. Whilst no provision has been made in the accounts due to the disclosure requirements under FRS102, any liability arising from the litigation will be capped in accordance with the Employment Rights Act 1996. There were no other disclosable contingent liabilities at the balance sheet date or the date of signing of these accounts.

13. Related party transactions

During 2019 repayments of £75,000 were made against loans provided to the company from certain directors. The amount remaining outstanding at the year end was £75,000. (2018 - £150,000). The loans carry an interest rate of 5% and are unsecured. Unpaid interest is recorded in note 9 and disclosed as directors' current account balances.

During 2019 net repayments of £272,203 were made against loans provided to the company by the parent undertaking. The amount remaining outstanding at the year end was £146,419. (2018 - £418,622). The loan incurred interest of £17,000 (2018 - £20,473).

During 2019 the company committed to co-invest in HRF1 – a closed ended 10-year residential limited partnership. At 31 December 2019, the total net amount invested was £65,360 out of a total investment commitment of £84,333. Hearthstone Investment Management Limited acts as Asset Manager to the fund.

14. Controlling party

The directors regard Hearthstone Investments Limited, a company incorporated in the United Kingdom, as the ultimate controlling party.

Hearthstone Investments Limited is the parent company of the largest and smallest group of which the company is a member for which group financial statements are drawn up. Copies of the financial statements are available from the company's registered office, 23 Austin Friars, London EC2N 2QP.