



# 2023 Impact and sustainability report





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This report, and the data it contains, refers to residential property assets managed by Hearthstone Investments Limited.

Where data refers to specific funds, this is disclosed, and mainly relates to Hearthstone Residential Fund 1 ("HRF1") and Hearthstone Residential Fund 2 ("HRF2").



Founded  
2009

# About Hearthstone Investments



Specialists in  
**affordable** private  
rented housing

Over **£450m** under  
management



Broad and deep UK  
residential property  
**experience**

Three funds and one  
segregated mandate



11 UK Local  
Government Pension  
Scheme clients and  
a leading charity fund





# Foreword



“ 2023 was a year where we broadened our ESG scope significantly.

We submitted responses for our inaugural UN PRI reporting, we joined Pensions for Purpose, an organisation that brings impact investors and asset managers together, and our partnership with the supported housing charity LATCH started.

We also continue to invest in greener homes by adding to our portfolio of innovative eco-homes, which enables us to gather valuable data for a less carbon intensive future.

Finally, with a portfolio of over 1,800 homes diversified across the UK, Hearthstone Investments' strategy creates local employment opportunities for housebuilders, portfolio managers, contractors, agents, solicitors and many others operating in the residential property sector."

**Cedric Bucher, CFA**  
Chief Executive  
Officer



“ Accurate data is a foundation for our sustainability and impact strategy.

Over recent months we have introduced new systems to measure energy and water consumption, carbon emissions and air quality. We can now measure and analyse energy consumption and emissions much more accurately, helping to compensate for the inadequacies of publicly available data derived from Energy Performance Certificates. Experience with our pilot projects will guide how we approach the wider roll out across our portfolio.

We are also testing new indicators that will enable us to assess residents' wellbeing which, combined with our resident satisfaction surveys, will provide us with invaluable insights and allow us to improve further our service levels and investment strategy."

**Andrew Smith, FRICS**  
Chief Investment  
Officer



“ With inflation hitting near double digit levels, the cost-of-living crisis was our single biggest focus during 2023.

I am pleased how our team, working in partnership with third party portfolio managers, ensured rent reviews were handled pragmatically and residents experiencing hardship received the support they deserve. The resulting resident feedback, coupled with low voids and arrears, are a testament to our commitment to private renters throughout economic cycles.

We also continue to invest committed capital, and the new homes we have provided continue our push towards more energy efficient living compared with what was possible only a few years ago.

Sustainability is firmly on the agenda in every deal we negotiate with housebuilders."

**Helen Simons**  
Investment  
Director







# Governance

Hearthstone Investments is a signatory to the UN Principles of Responsible Investment and a registered supporter of the Task Force on Climate-related Financial Disclosures. Both taxonomies define and structure how the company manages its impact and sustainability strategy, business plans, risk management, governance and reporting.

We note that in October 2023, the Task Force on Climate Related Financial Disclosures has fulfilled its remit and the FSB asked the IFRS Foundation to take over the monitoring of progress of companies' climate-related disclosures. We will continue to review and align our ESG approach and reporting in light of this evolution.

In addition, Hearthstone Investments' funds for institutional investors comply with the LGPS Advisory Board's code of transparency which promotes best practice in fee and cost disclosures.

Signatory of:







# Industry collaboration

We engage with stakeholders that touch our operations, mainly investors, housebuilders, portfolio managers, valuers and conveyancers, and industry colleagues including our Alternative Investment Fund Managers (AIFMs).

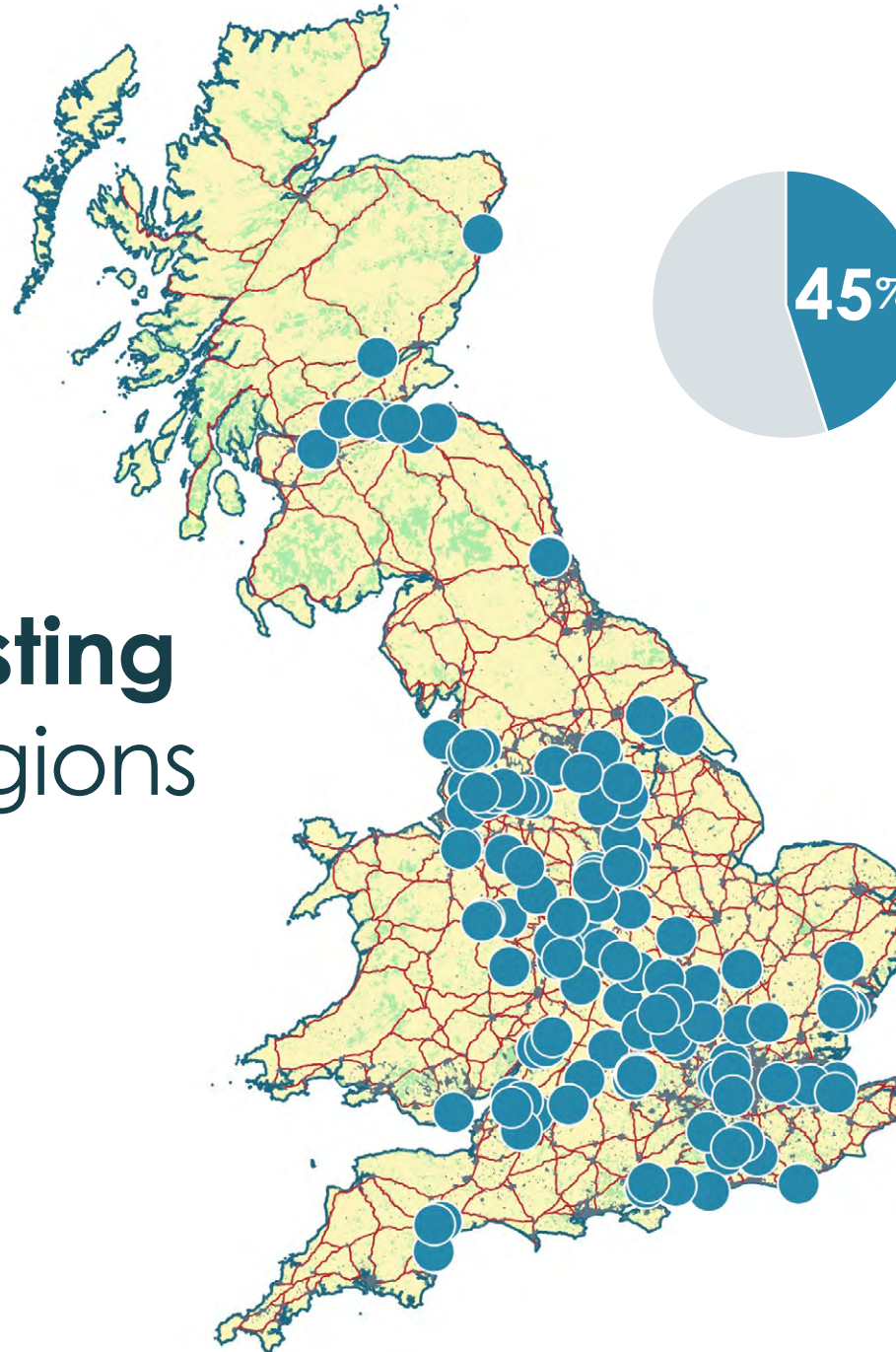
We seek to promote our values and ambitions across the industry, at both corporate and individual level. Hearthstone Investments is an active member of a number of industry organisations to ensure we are at the forefront of industry debates and developments, and to make our voice heard.







# Impact investing across UK regions



## Brownfield sites (by units, December 2023)

Source: HRFI

**To date, Hearthstone Investments has acquired over 1800 homes with a further 120 in development, spread across England, Scotland and Wales.**

Our investors include 11 UK Local Government Pension Schemes and a leading charity fund.

We provide predictability for national and regional/SME housebuilders, enabling them to accelerate the delivery of new housing and to secure local employment in-house, and across the value chain.

Construction of homes is often preceded by significant investment in regional infrastructure, including transformative regeneration of brownfield sites.





# Regional employment

Across our portfolios, annual spending for maintenance, lettings and portfolio management, as well as conveyancing and valuations, creates additional **employment for third-party portfolio managers, contractors, agents, valuers and solicitors, as well as suppliers** of building materials and home installations.

Many of Hearthstone Investments' partner firms are **based regionally** as we work with contractors and agents local to our homes to ensure quick response times and benefit from local market insights.

Total **ongoing spending** for portfolio and lettings management, as well as maintenance, **exceeds £5m per annum.**

-  Third party portfolio managers
-  Solicitors / Valuers
-  Local contractors and agents service **sites across England, Wales and Scotland**







# Meeting local demand

Our site selection process aims to identify areas with a particular supply/demand imbalance, where more high-quality rental homes are urgently needed.



**55%** of residents moved **10 miles or less**

Cumulative percentage of residents by distance moved (miles)

less than 1	up to 5	up to 10	up to 25	up to 50	up to 100	up to 200	All of the UK	Total
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# Community and placemaking

We assess social infrastructure and location quality in every acquisition. Safe communities, access to green space and availability of key services are essential to residents' wellbeing.



## Transport

Accessibility and convenience

**83%** of homes within 500m of public transport



## Environment

Access to green space, neighbourhood and landscape quality, security

**81%** of homes within 250m of public green space



## Services

Shopping, leisure, medical facilities, broadband speed

Source: HRF1, Dec 2023



## Education

Accessibility and quality







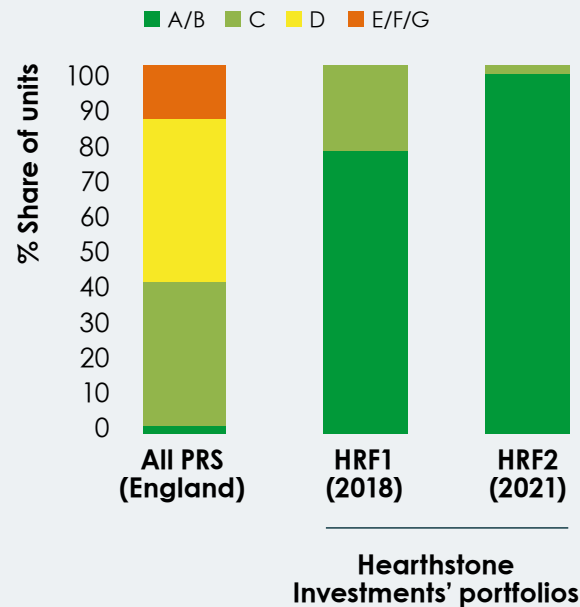
# Energy efficiency and lower emissions

Hearthstone Investments typically acquires new and modern homes. With minimum energy efficiency standards within building regulations progressively increasing, new homes acquired become more energy efficient over time.

In addition, Hearthstone Investments' continuous asset management programmes further reduce energy consumption.

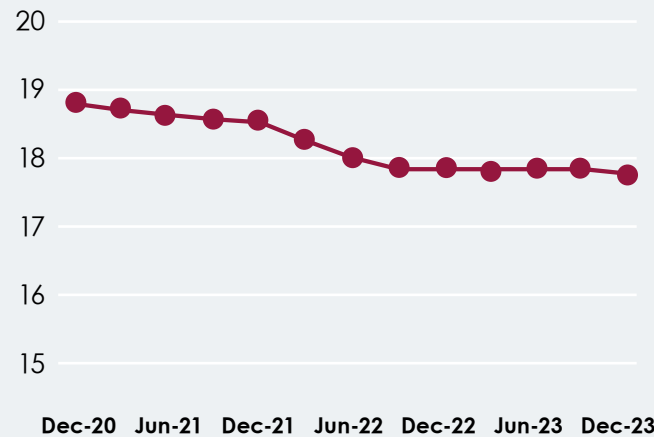
As a result, carbon emissions from homes acquired and managed by Hearthstone Investments are on average nearly five times below a typical home in the UK.

## Energy performance ratings vs. average housing stock



## Carbon intensity

(CO<sub>2</sub> kg / sqm per annum, HRF1)



## Environmental impact: low carbon emissions

CO<sub>2</sub> emissions (tonnes per annum)

Average Hearthstone home<sup>1</sup>

1.3

Average UK home<sup>2</sup>

6.0

Source: Hearthstone Investments, Dec 2023, English Housing Survey 2021/22

Source: HRF1, Dec 2023

1. Actuals across Hearthstone Investments' portfolios, Dec 2023  
2. Source: www.gov.uk



# Eco homes innovation case studies



- Manufactured off-site using modern methods of construction
- Zero carbon in operation, with excellent thermal insulation, solar panels and air source heat pumps

- On-site manufacturing using timber frames and design following passive house standards
- Homes include PV panels, air source heat pumps and EV charging points
- Strong emphasis on placemaking and community (shared green spaces, vehicle-free surroundings)

- Developed on South Yorkshire's largest regeneration site, a former colliery
- Design includes excellent thermal insulation, solar panels, air source heat pumps and EV charging points
- Innovative blend of traditional and modern methods of construction to ensure affordability



# Affordability



Ensuring homes are affordable to private renters on average incomes is embedded in our investment strategy and process.

Across the UK we provide homes to a broad range of residents including **families, young professionals** and **key workers**.

## Average income

Great Britain:  
**£35,000**

Hearthstone Investments' residents:  
**£28,000<sup>1</sup>**



Rent as % of household income (median)  
**26%**



## Specialist in affordable private rented housing

Source: HRF1, Dec 2023

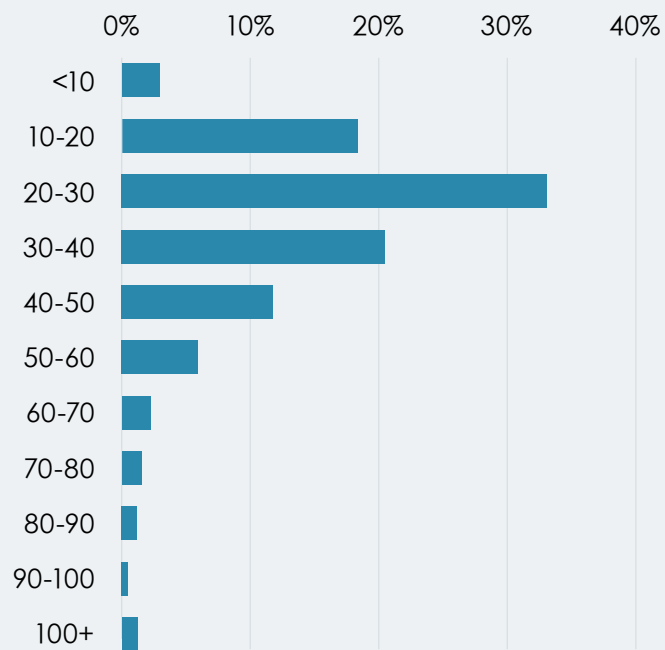
1. Based on median incomes at time of letting



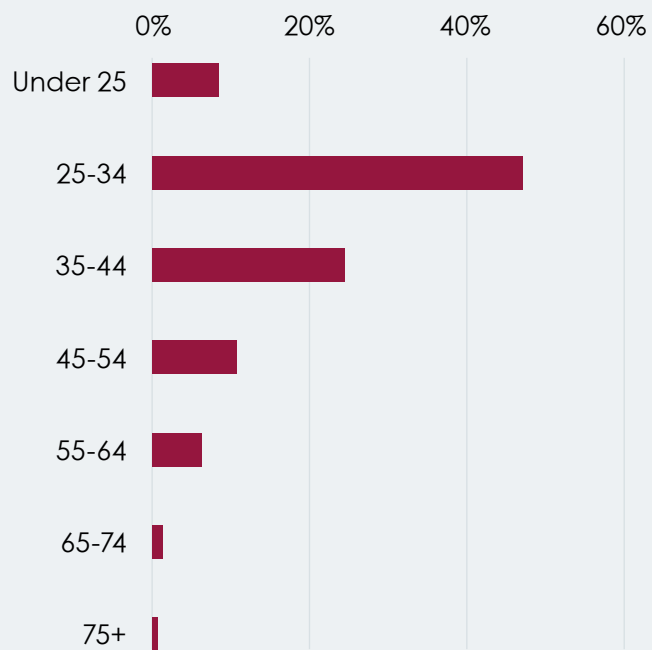
# Resident profile



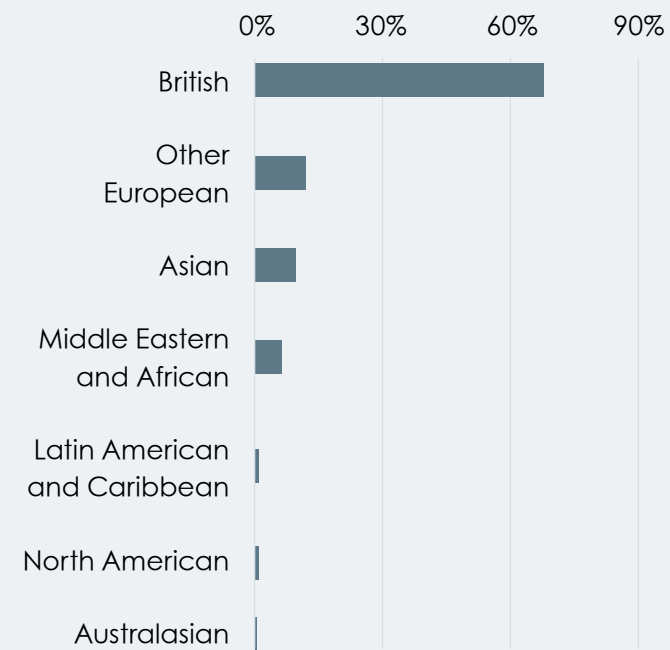
### Individual income profile (£000s p.a.)



### Adult resident age profile (years)



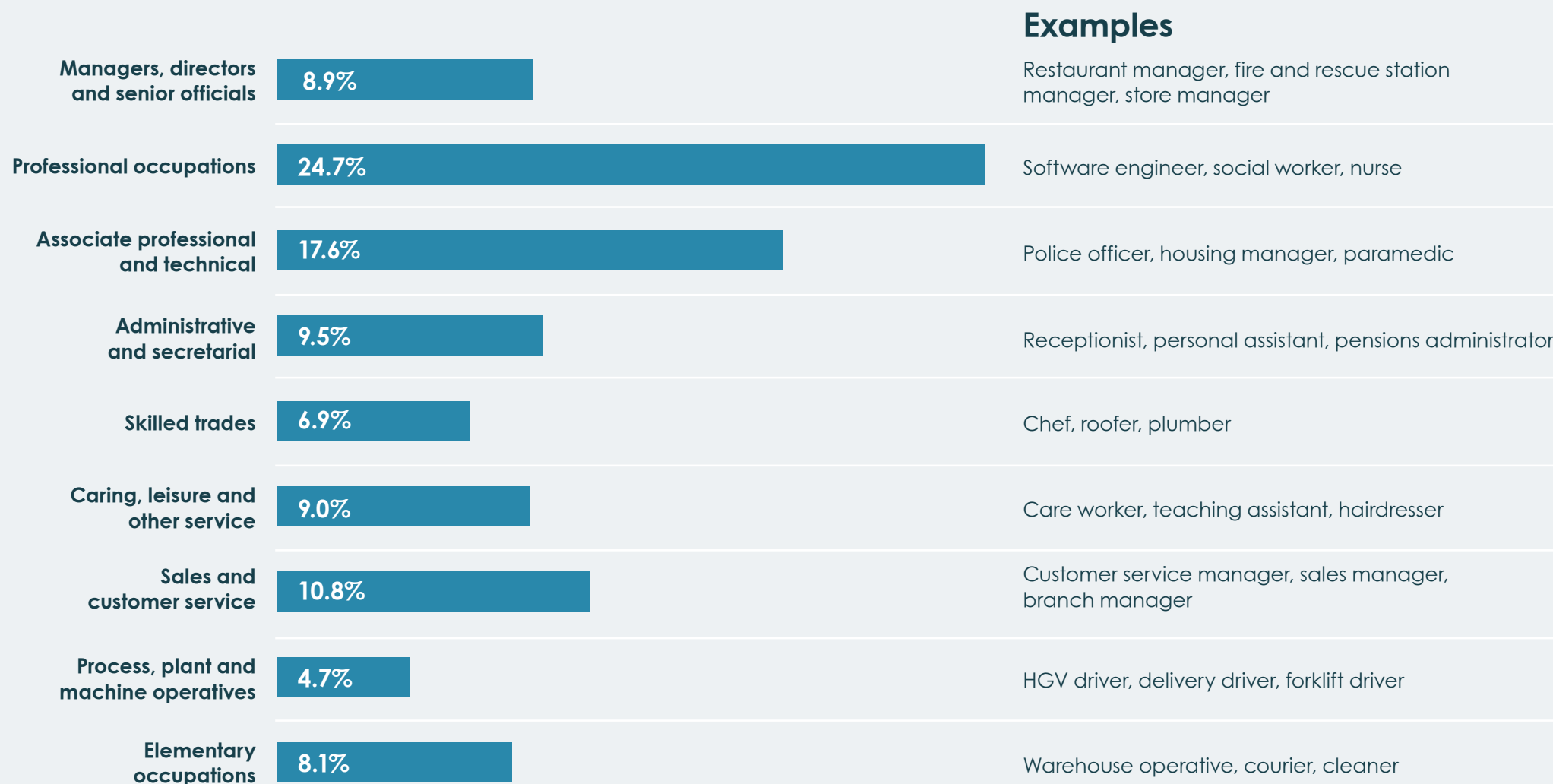
### Nationality







# Resident occupations



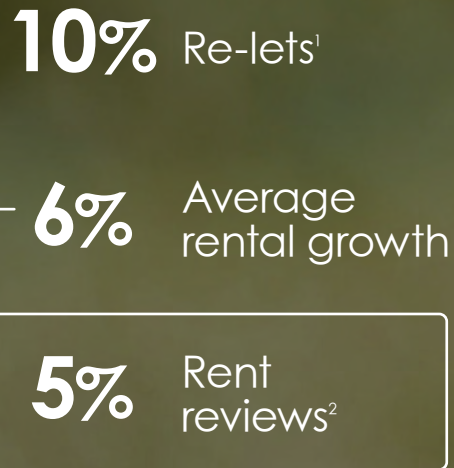




# Pragmatic rent reviews

We ensure security and stability for renters by being pragmatic when reviewing rents.

## Annual rental growth



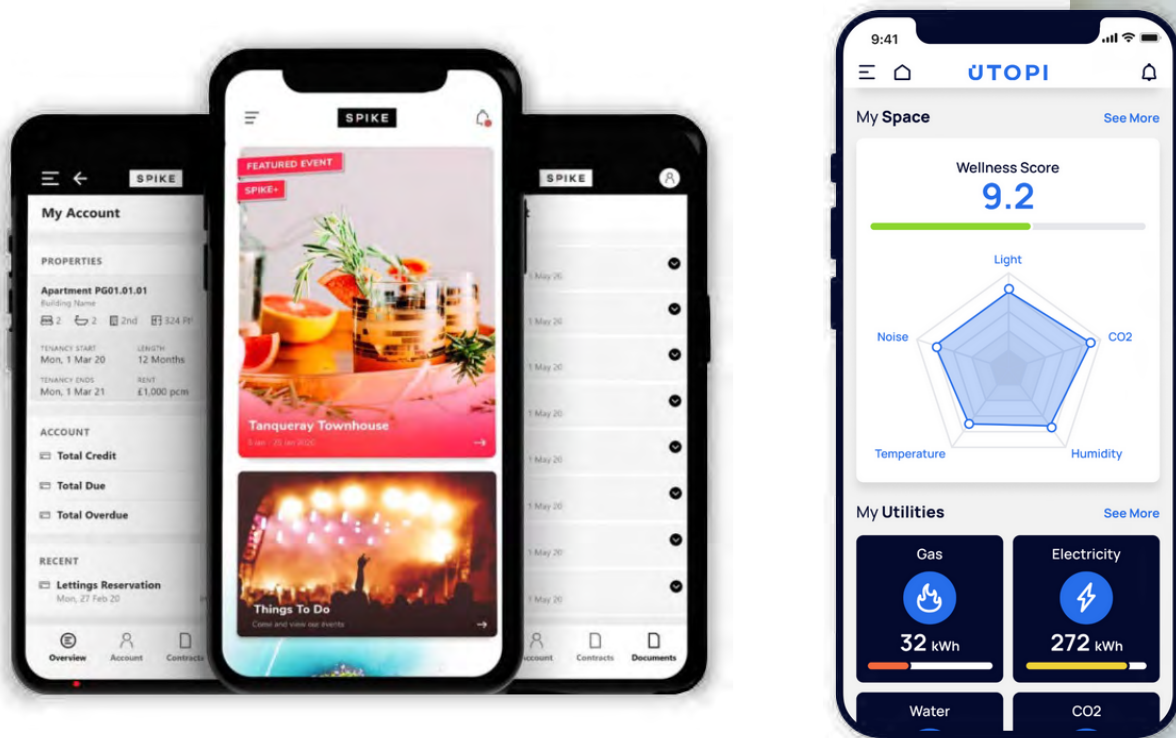
Source: HRF1, Dec 2023

- 1. For new residents
- 2. For existing residents





# Professional service



Hearthstone Investments has built an operational platform to **service homes across the UK** at all times.

In-person service is complemented by **innovative technology**, including systems to measure energy and water consumption, carbon emissions and air quality, helping residents save money and support their wellbeing.







# Supporting hardship cases

When difficulties arise, our conversation starts with  
**“How can we help you?”**

We assess if there is a **collaborative solution** that allows residents to continue living in their homes in a sustainable way. Often, payment plans are agreed to give residents the breathing space and flexibility they need. While this is the just and reasonable thing to do, it also **aligns the interests of investors and residents** who can stay in their homes for longer, reducing voids and arrears.

**0.6%**

rent arrears as % of rent demanded since fund inception

## Case study 1

- Resident in financial difficulty with insufficient funds to renew forklift truck licence
- We suggested pausing the rent payments so he could afford his licence renewal, and put in place a payment plan once he was back in work
- Resident renewed licence, returned to work, cleared his arrears, and continues to pay the rent

## Case study 2

- Resident unable to pay rent after partner left following period of domestic violence
- She wanted to move to a new home with her child, but had insufficient funds for new deposit and moving costs
- Agreed to an early release from the tenancy and paused rent collection to allow them to save for a deposit on their new home

## Case study 3

- Parents needed significant unpaid time off work to care for a daughter with serious mental health issues
- One of the residents subsequently had surgery, and was on Statutory Sick Pay resulting in further cash flow issues and distress
- Amended the payment structure to allow them time to get back on their feet and pay in line with their salary dates





Resident  
feedback

88%

Rated their overall experience  
so far as 'good' or 'excellent'





"An absolute pleasure from moving into the property over three years ago... always professional and friendly to deal with, thank you to everyone involved!"

"There is nothing but positive feedback that I can give. The office staff and the maintenance team have been second to none ever since we moved in. They are always friendly and helpful to speak to, the contractors are always quick and efficient to sort any issues that have arisen. I cannot give this team enough praise!"

"We really enjoy living here. It's a lovely community, my children have made friends, and our property manager is always very helpful and acts on our queries ASAP."

"It's been a pleasure living here and hope to go on being a long-term tenant."

"We have been very pleased with the quality and speed of the service we have been receiving."





# Our values



## Focus

Hearthstone Investments' proposition is 100% focused on UK affordable private rented housing. The sector is still relatively new for institutional investors and keeps evolving. All our team's resources are aimed at constantly improving our knowledge, capabilities, and network in this market.



## Rigour

We apply the most rigorous processes across our business, from recruiting and training team members, to the selection and oversight of service providers, and through the risk controls embedded in our investment processes.

Across our investment committees and boards, we ensure a blend of deep and diverse experience amongst our executive and non-executive directors.



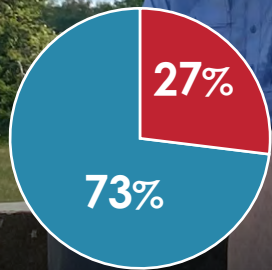
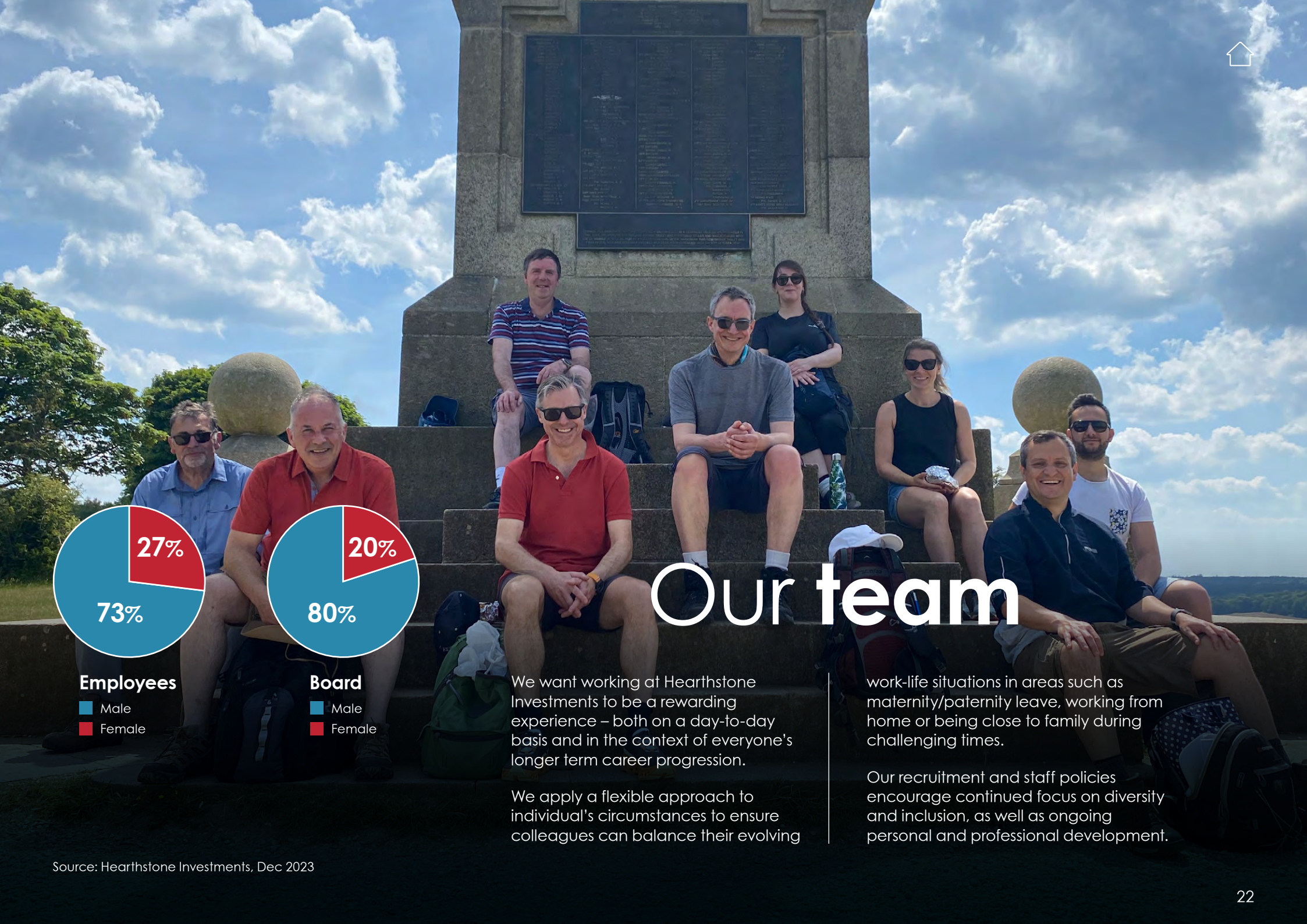
## Commitment

Long term relationships are a key success factor for our business.

We want residents to stay in their homes for as long as possible. We want our investors to earn the returns and achieve the impact they expect. We want to build long term relationships with housebuilders and agents, as well as our third-party providers for activities such as property management, conveyancing or valuation. We want our team to enjoy their work and give everyone room to grow. Commitment is key to all we do – because it makes business sense.

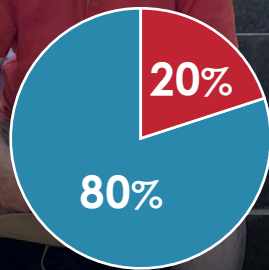






### Employees

- Male
- Female



### Board

- Male
- Female

# Our team

We want working at Hearthstone Investments to be a rewarding experience – both on a day-to-day basis and in the context of everyone's longer term career progression.

We apply a flexible approach to individual's circumstances to ensure colleagues can balance their evolving

work-life situations in areas such as maternity/paternity leave, working from home or being close to family during challenging times.

Our recruitment and staff policies encourage continued focus on diversity and inclusion, as well as ongoing personal and professional development.





# Rebuilding lives in challenging times



## Community impact

In 2022, Hearthstone Investments started partnering with Leeds Action to Create Homes (LATCH) as its charity partner.

LATCH is a unique charitable organisation that refurbishes derelict and run-down houses in the Chapeltown, Harehills and Burley areas of Leeds. When they're fully modernised and furnished, the properties provide supported housing for people who are homeless or in housing need, and who are ready to make a positive change in their lives.

Through a charity walk, Hearthstone Investments raised much-needed funding for LATCH to acquire a second container to store building materials. Since then, we have worked with our suppliers and partners to provide free building materials for LATCH's ongoing programme of refurbishments.





# Important information

This report, and the data it contains, refers to residential property assets managed by Hearthstone Investments Limited. Where data refers to specific funds, this is disclosed, and mainly relates to Hearthstone Residential Fund 1 (“HRF1”) and Hearthstone Residential Fund 2 (“HRF2”).

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The value of investments in the Funds can go down, and there can be no assurance that any appreciation in the value of investments will occur. Tax treatment depends on the individual circumstances of each investor and may be subject to change in future. Residential property values are affected by factors such as interest rates, economic growth, fluctuations in property yields and tenant default. Property investments are relatively illiquid compared to bonds and equities, and can take a significant amount of time to trade.

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