



UK Mortgages Limited Webinar

June 2019

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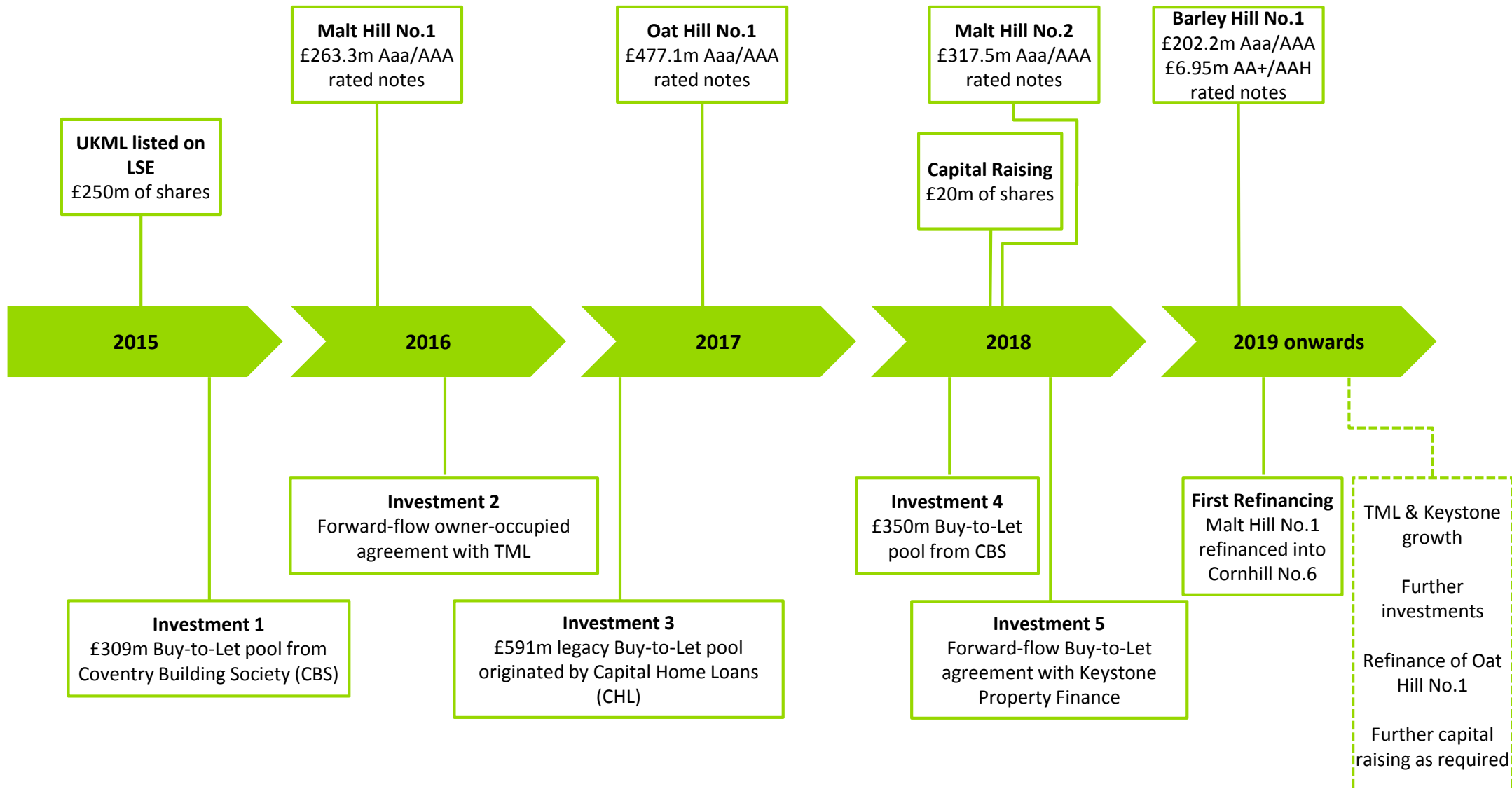
UK Mortgages Limited
& TwentyFour AM

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UK Mortgages Limited (UKML) at a Glance

What Is UKML	<ul style="list-style-type: none"> ■ £250m closed-ended fund launched in July 2015 ■ Further £20m raised in June 2018 ■ Specific investment objective of providing stable income returns by taking conservatively leveraged exposure to high quality UK residential mortgages
UKML Opportunity	<ul style="list-style-type: none"> ■ The evolving banking regulatory and capital environment has led to an increased need for conventional mortgage lenders to manage their balance sheets more dynamically <ul style="list-style-type: none"> - Traditional lenders have been deleveraging their books rather than increasing lending - Gaps in the market exist for customers previously served by traditional lenders ■ This has created opportunities for capital unconstrained players to either <ul style="list-style-type: none"> - Acquire existing portfolios - Provide funding in partnership with specialist lenders supplying underserved niche areas of the mortgage market
UKML Strategy	<ul style="list-style-type: none"> ■ Acquire or originate high quality portfolios <ul style="list-style-type: none"> - Use conservative leverage restricted to senior bank funding or senior securitisation issuance - Retain junior tranches and equity cash-flows to create a stable net income stream for the fund ■ The closed-ended nature of the fund allows it to be a long-term player in this market <ul style="list-style-type: none"> - Re-leveraging of capital as securitisations or bank financings mature - Reinvestment of released capital - Expect multiple ongoing transactions <ul style="list-style-type: none"> - Future capital raising as required and appropriate for further new transactions
UKML Portfolios	<ul style="list-style-type: none"> ■ Risk appetite of UKML is akin to that of a lower-risk mortgage lender ■ Target asset classes are prime, Buy-to-Let (BTL) and high-quality near-prime mortgages ■ Three mortgage portfolio purchases and subsequent securitisations completed ■ Two forward-flow partnerships ongoing

UKML Timeline



UKML Performance

Cumulative performance	1 month	3 months	6 months	1 Year	3 Years	5 Years
NAV per share incl. dividends	-0.44%	-0.08%	0.34%	1.51%	3.50%	N/A

Discrete performance	YTD	2018	2017	2016	2015	2014	Since Inception*
NAV per share incl. dividends	-0.08%	2.67%	1.93%	-1.39%	N/A	N/A	2.61%

Rolling performance	31/03/18 to 31/03/19	31/03/17 to 31/03/18	31/03/16 to 31/03/17	31/03/15 to 31/03/16	31/03/14 to 31/03/15
NAV per share incl. dividends	1.51%	3.05%	-1.05%	N/A	N/A

The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Past performance is not a reliable indicator of future performance. Performance data does not take into account any commissions and costs charged when shares of the portfolio are issued and redeemed. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

*Inception date: 7-July-15
 Source: TwentyFour
 31-May-19

UKML Risks

Key Risks

- All financial investment involves risk. The value of your investment isn't guaranteed, and its value and income will rise and fall. Investors may not get back the full amount invested.
- The fund can invest in portfolios of mortgages or the equivalent risk. The lenders of such products may not receive in full the amounts owed to them by underlying borrowers, affecting the performance of the fund.
- Prepayment risks also vary and can impact returns.
- The fund employs leverage, which may increase volatility of the Net Asset Value.

TwentyFour Asset Management

- TwentyFour is a fixed-income specialist founded in 2008 by a group of leading fixed income professionals. The firm has 14 partners, including corporate partner Vontobel Group. Individual partners have over 25 years of average fixed income experience
- In April 2015 TwentyFour entered into a strategic partnership with Vontobel Asset Management, a subsidiary of the Vontobel Group. This allows the partners to run the firm with the support and investment of an organisation with global reach, yet retain full control over day-to-day business decisions
- TwentyFour offers a range of specialist fixed income funds and services to suit the different requirements of their investors
- These products range from public investment funds to bespoke portfolio management, including segregated managed accounts, through to investment advice and ancillary services
- In ABS, investments are made across the capital structure, including taking direct exposure to underlying mortgages via UKML
- Well-capitalised business and consistently profitable, with 7.25 years of consecutive AUM growth (£14.3bn at 31st May 2019, £5.9bn in ABS)
 - 3 public companies: TwentyFour Income Fund (TFIF.LN), Select Monthly Income Fund (SMIF.LN) and UK Mortgages Ltd (UKML.LN)
 - 7 other pooled funds including Monument Bond Fund, Dynamic Bond Fund, Vontobel Fund – TwentyFour Strategic Income Fund & Vontobel Fund – TwentyFour Absolute Return Credit Fund
 - 19 segregated mandates

Track Record of Innovation in ABS

- Launched the first dedicated retail investment grade RMBS/ABS fund in 2009, Monument Bond Fund
- Launched the first dedicated listed European ABS fund, TwentyFour Income Fund (TFIF), in 2013
- Launched the first dedicated listed residential property direct lending fund, UK Mortgages Limited (UKML) in 2015

Leadership in the Sector

- Rob Ford is vice-chair of the Association for Financial Markets in Europe (AFME) Securitisation Board and ExCo for a fifth term
- Advisor to the Bank of England, the PRA/FCA, the UK Treasury, the European Commission and a number of other EU Finance Ministries
- TwentyFour is the only UK asset manager in the founding membership of the Prime Collateralised Securities (PCS) initiative
- Member of the Bank of England Residential Property Forum

TwentyFour offers highly transparent products that aim to achieve superior risk-adjusted returns whilst retaining a strong focus on capital preservation

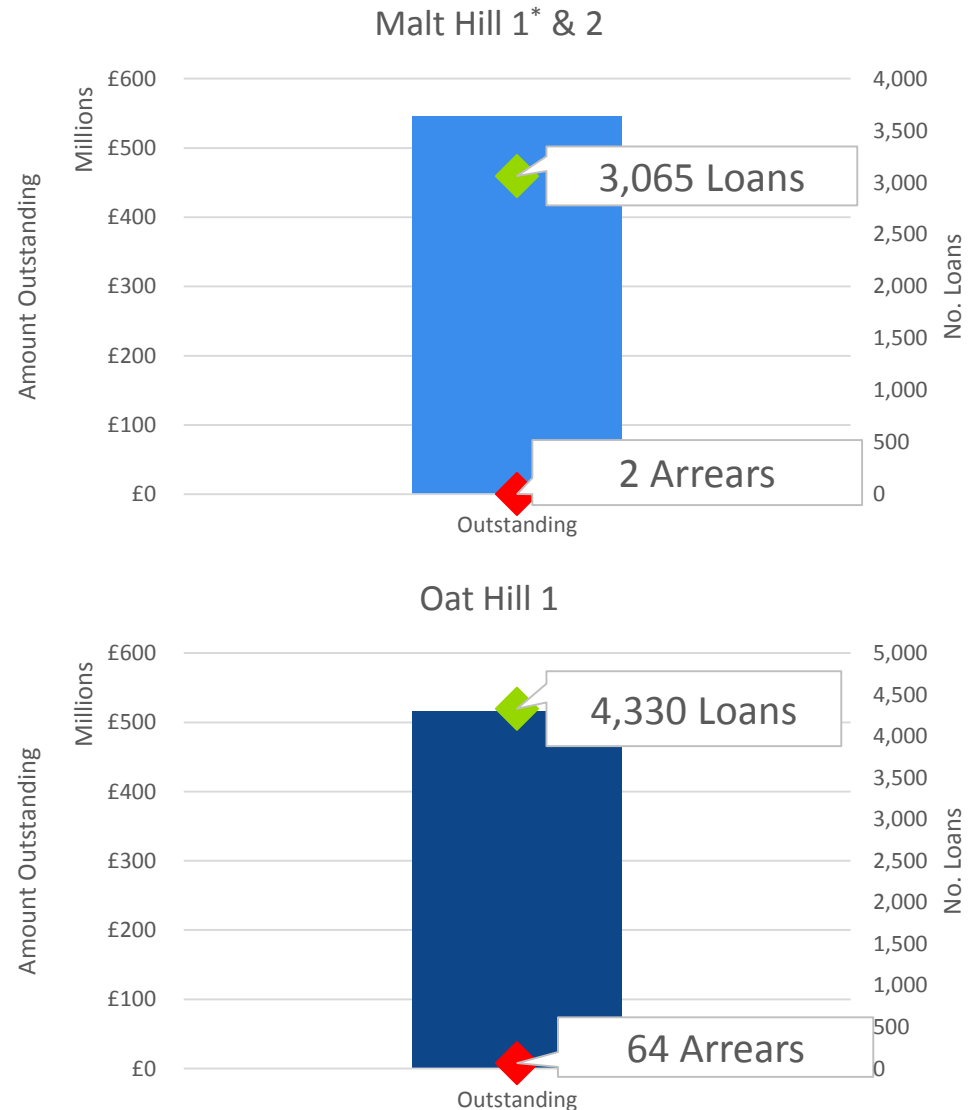


The UKML Portfolio of Investments

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Current Investments

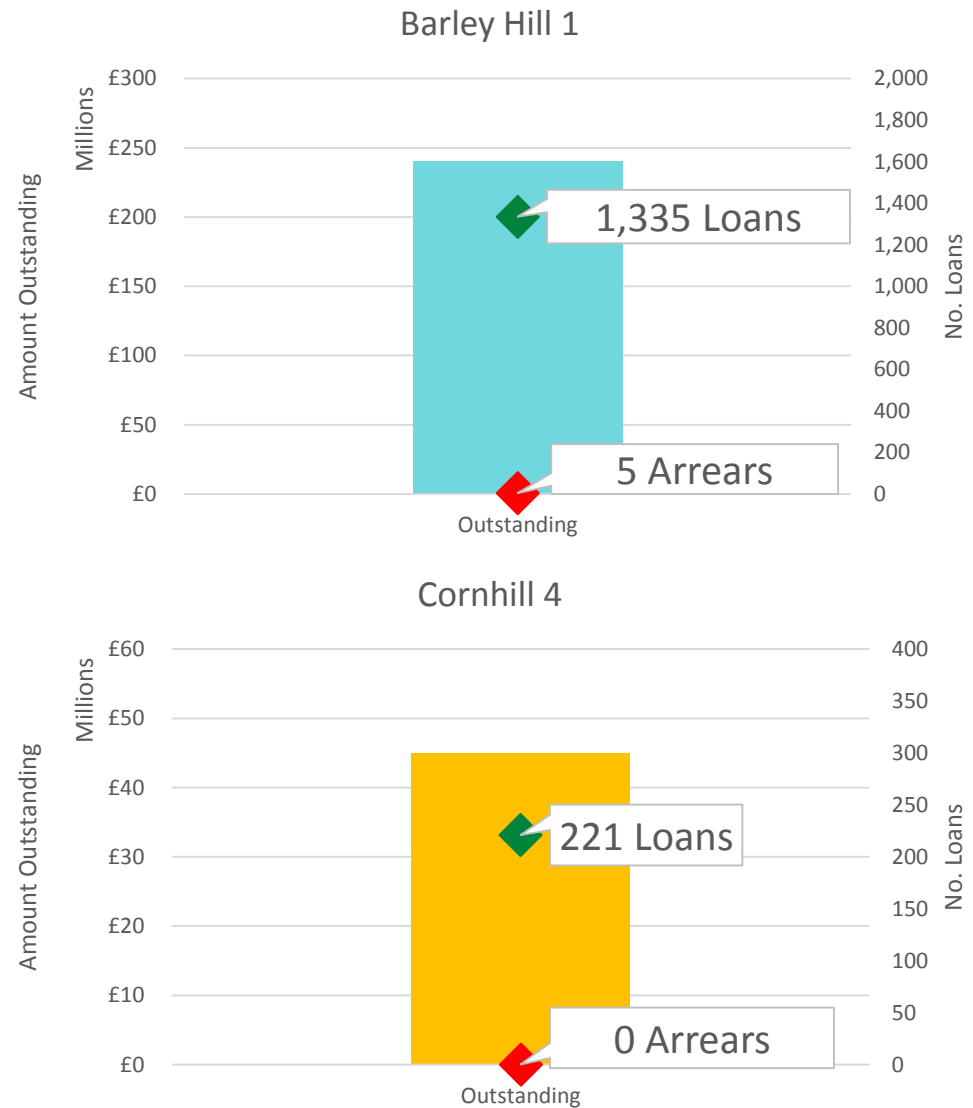
We have 5 outstanding quality, low risk investments



Source: TwentyFour, Investor Reports 31-May-2019

*Malt Hill 1 refinanced into new Cornhill 6 warehouse at the end of May-19

Current Investments





The Interest Rate and Financing Landscape

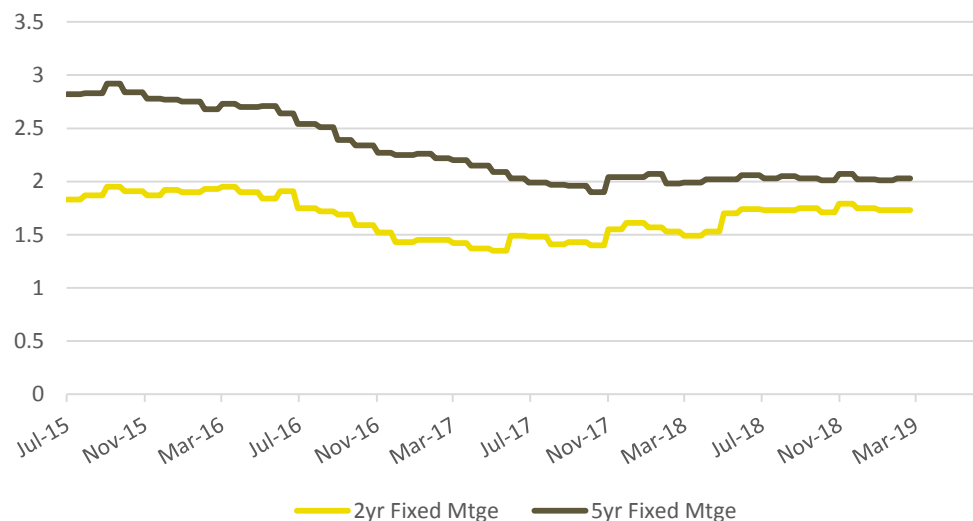
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Asset Yields and Funding Costs

BUT... High quality portfolios are typically lower yielding **...AND**

- Asset yields have fallen and compressed in the 4 years since the fund was launched
- Whilst interest rates were cut but have now actually risen

Average 75% LTV Mortgage Rates



- And the margin between 5yr and 2yr rates has compressed from around 1% to about 25bps

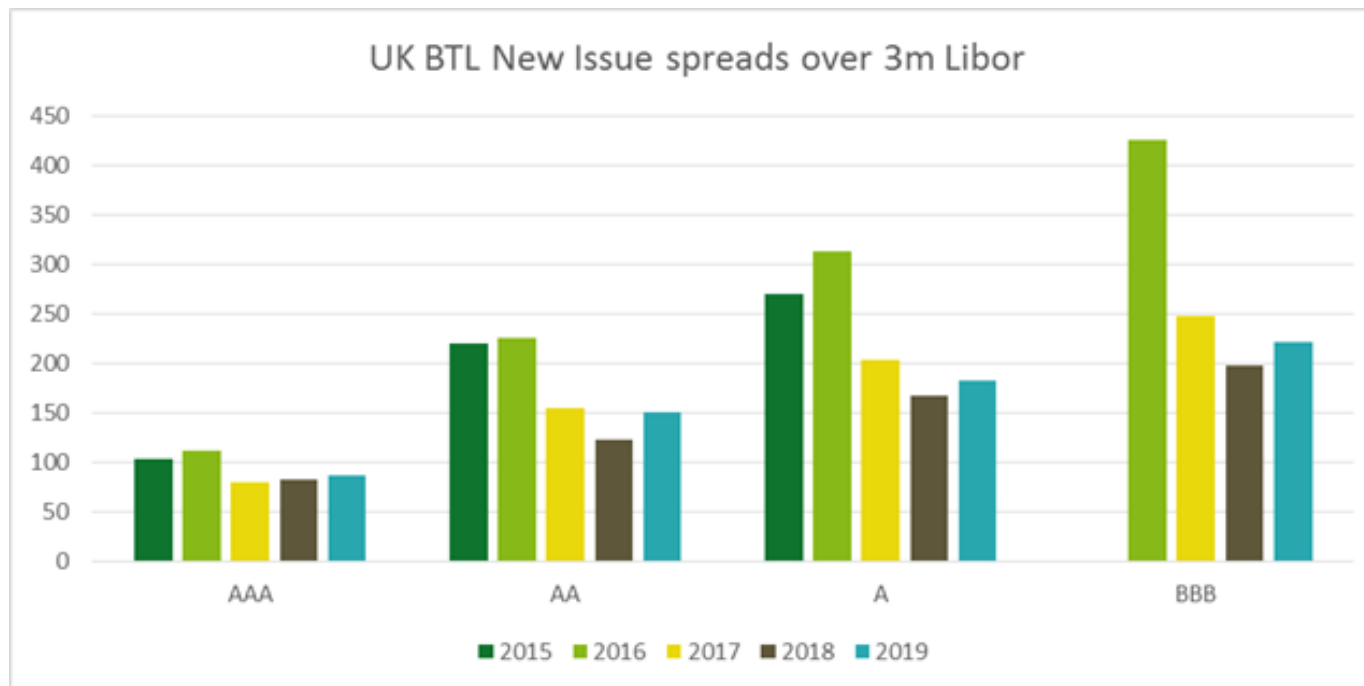
Base Rates and Libor



- And securitisation funding costs via AAA RMBS spreads have been range-bound

Investment Landscape

- **Credit Curve Flattening** has meant AAA RMBS spreads have remained largely within a 50bp range since 2016
- AA-BBB spreads have however compressed



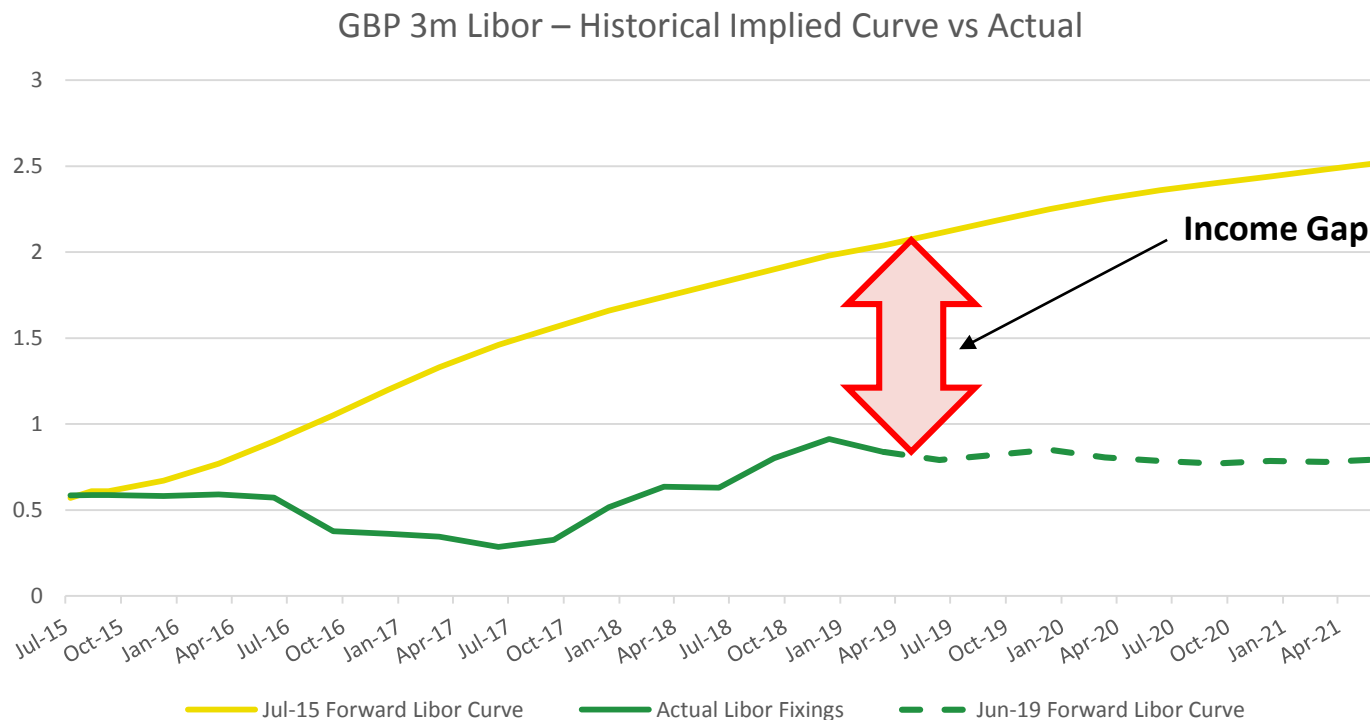
- The net result is a cheaper cost of funding for more levered investors, many of which are our competition

Investment Landscape

- The **Term Funding Scheme (TFS)** and post-Brexit vote emergency rate cut were key drivers in compressing mortgage asset spreads
 - It took UKML far longer than expected to invest the initial capital as market opportunities dried up
 - Malt Hill 1 loans reached their fixed rate reset period at the low point of the interest rate cycle
 - Rates in Oat Hill loans have not risen as expected reducing expected returns
 - ◆ Additionally prepayments have been slower as borrowers are less incentivised to refinance
 - TML struggled to build origination volume as a new business in an ultra competitive price environment
- As TFS funding rolls off, following its expiration last year, more originators are likely to use RMBS funding
 - And should more closely correlate funding costs and asset margins

Forward Curve

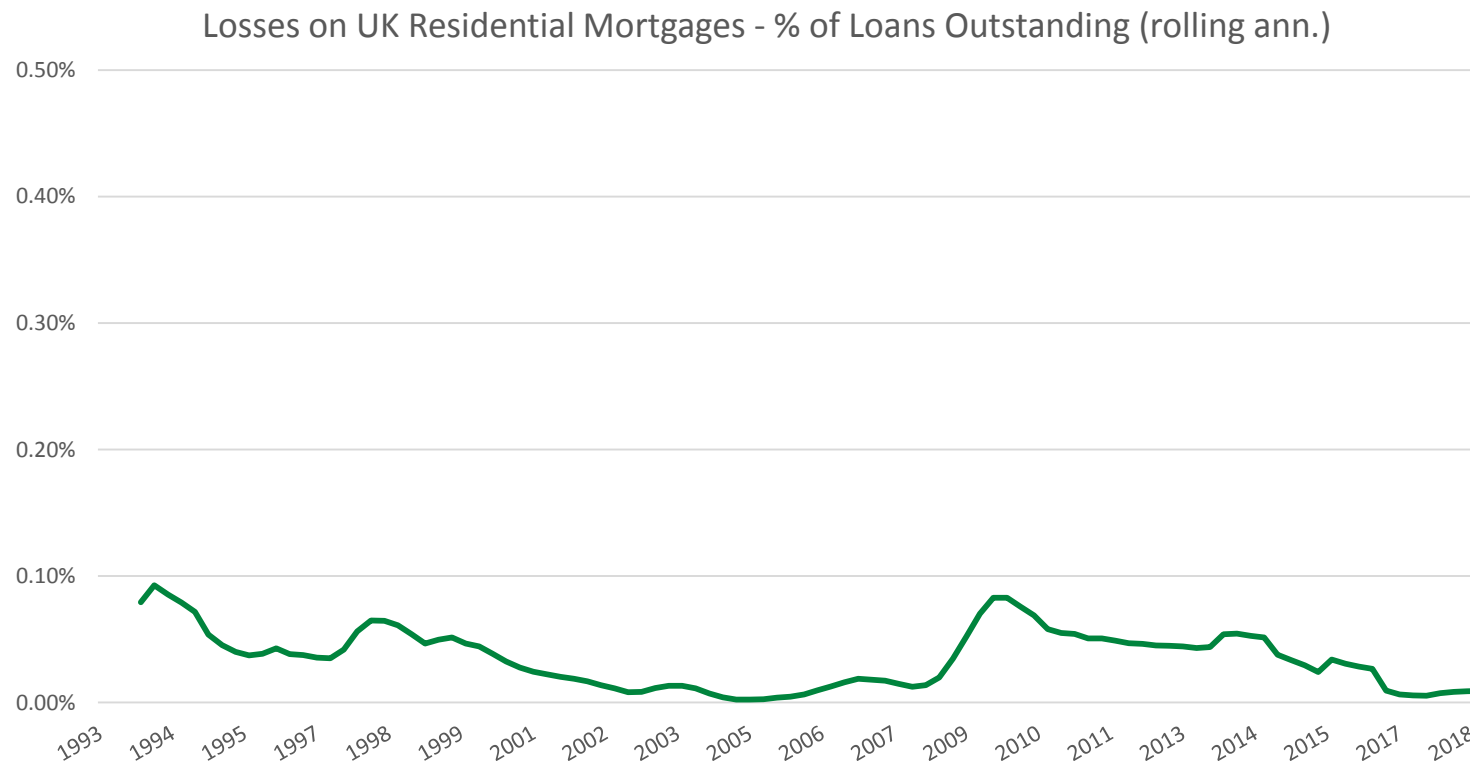
- The entire interest rate outlook has changed dramatically since 2015
 - The expectation of rate rises and the terminal rate in the UK has fallen in recent years despite two rate rises
 - The value to be gained through rising rates is less certain



As a result portfolio returns have been lower than expected

Credit Risk

- Mortgage performance has historically been resilient through the cycle



- But we view credit risk as being a poorer source of risk-adjusted value
- We prefer quality assets

Past performance is not a reliable indicator of future performance.

Source: TwentyFour, UK Finance, BOE Q3 2018



Increasing Returns

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How can we Increase Returns?

- Capital eroded from paying dividends means returns now need to be higher not lower
 - We believe we have a great quality portfolio
 - But asset yields are lower and financing costs are unchanged or possibly higher
- If we were to start again today with the same investment and financing policy we might *still* struggle to meet the total return target
- ***We don't want to compromise on our credit risk appetite*** – so we need to find a way to increase asset returns
- We continue to squeeze costs and optimise financing strategies within the existing investment mandate
- We are currently constrained by very conservative levels of leverage
- High quality portfolios can absorb greater levels of gearing, without exposing themselves to significantly higher levels of risk if managed appropriately
- We also need to manage cash/free capital more efficiently to maximise returns

Increasing Returns Without Compromising Credit Risk Appetite



- Broaden the mandate to allow the issuance of investment grade tranches in our securitisations and warehouses
 - Not just AAA
 - ◆ Securitisations naturally de-lever, so the most levered risk is taken at the point where the maximum amount of performance information about the mortgage pool is known
 - ◆ And therefore we are able to most accurately analyse and predict its credit behaviour
- This should significantly boost the net income side of the balance sheet
 - Whilst increasing funding costs by a much lesser extent
 - Whilst still leaving significant protection against arrears and potential credit losses
 - And importantly using less capital
 - ◆ This can then be invested in other (or larger) transactions – further boosting return potential

Increased Leverage Example – Oat Hill No.1

Assets	Owner Occupied		
Portfolio Balance	£517m (£577m at closing)	WA Interest Rate	2.03% (1.54%)
Cost of RMBS Funding*	GBP 3m Libor + 85bps	WA Indexed LTV	66.25% (69.11%)
Securitisation Tenure	3 years + 2 re-financings	Arrears	1.66% (0.87%)

Current Leverage

Initial Leverage ⁺		9.4x	Equity Capital		£49m
Scenario	Gross Return	Arrears	Defaults*	Recovery	Refinancing
Favourable	13.2%	1%	0.25%	90%	30bps cheaper
Base	11.6%	2%	0.50%	80%	Same cost of funding
Less Favourable	6.8%	3%	0.75%	70%	50bps increase

Higher Leverage

Future Leverage ⁺		15x (approx. equiv. single-A)
Scenario	Gross Return	
Favourable	17.1%	
Base	16.5%	
Less Favourable	15.5%	

*This releases more than half of the current capital which can then be reinvested elsewhere
Enhancing returns*

Cash Management

- There are periods of time when we have pools of unlevered capital
 - E.g. the recent refinancing of Malt Hill No.1 released about £25m from the original transaction
 - We can't typically put that to work all in one go in a short timeframe
 - ◆ Mortgage portfolio purchases take time to arrange and are available irregularly
 - ◆ We can direct capital to our forward flow investments but these take time to utilise cash (curr. £2m per month)
- Money Market Funds (MMFs) are providing little or no real return
- High quality AAA UK RMBS ordinarily provide a real return over money-market instruments
 - They typically have stable pricing and deep liquidity
 - ◆ The annual return on £25m of AAA UK RMBS is currently about £400k or 0.15 on the NAV per annum
- The selected deployment of cash into AAA UK RMBS could more effectively improve risk-adjusted returns



Outgoings

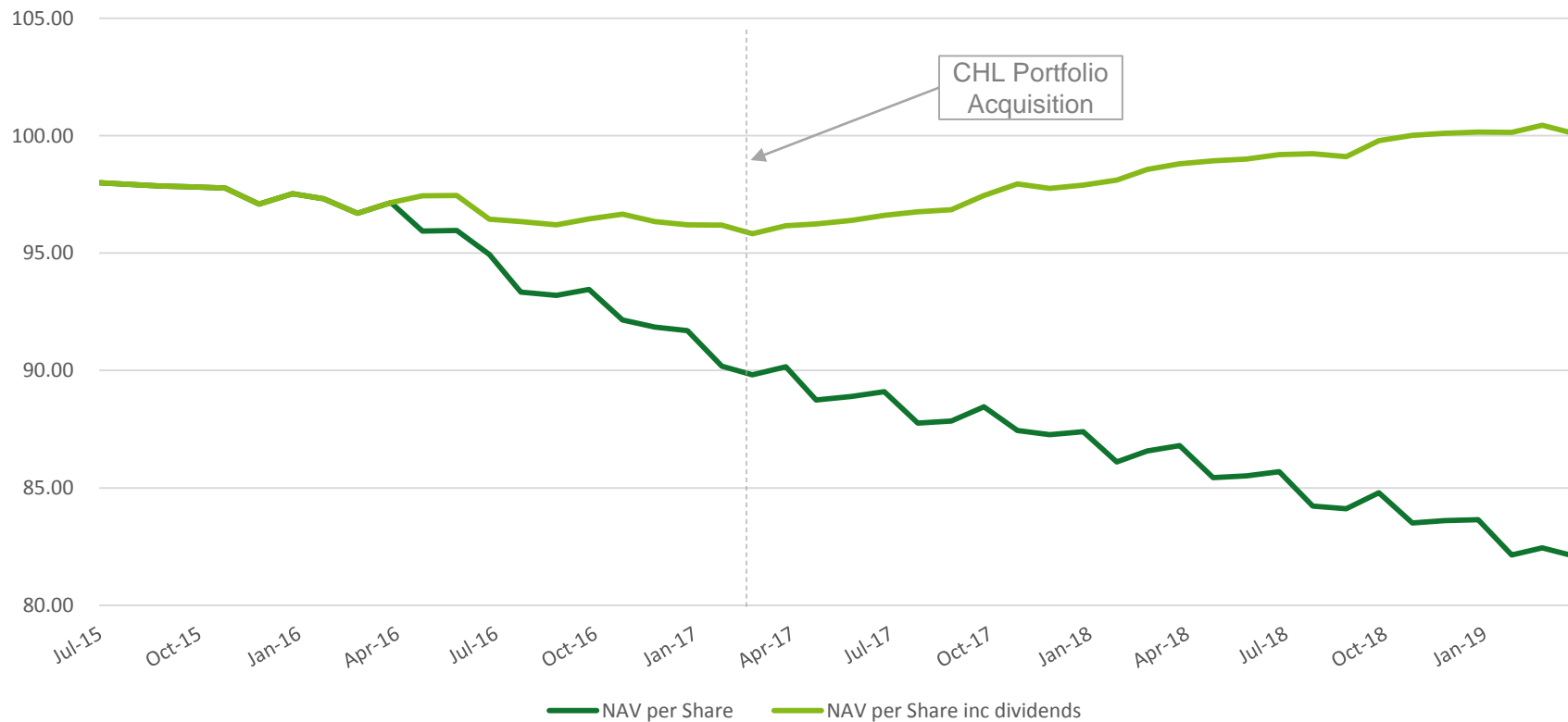
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Milestones

- During 2019 we have met a number of previously indicated milestones
 - Securitised the TML Portfolio (Barley Hill No.1)
 - ◆ Significantly increased the running returns from the investment
 - Refinanced the original Malt Hill 1 securitisation into a capital efficient warehouse
 - ◆ Again significantly increasing running returns
 - Future flow funding for the next TML portfolio is currently being structured
 - ◆ Also at significantly improved terms compared to the first warehouse
 - Negotiations to put a Revolving Capital Facility in place are also ongoing
- All these are helping to improve dividend coverage
 - But this is still unlikely at least until we refinance Oat Hill No.1 in May 2020

Dividends & NAV

- The Fund has been paying a constant 6p dividend from capital since inception
 - As a result the NAV has fallen to 82.08 as of 31st March 2019



Past performance is not a reliable indicator of future performance.

Source: TwentyFour 31 Mar-19

Dividends

- Each quarter the NAV continues to fall as more capital is effectively returned to shareholders
 - This increases the yield required to be generated from each investment in order to meet the dividend
 - As does raising any new capital at the current NAV
 - ◆ And makes the task of rebuilding the NAV even harder
- Even with increased leverage this will not be an easy task
 - And cannot be achieved quickly
 - ◆ Leverage on the three existing securitisations is locked in until their respective refinancing dates in 2020, 2021 and 2022
- **A reduction in the dividend – even a temporary one – will go a long way to rebalancing the equation**

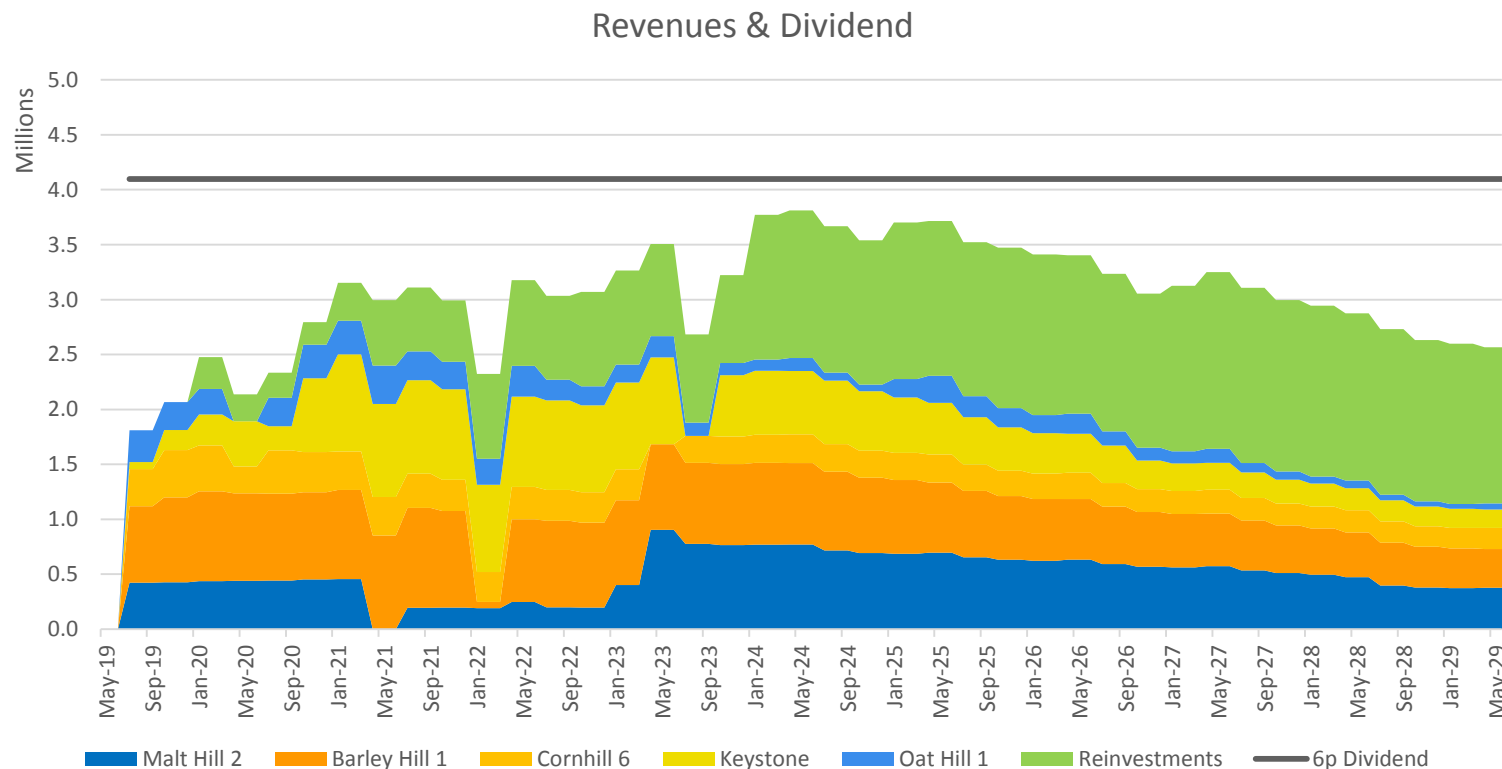


Projected Yields

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Projected Returns

- With revised assumptions for asset yields and reinvestments of capital and without a change of investment policy the Fund will continue to struggle to cover the 6p dividend



- And will therefore be unable to arrest the decline in the NAV in any reasonable timeframe

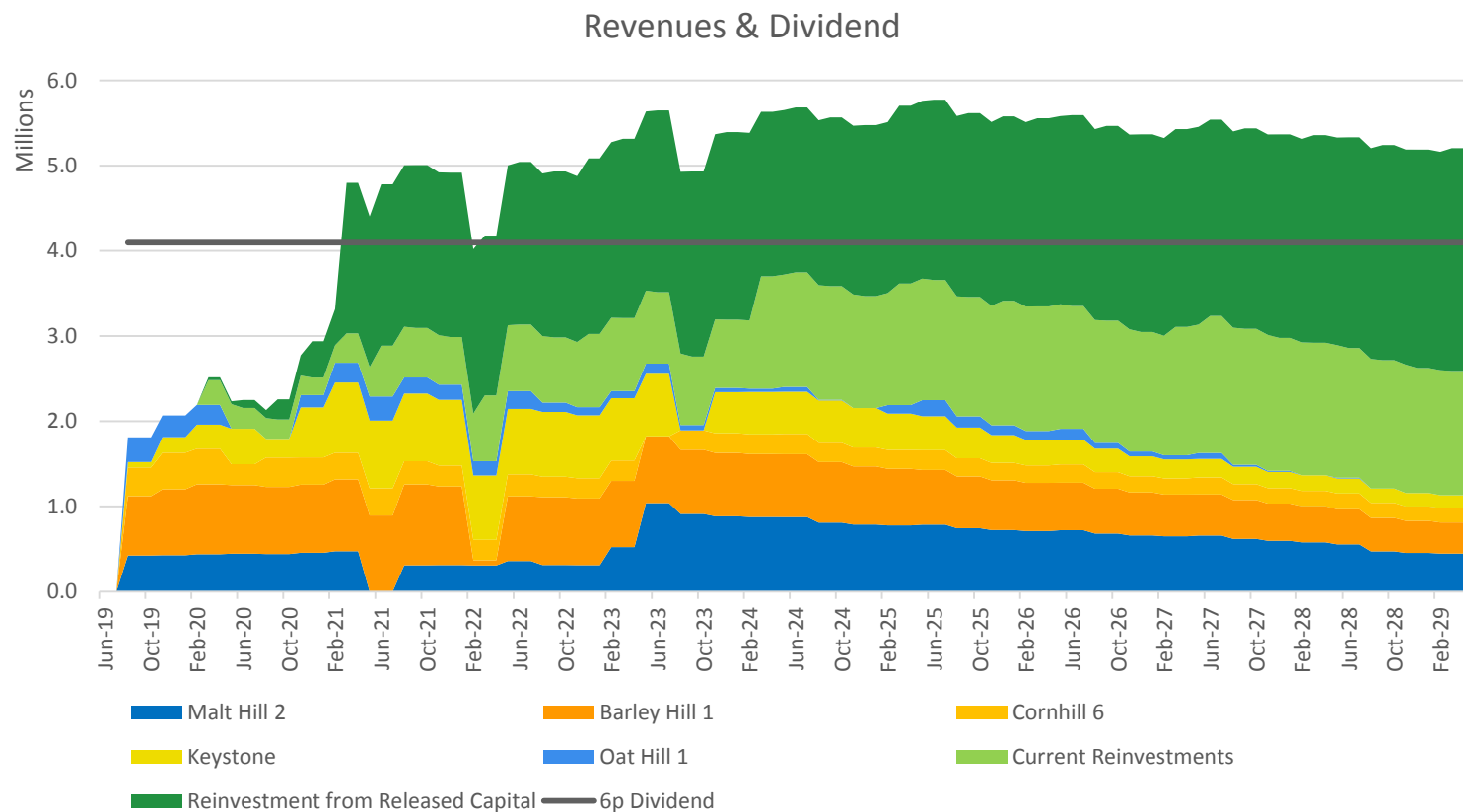
Projected performance is not a reliable indicator of future performance.

Source: TwentyFour 31 Mar-19

Assumes Reinvestment at 7.5% with a 6 month lag

Projected Returns

- With moderately increased future leverage more capital will be released for further investments
 - With the extra revenues these will generate it's likely that the dividend can be covered in the future



- But a prudent approach would not rely solely on these future assumptions

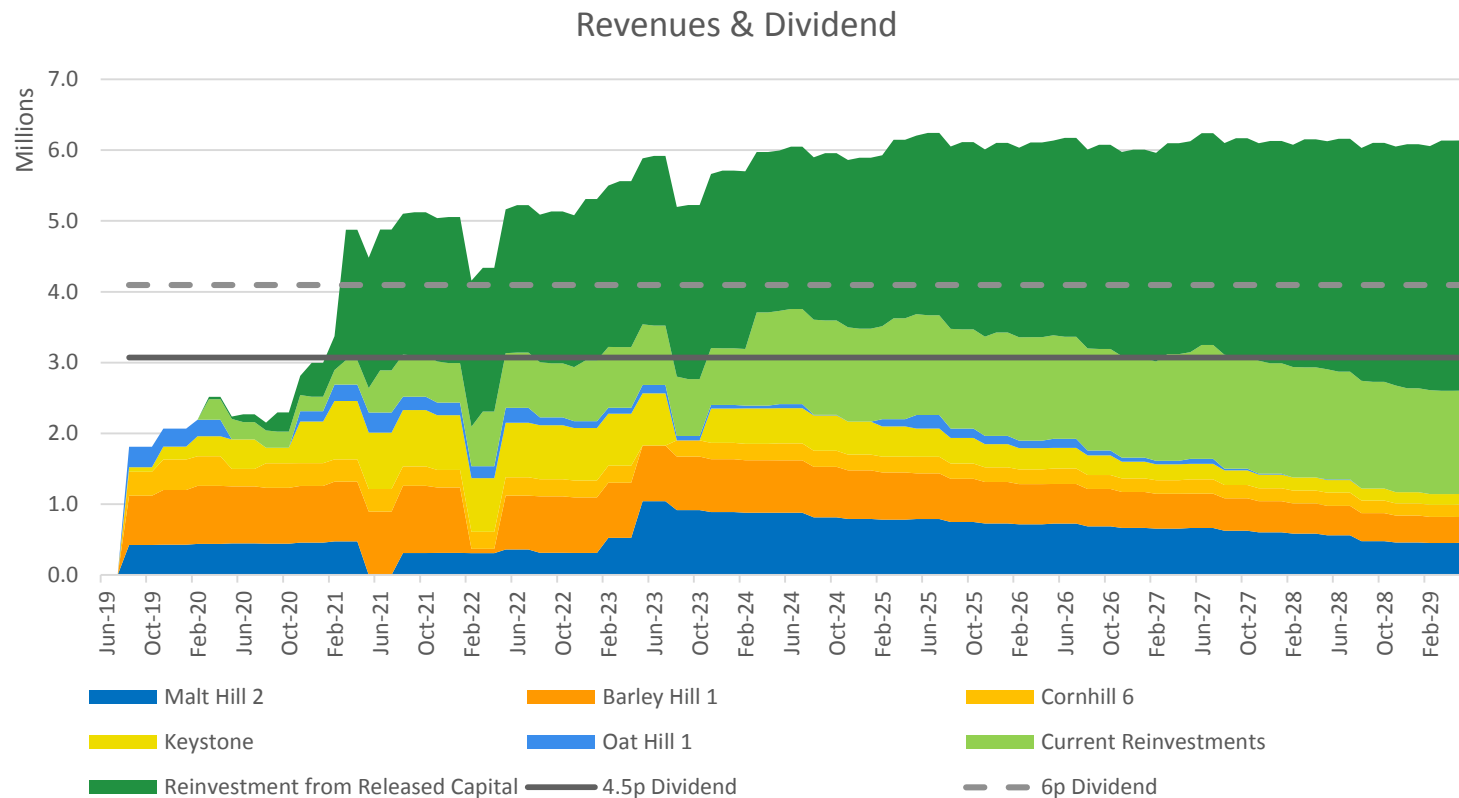
Projected performance is not a reliable indicator of future performance.

Source: TwentyFour 31 Mar-19

Assumes Reinvestment at 7.5% with a 6 month lag

Projected Returns

- A reduction in the dividend to 4.5p will reduce the cashflow burden in the near term



- Releasing further capital to generate returns to ensure future coverage

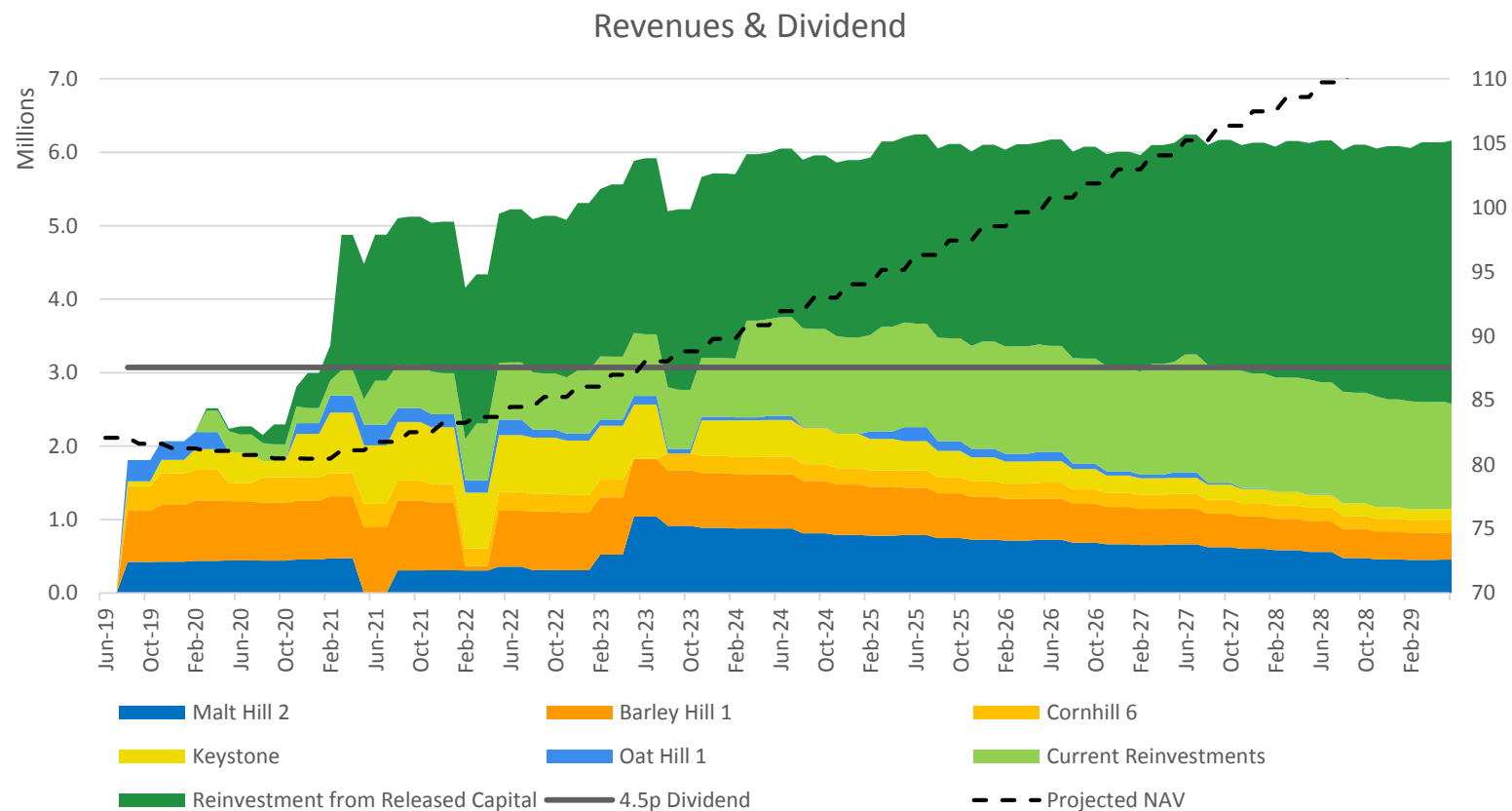
Projected performance is not a reliable indicator of future performance.

Source: TwentyFour 31 Mar-19

Assumes Reinvestment at 7.5% with a 6 month lag

Projected Returns

- And this approach will allow the NAV to be repaired more quickly



- Whilst essentially “rebasng” the yield of the fund back to around the initial 6% level

Projected performance is not a reliable indicator of future performance.

Source: TwentyFour 31 Mar-19

Assumes Reinvestment at 7.5% with a 6 month lag



Summary

7

Summary and Conclusions

- UK mortgage lending continues to exhibit very low levels of risk
 - Proven resilience throughout economic cycles
 - Uncorrelated to broader fixed income
- The investment landscape has changed
 - Despite exemplary credit performance from existing investments
 - ◆ Asset yields have reduced and AAA funding costs are broadly unchanged
- In order to improve performance we need to work the Fund's assets harder
 - The credit curve has compressed and Investment Grade funding costs are now more attractive
- By maintaining a high credit quality portfolio
 - A moderate increase in leverage should boost returns without significantly exposing the fund to asset losses
- Better short term cash management, invested in AAA UK RMBS, should also improve returns
- A reduction in the dividend in the near term will reduce the cash drag on the fund whilst the re-leveraging can be carried out
- That way we can improve the NAV putting the Fund in more stable position and able to grow successfully



Questions

Frequently Asked Questions

Q Why have you waited this long to cut the dividend to help the NAV recover?

A *The board and the portfolio managers are engaged with the Fund's investor base on an ongoing basis and continually consider the most appropriate courses of action. The dividend and investment policy have been primary topics at every board discussion for some considerable time, whilst also bearing in mind investor reaction and without wishing to damage the Fund's ability to grow in order to fund future investments going forward.*

A *Over the last year the Fund has passed a number of important and anticipated milestones – a capital raise, two securitisations, a new forward flow agreement and a proof of full cycle refinancing, the outcome of all of these events being pivotal to the future revenue prospects of the Fund. Analysing these revised outcomes has been key to deciding how to address the issues the strategy faced.*

Q Why will it still take until late next year for the NAV to begin recovering?

A *The existing securitisations are all term financed to dates in the future. The first of these to refinance, and therefore be able to employ revised investment policy, will be the Oat Hill transaction in May 2020. Our model then takes a conservative approach that reinvestments will take 6 months to achieve. As this is a known date, we may well be able to target investments ahead of that time in order to achieve that reinvestment more quickly.*

Q What happens if no more transactions manage to be completed?

A *As can be seen from the returns projection charts, with a lower dividend and increased gearing, dividend cover will be achieved and then grow as the existing securitisations are refinanced in the near-medium term. Our longer-term forward flow transactions should be able to sustain future assets at the very least and to a certain extent future growth. In the much longer term, the portfolios are of high quality and can be on-sold should this be required.*

Frequently Asked Questions

Q Will the strategy now work? Are there enough opportunities going forward?

A *In the situation we've found ourselves in, the lower NAV hampers the fund's ability to find investments which will achieve the required returns, as those investments need to yield significantly more. By reducing the dividend burden and being able to gear the assets a bit more to achieve those higher yields, we can aim to reverse the downwards trajectory and begin to alleviate the pressure.*

A *The banking system hasn't yet returned to normal following the Term Funding Scheme. The four-year funding it provided won't start to roll off until next year, but once it does we would expect more opportunities to become available as banks look to diversify their funding and capital management.*

A *That said, we will continue to take a conservative approach to potential transactions, not compromising on price or credit.*

Q Given the higher leverage you propose, will this make you more competitive vs other bidders?

A *We compete with other investors on many factors and leverage is just one of them. Size has probably been the most differentiating factor rather than leverage, and we obviously can't compete with the global funds or PE firms that have acquired the large UK government owned portfolios. But with higher leverage, we will be able to consider larger loan pools as the capital we'll be able to commit will go further.*

A *That said, we stand by our, and the board's, policy of not compromising on credit quality, and we believe that in the medium term that opportunities of the right quality and return profile will become available.*

A *We have seen a number of portfolios of lower quality, trade at levels we would not consider – regardless of the ability to employ higher leverage.*

Frequently Asked Questions

Q Do the management still have skin in the game in this strategy?

A Yes. Many of the firm's partners are invested in the fund, several in significant size, as do a number of staff. In addition two of the firm's mandate's are invested in the fund.

Q What happens if interest rates rise – or fall?

A Should rates rise, all the fixed rate mortgages in the fund are hedged, so the fund is essentially a floating rate fund, and therefore the return will increase.

A Should rates fall again (perhaps in a no-deal Brexit scenario) then the return will fall from today's level, but unless rates fall below the 0.25% base rate seen in 2016-2017 then we wouldn't expect returns to fall further than those the fund experienced at that time. Furthermore, the increased leverage will significantly help to offset that.

A Other than the capital recently released from the Barley Hill securitisation and the Malt Hill 1 refinance, which can be deployed into our two forward flow strategies as they continue to grow, it will be next May before we have more capital to invest when the Oat Hill transaction comes up for refinancing. Whilst the timing of portfolio sales is outside of our control we can begin planning towards that release from now onwards, aiming to minimize any drag should there be a repeat of the post-Brexit-vote interest rate policy/. Our models all assume a 6-month lag to reinvest capital releases.

Frequently Asked Questions

Q If the NAV goes back up are there any plans to put the dividend back up?

A *The board and the portfolio managers are constantly engaged with the Fund's investor base and are cognisant that a higher level of income is a driver for many investors whilst others are more focused on total return. Recognizing this, the Fund has maintained a 6p dividend since launch but with the NAV having reached the current level, maintaining the 6p dividend for longer may further damage the NAV to an unsustainable level.*

A *Combined with a change in investment policy to increase returns on the assets we believe that this will lead to the recovery of the NAV and should this ensue as expected, consideration as to the restoration of a higher dividend could then be given as and when appropriate.*



Appendix

Increased Leverage Example – Barley Hill No.1

Assets	Owner Occupied		
Portfolio Balance	£232m	WA Interest Rate	3.36%
Cost of RMBS Funding*	GBP 3m Libor + 110bps	WA Indexed LTV	62.53%
Securitisation Tenure	3 years + 2 re-financings	Arrears at closing	0.4%

Current Leverage

Initial Leverage ⁺		8.3x	Equity Capital		£29.2m
Scenario	Gross Return	Arrears**	Defaults**	Recovery	Refinancing
Favourable	13.2%	0.5% 24R 1.5%	0.25%	90%	30bps cheaper
Base	11.6%	2%	0.75%	80%	Same cost of funding
Less Favourable	6.8%	2% 24R 4%	0.75% 24R 3%	70%	50bps increase

Higher Leverage

Future Leverage ⁺		15x (approx. equiv. single-A)
Scenario	Gross Return	
Favourable	15.7%	
Base	13.7%	
Less Favourable	7.7%	

*This releases approx. 1/3 of capital which can then be reinvested elsewhere
Enhancing returns*

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