TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

29 October 2021

UK Mortgages Limited is a LSE-quoted listed closed-ended fund managed by TwentyFour Asset Management LLP.

Commentary

Mortgage and Housing Market

Strength remains in the housing market despite a drop in transactions and lending following the rush to complete by the end of the Stamp Duty Relief period. According to Nationwide, house prices rose 0.9% in November, marking an annual increase of 10%, up from 9.9% the previous month. According to the BoE and HMRC data, that increase comes as borrowing volumes and transactions fell sharply in October, in a similar pattern to July following the initial Stamp Duty Relief tapering. House purchase approvals also fell, although re-mortgage approvals increased to the highest level since March 2020. Despite the expected tail-off, Zoopla expects 2021 to represent the busiest housing market since 2007, with one in 16 houses changing hands. Likewise, according to Propertymark, the number of properties on offer per estate agent branch hit an all-time low in October, whilst buyers registered at branches increased 12% on the month and 13% compared to a year ago. Our experience with Keystone confirms this third party data, with the originator reporting November as its highest month for applications in 2021 and second-highest ever; an outstanding achievement given the pace of the market earlier in the year and the expected slowdown following the end of the Stamp Duty relief.

RMBS Market

The looming approach of the year-end led to a quietening of the UK RMBS market, with just three deals publicly priced. A non-conforming deal from regular issuer Kensington was accompanied earlier in the month by a BTL deal with loans originated by LendInvest but issued from JP Morgan's new multi-originator platform. Later in the month, the market priced an additional BTL deal, this time from Fleet, and possibly the final deal comprising their new origination, given new owners Starling Bank are expected to finance them on-balance-sheet from now on.

Fund Commentary

Another steady month of underlying asset growth as Keystone continued to complete further loans ahead of target, which helped the company accrue additional income and grow. On this basis, the board have announced the intention to increase the quarterly dividend from 1.125p to 1.25p (equivalent to 5p per annum, up from 4.5p) for the three remaining quarters of the company's financial year, with consideration of further progression to be taken in the next financial year. This highlights the progress the company has made implementing the plans it set out at the EGM at the end of 2020, and has fully implemented this year.

Following last month's overview of the loans in arrears across the portfolio, this month's commentary focuses on a deeper dive into longer-term arrears in the TML pools. From the whole pool of 1705 loans totalling £297m, 16 loans are more than six months in arrears, and litigation proceedings have commenced in a further eight cases. Of the sixteen (with an arrears balance of £208k), eleven are making payments, of which eight are paying more than their contractual monthly instalment, thereby gradually reducing their arrears. Meanwhile, a further four have agreed to a future payment arrangement, while the remaining borrower has received a final warning letter. Of the eight loans in litigation, possessing an arrears balance of £94k, five are awaiting a court hearing date and, thus, affected by the backlogs stifling UK courts due to the pandemic. Finally, two have made proposals to repay the arrears. As a result, court instructions are on hold to allow these borrowers to meet those proposals.

The courts have granted a possession order for the final loan, and the borrower is due to be evicted in early December. Assuming this occurs, this will be the first time a repossession has happened in this pool. Several previous loans have reached the litigation stage but have cured the arrears, or the borrowers have sold the property themselves, thereby paying off the entire loan. This particular property has an LTV of <60%, so the probability of UKML incurring a loss upon a future sale is relatively unlikely.

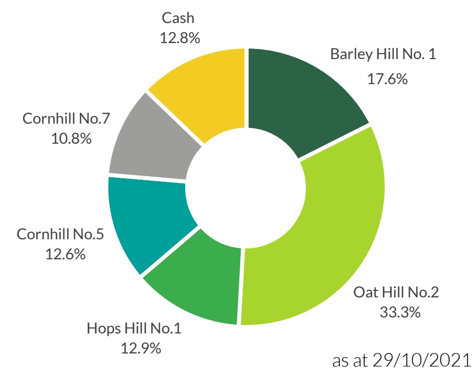
Investment Outlook

The supply/demand dynamic in RMBS continues to prevail with bank issuers largely absent and non-bank lenders left to take up the slack, with some likely to step back from capital markets funding in the future thanks to acquisitions and, therefore, access to cheaper alternative funding sources. Meanwhile, demand for RMBS remains strong given their floating rate nature and the expectation for interest rate rises in the relatively near future.

Portfolio Summary	Buy-to-Let			Owner Occupied	
	Purchased	Forward Flow Originated			
	Oat Hill 2	Hops Hill 1	Cornhill 7	Barley Hill 1	Cornhill 5
Originator	Capital Home Loans	Keystone Property Finance		The Mortgage Lender	
Outstanding Balance	£445m	£388m	£210m	£98m	£199m
Number Accounts	3,491	1,747	793	647	1,058
Average Mortgage Size	£128k	£222k	£265k	£152k	£188k
WA Indexed LTV	57.02%	71.75%	71.86%	56.31%	62.34%
WA Interest Rate	1.37%	3.48%	3.43%	4.43%	4.06%
WA Remaining Term (mth)	103	257	278	261	296
WA Seasoning (mth)	177	18	4	39	22
3mth + Arrears (% balance)	1.15%	0.00%	0.00%	5.15%	1.03%

as at 29/10/2021

Investment breakdown



as at 29/10/2021

Fund Facts

Type of Fund:	Closed-ended Investment Scheme
Listing & Trading:	LSE Specialist Fund Market
ISA & SIPP Eligible:	Yes
Launch Date:	7th July 2015
Currency:	£ denominated
NAV Calculation:	As of the last business day of each month
Dealing:	Daily during LSE opening hours
Dividend:	Quarterly from April 2016
Market Capitalisation:*	£125.16 mn
Shares in Issue:*	179mn
Price per Share:*	70.00p
NAV per Share:*	78.80p
NAV per Share (inc Dividend):*	108.43p
Premium / (Discount) to NAV:*	-11.17%

Source: TwentyFour Asset Management. * as at 30/09/2021

Glossary

BoE: Bank of England
BTL: Buy-to-Let
EPC: Energy Performance Certificate
HMRC: Her Majesty's Revenue and Customs
RICS: Royal Institute of Chartered Surveyors
RMBS: Residential Mortgage Backed Securities
ONS: Office of National Statistics
TML: The Mortgage Lender

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

This figure may vary from year to year.

Investment Objective

The Company aims to provide Shareholders with stable income returns through low leveraged exposure to portfolios of loans secured against UK residential property.

Investment Policy

The Company's investment policy is to invest in a diversified portfolio of UK residential mortgages.

- The Company will purchase legacy portfolios with strong observable performance histories or new portfolios with robust underwriting standards
- Primary origination mechanism may also be put in place
- Leverage will be used, initially via a banking facility, before fully securitized term structure put in place

This is only a summary; details of the Company's investment policy, including investment restrictions, are set out in the Prospectus.

IFRS 9

With regards to IFRS 9 – the company has been reporting its results in accordance with IFRS 9 since 1 July 2018. When making future loss provisions under IFRS 9 the low level of historic defaults in the UK mortgage sector and the credit protection afforded by the low LTV of the loans within our portfolio is factored into our provision calculations, along with the recent addition of mortgage payment holidays. The audited impact of IFRS 9 has been calculated at 0.99% on the Fund's NAV for the period ending 30 June 2021. The impact of expected credit losses is already modelled in the IRR calculations for our portfolios and is also included in our portfolio dividend and NAV models.

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.**
- Past performance is not a reliable indicator of future performance, and the Fund may not achieve its investment objective.
- 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.

OCF Breakdown

UK Mortgages Ltd	0.92%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.22%
Total	**1.14%**
Servicing and Transaction costs (for information)*	2.43%

*Servicing and transaction costs are provided for information only as deal specific servicing and other transaction costs are included in IRR projections per investment. As at 31/08/2021.

Fund Managers

Robert Ford
Partner, Portfolio Management, industry experience since 1986. Previously a Managing Director and Head of European ABS Trading at Barclays Capital.

Ben Hayward
Partner, Portfolio Management, industry experience since 1998. Previously he was a senior fund manager to four portfolios at Citi Alternatives.

Douglas Charleston
Portfolio Management, industry experience since 2006. Previous roles include structuring ABS at Lloyds, ratings analyst at S&P and a portfolio manager at Nationwide.

Silvia Piva
Portfolio Management, industry experience since 2007. Previously she was a structurer and originator at RBS covering UK financial institutions.

Shilpa Pathak
Portfolio Assistant, industry experience since 2013. Previous roles include an application development consultant at Dow Jones and a software developer at Dell.

Further Information

TwentyFour AM
John Magrath
Tel. 020 7015 8912
john.magrath@twentyfouram.com

Numis Securities
Sam Murphy
Tel. 0207 260 1232
s.murphy@numis.com