UK Mortgages Limited

31 March 2020

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

Commentary

With the lockdown fully in place and disruption across mortgage and housing markets as well as the RMBS market, the focus has been concentrated on continuing to pursue potential financing solutions for the Oat Hill portfolio. At the same time we have been working with our forward flow partners to facilitate and monitor loan completions, whilst also gathering early information for analysis on payment holidays across all the portfolios, plus interacting with fund investors as required. Unsurprisingly with the mortgage and housing markets effectively closed, completions of loans in the pipeline is slowing, and new origination essentially stopped. Applications for, and the processing of, payment holiday requests have now generally stabilised as new systems have been implemented by lenders. Early indications are that whilst the take-up levels vary from portfolio to portfolio, they generally fall in line with reported industry-wide figures for each sector. At the time of writing, overall payment holidays for the portfolio had reached approx. 17%, marginally above the latest industry average figures published by UK Finance at 14.3%. Further applications continue but have now slowed to something of a trickle. There is a clear observable difference between the BTL and owner-occupied sectors with a much lower take-up from the BTL pools. However, for the most part the reduction in income from this forbearance is yet to flow through as the measures were only introduced in the second half of March, therefore April's numbers will present the first opportunity to measure the financial impact.

Mortgage Market

For the most part, data from the current Covid-19 disruption is yet to feed through in any meaningful way. However, one good early indicator in the form of the RICS survey – which tracks surveyors' expectations – showed expectations of a sharp near-term downturn (despite a greatly reduced but still positive house price balance number for the past 3 months) as well as an unsurprising collapse in both new instructions and new buyer enquiries. This trend will take more time to flow through from the lender indices as these typically rely on transaction or mortgage offers data, which with those parts of the market virtually closed may mean it is difficult to draw any discernible conclusions for a few months.

RMBS Market

Spreads in secondary RMBS rebounded very quickly from the knee-jerk wide levels seen at the end of March, led mostly by the senior UK prime sector. With only relatively small amounts of paper actually trading at the upper levels, very few bonds have subsequently been reoffered and the recovery has been on low volumes with little or no offers in the market. That said, with spreads having plateaued more recently buyers have seemed reluctant to push spreads any tighter and give up any remaining enhanced value. As a result trades in the non-bank and BTL sectors have been few and far between, whilst currently implied spreads remain too wide for any potential new issue activity, which is probably the catalyst required to restart the market.

Cornhill Mortgages No.6 – CH6, and Malt Hill No.2 – MH2 (Coventry Building Society)

Both Coventry portfolios continue to perform extremely well, although as with all portfolios the impact of payment holidays is yet to be seen. Indications at the end of March were that applications for around 6% of the combined portfolios had been processed, with the number expected to grow. Just 2 loans in the MH2 portfolio were in arrears at the end of March, one of which is more than three months behind. Prepayments in both portfolios were minimal.

Barley Hill No.1 – BH1, and Cornhill Mortgages No.5 – CH5 (The Mortgage Lender – TML)

Asset performance in BH1 remained stable, with just another small increase of two further loans in the greater than three months in arrears bucket, bringing the total to eleven loans. Prepayments of earlier originated loans continue to come through as those loans reach their reset dates with about £4m of principal repaid, similar to previous months and generally in line with expectations. In CH5, growth continued again with completions over £210m at the end of March. Just two loans are three months or more in arrears, unchanged from the previous four months. Very few payment holidays had officially been processed by the end of March so it's not possible to assess data, but we do expect that these portfolios, being entirely owner-occupied loans, will see the highest number of payment holidays in the portfolio, and also because they contain a significant number of self-employed borrowers (approx. 42% in BH1 according to the end-February quarterly investor report), for whom government income support schemes have not yet been rolled out.

Oat Hill No.1 – OH1 (Capital Home Loans – CHL)

Performance to the end of March remained stable and generally in line with expectations, with prepayments slow and steady. The number of longer term arrears ticked up by 2 to just 29 loans from a pool of almost 4,150 more than three months behind, and the actual value of arrears also slightly higher at just £67k from a pool of around £490m of loans. Again, almost no payment holidays had officially been processed by the end of March although we expect this pool to show relatively lower numbers than other pools as the loans are all older loans with relatively smaller outstanding balances. They are also all floating rate, and as a result have seen the benefit of the 65bps of rate cuts from the BoE reducing monthly payments significantly, and in many cases to still manageable levels.

Cornhill Mortgages No.4 – CH4 (Keystone Property Finance – KPF)

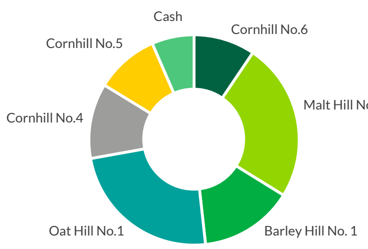
The portfolio continued to grow in March with completions passing the £200m mark. Once again, there continues to be no signs of any loans in arrears, and as expected, given the predominance of professional landlords in the pool, payment holiday experience has been very low, although we do expect more to come through in April.

Portfolio Summary	Buy-to-Let					Owner Occupied
	Purchased			Forward Flow Originated		
	Cornhill 6	Malt Hill 2	Oat Hill 1	Cornhill 4	Barley Hill 1	Cornhill 5
Originator	Coventry Building Society	Coventry Building Society	Capital Home Loans	Keystone Property Finance	The Mortgage Lender	The Mortgage Lender
Outstanding Balance	£174m	£340m	£489m	£203m*	£188m	£211m*
Number Accounts	973	1,948	3,840	949*	1,057	1,082*
Average Mortgage Size	£179k	£175k	£127k	£214k	£178k	£195k
WA Indexed LTV	62.12%	60.27%	65.66%	71.71%	66.36%	73.15%
WA Interest Rate	2.72%	2.71%	2.02%	3.45%	4.13%	3.89%
WA Remaining Term (mth)	192	219	119	267	284	314
WA Seasoning (mth)	56	38	158	6	20	4
3mth + Arrears (% balance)	0.00%	0.03%	0.63%	0.00%	1.46%	0.01%

*from February 2020, pipeline has been excluded and figure refers to completed loans only

as at 31/03/2020

Investment breakdown



as at 31/03/2020

Investment Outlook

The broader impact of the Covid-19 outbreak remains to be seen with little data available yet and the further uncertainties it will bring are generally just speculative at this early stage. Undoubtedly, a deterioration in portfolio performance is inevitable as it is likely that some of those loans granted payment holidays will fall into arrears after the forbearance periods come to an end and some of those may ultimately lead to foreclosures and potential for losses. It's far too early to gauge the extent of any deterioration but the generally high quality of the portfolio should protect performance and the relatively low level of payment holidays seen so far bear that out.

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:*	£186mn
Shares in Issue:	£273mn
Current Price per Share:*	68.25p
Current NAV per Share:*	79.71p
Current NAV per Share (inc Dividend):*	102.59p
Premium / (Discount) to NAV:*	-14.38%

Source: TwentyFour Asset Management. * as at 29/02/2020

Glossary

ABS: Asset Backed Securities
RICS: Royal Institution of Chartered Surveyors
RMBS: Residential Mortgage Backed Securities
BTL: Buy-to-Let
BoE: Bank of England

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

* as at 31/08/2017

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. The impact of IFRS 9 has been calculated at 0.48% on the Fund's NAV, in the 30 June 2019 year-end accounts. 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	0.87%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.17%
Total	**1.04%**
Servicing and Transaction costs (for information)*	1.82%

*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 31/09/2019.

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
ASSET MANAGEMENT

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