TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

31 January 2020

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

Commentary

Progress continues to be made with finessing some of the current portfolio financing arrangements in addition to preparing for the upcoming transaction re-financings and securitisations. This will begin with the Oat Hill No.1 transaction due in May, the planning for which is progressing.

Mortgage Market

Last month we reported that there appeared to be some signs that confidence was returning to housing and mortgage markets following the decisive General Election result – a so called "Boris bounce". Figures this month have more than confirmed that, as virtually every housing and mortgage measure showed a positive trend, several by a larger margin than for some time. UK Finance showed lending rose across all sectors in December; buyers, landlords, remortgages and first time buyers. Meanwhile Rightmove, RICS, Halifax, Nationwide, Zoopla, Reallymoving, the ONS and the Land Registry all showed house prices rising by various amounts, given their differing metrics, and Rightmove also pointed to strong rental growth, especially in London, whilst Savills noted growth in land values. Furthermore both the BoE and UK Finance showed mortgage approvals at their strongest levels since mid-2017 and December 2016 respectively and e.surv also showed a strong rise of 1.9%.

RMBS Market

UK RMBS also got off to a flying start with four new deals in January – two prime STS deals from Clydesdale and Nationwide, a BTL deal from Precise and a non-conforming deal from Kensington. All deals showed very heavy levels of oversubscription, further supporting the growing trend seen during 2019 following the introduction of the new regulatory framework for securitisation. Furthermore there were several other deals in the pipeline, at the end of January, including the refinancing of a CHL securitisation which is essentially the "sister" deal to our own Oat Hill transaction. This deal was originally securitised simultaneously to UKML's purchase of the loan portfolio which was securitised into Oat Hill No.1 three months later. More encouragingly, the deal was announced with the senior notes already fully preplaced and only the mezzanine notes to be sold. On the regulatory front, the BoE and FCA released a set of documents outlining priorities and milestones regarding Libor transition, including the requirement that the market ceases to issue GBP debt linked to Libor by the end of Q3 2020. Virtually all UK ABS now uses Sonia as the reference index and none of the existing Libor-based UKML securitisations are expected to extend beyond the period when the requirement for contributing banks to quote GBP Libor rates ceases at the end of 2021. Some underlying loans still have reversion rates linked to Libor, although we expect that the vast majority of these will be refinanced as their reversion margins are relatively penal, and most of the underlying loan documentation also allows the reference rate to be amended to a suitable alternative such as the BoE Base Rate or an SVR. We are also working with our warehouse providers to future-proof our financing facilities, ahead of the transition.

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

Both Coventry portfolios continue to exhibit exceptionally strong performance, albeit a tiny increase in arrears was observed with 3 loans in arrears at the end of January, one of which is now 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 remains very strong, with the same seven loans in the greater than three months in arrears bucket and an arrears balance of just £56k from £197m of loans outstanding. Prepayments of earlier originated loans continue to come through as those loans reach their reset dates with about £6m of prepayments this month, similar to the previous two months and generally in line with expectations.

In CH5, growth continued again with a slightly slower January following an unseasonably strong December, with completions now approaching £170m and a combined pipeline of over £280m. Just two loans are three months or more in arrears, unchanged from the previous two months.

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

Performance continues to be stable and generally in line with expectations, although the sale of one repossessed property this month showed a higher than normal loss experience due to the dilapidation of the property. Prepayments remain slow and stable, and the number of longer term arrears was virtually unchanged with just 27 loans from a pool of over 4,150 more than three months in arrears at the end of January, with the actual value of arrears slightly lower at just £53k from a pool of £492m of loans.

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

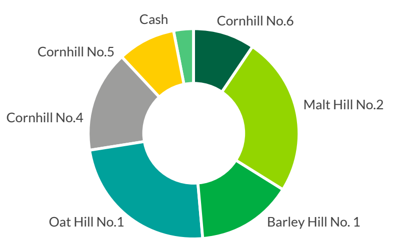
Similar to TML, volumes were slightly lower in January following the exceptionally busy December, but nonetheless remain very encouraging, with almost £160m of completions from over 750 loans and a combined pipeline of over £370m. Once again, there continues to be no signs of any loans in arrears.

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	£178m	£341m	£492m	£372m*	£197m	£283m*
Number Accounts	989	1,951	3,867	1,706*	1,098	1,410*
Average Mortgage Size	£180k	£175k	£127k	£210k	£179k	£194k
WA Indexed LTV	62.18%	60.30%	65.65%	71.34%	66.62%	73.03%
WA Interest Rate	2.76%	2.71%	2.02%	3.49%	4.13%	3.95%
WA Remaining Term (mth)	194	221	121	268	285	317
WA Seasoning (mth)	54	36	156	5	18	3
3mth + Arrears (% balance)	0.00%	0.03%	0.57%	0.00%	0.62%	0.09%

* includes completions and pipeline

as at 31/01/2020

Investment breakdown



as at 31/01/2020

Investment Outlook

The near term outlook looks broadly supportive for the RMBS market. From an issuer perspective, more optimal pricing and the ability to issue new transactions as STS-compliant in certain cases, thereby reaching the widest possible investor base, should support a strong pipeline. With something in the region of around £15bn in TFS funding due to be repaid by UK banks in the latter part of this year and significantly more than that in 2021 it is likely many will look to pre-empt the financing requirement if possible.

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:*	£188mn
Shares in Issue:	£273mn
Current Price per Share:*	69.00p
Current NAV per Share:*	81.06p
Current NAV per Share (inc Dividend):*	102.81p
Premium / (Discount) to NAV:*	-14.88%

Source: TwentyFour Asset Management. * as at 31/12/2019

Glossary

ABS: Asset Backed Securities
EGM: Extraordinary General Meeting
RMBS: Residential Mortgage Backed Securities
IPD: Interest Payment Date
BoE: Bank of England
TFS: Term Funding Scheme
RICS: Royal Institution of Chartered Surveyors
TML: The Mortgage Lender
BTL: Buy-to-Let
SVR: Standard Variable Rate
LTV: Loan-to-Value
NPL: Non-Performing Loans
STS: Simple Transparent and Standardised securitisation
ESMA: European Securities and Market Authority
HPI: House Price Index

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

Rob 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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