TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

31 July 2020

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

Commentary

Mortgage and Housing Market

The strong recovery in the housing market has continued apace through the summer with Zoopla reporting soaring demand since the lockdown ended, and the amount of time taken to sell a property falling to just 27 days, compared to 39 days over the same period last year. In addition, the National Association of Estate Agents reported the number of homes sold in July was at the highest level since before the 2007 global financial crisis, and 44% higher than July 2019.

Alongside this, the Bank of England showed another large jump in mortgage approvals in July (following a similar increase in June), with approvals seven times higher than the low in May at the height of the lockdown, albeit they still remain 10% lower than in February. Meanwhile the FCA confirmed that payment holiday support scheme will finish at the end of October.

RMBS Market

The RMBS market has also continued its recovery, albeit in quieter summer markets. The lower level of publicly distributed deals during this time concentrated activity into the secondary market which saw spreads grind tighter again, with UK prime RMBS now trading inside pre-Covid levels. The non-bank sectors are also continuing to improve.

Fund Commentary

Data on the resumption of payments following mortgage payment holidays continues to come through with the cohort ending in July now fully visible and many borrowers from the August cohort already indicating they will be resuming payments in September rather than extending.

Our TML portfolios unsurprisingly experienced the highest number of payment holiday requests due to the nature of the lending being owner-occupied loans, which generally saw a higher take-up than BTL, and lending to the underserved segments of borrowers with a high proportion of self-employed. However, the portfolios have seen a fall in the amount of loans taking a deferral from a peak of 41% to 14% currently. Interestingly the self-employed component, which saw a greater take-up of payment holidays initially, has now seen a correspondingly larger decrease, most likely due to the Government's income support scheme for the self-employed coming to an end much earlier than the furlough scheme for employed workers.

In BTL, the numbers are much lower. The Coventry portfolios have seen the amount of payment holidays fall from a peak of around 13% to about 2.5%. For the Oat Hill portfolio, intra-month figures are not yet available, but the take up of extensions for loans reaching the end of their initial holiday is at around 23%, indicating the total amount is trending towards about 3.5% of the portfolio from the peak of around 15%. Keystone (the pool of loans to mainly professional landlords) is by far the best performing portfolio in this regard with only around 3% taking a holiday at all, and with just two loans to a single borrower having been extended, with all others resuming payments. Several have also made arrangements to make up the shortfall over the next 1-2 years, rather than capitalising the additional balance over the rest of the life of the loan.

At a fund portfolio level, the total number of payment holidays will therefore fall to around 5% of overall assets from a peak of almost 19%, once the loans with holidays ending in August resume payments in September.

Investment Outlook

With swap rates out to 5 years near to zero and mortgage rates broadly unchanged, if not a little higher in some cases, and loan origination criteria somewhat tightened since the lockdown, the forthcoming period represents an extremely attractive origination opportunity for our forward flow assets, adding margin - and therefore enhancing return - whilst protecting risk.

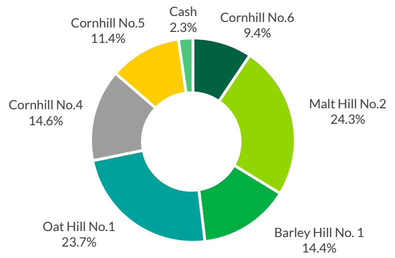
Whilst a small pipeline is already building in primary RMBS markets, the expectation for issuance in the near-medium term is that supply will be subdued whilst demand will remain strong, meaning we expect RMBS spreads to continue to grind tighter. Bank deals will be few and far between, given the alternative central bank funding sources available, and the non-banks who have now mostly all issued since the market reopened need time to rebuild origination volumes and loan stock before returning to issuance.

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	£170m	£338m	£482m	£256m*	£171m	£236m*
Number Accounts	952	1,934	3,779	1,188*	982	1,206*
Average Mortgage Size	£179k	£175k	£127k	£216k	£174k	£196k
WA Indexed LTV	61.78%	60.26%	64.10%	71.71%	65.47%	72.06%
WA Interest Rate	2.66%	2.71%	1.37%	3.41%	4.15%	3.88%
WA Remaining Term (mth)	188	215	116	266	280	309
WA Seasoning (mth)	60	42	162	8	23	7
3mth + Arrears (% balance)	0.00%	0.17%	0.71%	0.00%	1.56%	0.30%

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

as at 31/07/2020

Investment breakdown



as at 31/07/2020

1. Dividend guidance in this factsheet is a target only and not a profit forecast and there can be no assurance that this target will be met.

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:*	£134.6mn
Shares in Issue:	273mn
Price per Share:*	49.30p
NAV per Share:*	80.59p
NAV per Share (inc Dividend):*	103.84p
Premium / (Discount) to NAV:*	-38.83%

Source: TwentyFour Asset Management. * as at 30/06/2020

Glossary

BTL: Buy-to-Let
CHL: Capital Home Loans
FCA: Financial Conduct Authority
Fund: UK Mortgages Limited
RMBS: Residential Mortgage Backed Securities
TML: The Mortgage Lender

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

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 unaudited impact of IFRS 9 has been calculated at 0.92% on the Fund's NAV, for the 30 June 2020. 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	0.80%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.17%
Total	**0.97%**
Servicing and Transaction costs (for information)*	2.11%

*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 29/02/2020.

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

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