TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

30 September 2021

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

Commentary

Mortgage and Housing Market

Property price data releases are still showing an extremely healthy marketplace, despite the end of the Stamp Duty relief period. However, some market players are expecting the pace to slow into the New Year. Whilst Halifax showed prices up 0.9% in October (8.1% YoY) and predicted that a shortage of homes for sale and buoyant employment market would continue to support housing market growth, Nationwide, also showed further growth at 0.7% for the month and 9.9% YoY, but suggested inflation and higher interest rates would slow growth as we advance. Likewise, both Knight Frank and Reallymoving concurred, with the latter predicting further growth of just 0.1% by year-end. Similarly, several UK banks raised some of their cheaper mortgage rates or removed cheaper products from their offerings on expectations of higher interest rates, supporting the premise of slowing growth. Meanwhile, the government reported a 68.4% YoY jump in transactions in September, leading to a tax take of £1.3bn in Stamp Duty in the final month of the relief period. Total income during that period reached £13.5bn, with the last six months 66% higher than the same period the previous year. The rise in income strongly validates the decision to provide relief during the pandemic to support housing markets.

RMBS Market

In a busy month for broader European ABS, just two UK RMBS deals were priced. One was the refinancing of the mezzanine notes from a large UK legacy deal, as these tranches reached their first optional redemption date. The AAA notes remain outstanding, as they weren't included in the refinancing option. Still, it was encouraging that these mezzanine notes were publicly distributed instead of privately placed, which has been an unhelpful trend in some larger, pre-sounded transactions of late. In addition, UK digital challenger Atom bank issued a AAA only tranche of Prime STS mortgages which was well received.

Fund Commentary

A quieter month for fund activity saw the underlying assets continue to accrue income and the asset base grow further as Keystone completed further loans. Performance remains stable across the portfolios, with arrears falling a little in the Barley Hill pool, which has the highest percentage of delinquent loans of all our pools. The number of loans more than three months in arrears (3m+) fell from 26 to 23, with the arrears value falling from £270k to £233k. In the other TML pool, Cornhill 5, there are just ten loans in 3m+ arrears with a value of just £101k. Therefore, combined, which is how the pools will be securitised, there is a total of 33 loans 3m+ from 1,956 loans (1.7%) with arrears outstanding of £334k from a total loan amount of £310m. However, we should also note that of those 33 loans, 23 of them are currently making payments. Thirteen of these are making a payment greater than their contractual monthly instalment (CMI), meaning their arrears are gradually reducing. A further seven are paying their full CMI, meaning their position is not deteriorating, and three are making a payment, although of an amount lower than their CMI. Overall, 70% of the 33 loans had previously taken a Payment Deferral during the pandemic. In the much larger £448m CHL pool, we have a total of 44 accounts in arrears of over three months from a total of 3,511 (1.25%) but with a much lower total arrears amount of just £96k. The lower value is because the loans in this pool are typically much older and much smaller than the TML loans (£128k vs £178k on average) and have a lower monthly payment amount given they are all floating rate loans linked to the BoE Base Rate, with a weighted average interest rate of 1.37% compared to 4.12% for the TML loans. A much smaller number of nine loans are making payments, albeit eight of these are overpaying and, therefore, reducing their outstanding arrears. Furthermore, another ten accounts have a CMI of less than £100, meaning their arrears are relatively small. If, for example, the properties are currently on the market, the arrears could resolve relatively easily on completion of a sale. As has been the case for almost the entire time they have been originating, the two Keystone pools currently have no loans in any form of arrears.

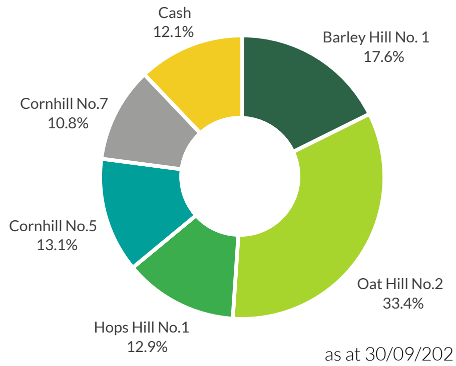
Investment Outlook

Technical factors in the RMBS market remain balanced towards a lack of issuance from the banks and steady issuance from the non-bank issuers. However, non-bank issuance may drop off as buyers with access to alternative funding have recently acquired several specialist issuers and may constrain issuance. Meanwhile, demand for RMBS remains strong given their floating rate nature and the expectation for interest rate rises.

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	£448m	£390m	£181m	£102m	£208m
Number Accounts	3,511	1,757	665	660	1,296
Average Mortgage Size	£128k	£222k	£273k	£154k	£190k
WA Indexed LTV	57.88%	71.78%	72.02%	57.50%	63.44%
WA Interest Rate	1.37%	3.47%	3.44%	4.43%	3.99%
WA Remaining Term (mth)	103	258	278	263	297
WA Seasoning (mth)	176	17	3	38	21
3mth + Arrears (% balance)	1.31%	0.00%	0.00%	4.94%	0.99%

as at 30/09/2021

Investment breakdown



as at 30/09/2021

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:*	£126.77mn
Shares in Issue:*	179mn
Price per Share:*	70.90p
NAV per Share:*	77.94p
NAV per Share (inc Dividend):*	107.57p
Premium / (Discount) to NAV:*	-9.03%

Source: TwentyFour Asset Management. * as at 31/08/2021

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. TThe unaudited impact of IFRS 9 has been calculated at 1.04% 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

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