



31 December 2020

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

Commentary

Mortgage and Housing Market

Whilst house prices and transaction data continue to increase, and there is no discernible effect from the latest lockdown with estate agents, valuers, solicitors and lenders operating as normally as can be expected, although some level of caution is gradually being sounded for the market once the current stamp duty relief period ends in March. HMRC reported a 31.5% increase in transactions for December 2020 vs 2019 and 13.1% up from November, whilst Halifax reported the average house price ended 2020 at a record high of £253,374, and Nationwide said prices climbed 7.5% in 2020, the highest growth rate for six years. This was slightly tempered as Zoopla said that whilst UK house prices will register strong growth early in 2021, predicting a 5% rise, that demand would weaken in the second half of the year with only 1% of growth, although with expected completions to match last year at 1.1m. Halifax went further, noting that house prices could drop as much as 5%, although that's less likely if the current demand/supply dynamic continues, with Rightmove recording an increase of 30% in site visits in early 2021, whilst Zoopla reported new sale instructions falling by 12% pa in January vs a 13% increase in demand in the first two weeks of the year. That said, the latest RICS survey saw new buyer enquiries fall to a seven month low of +15% from +26% in November. Across the industry, payment holidays have now diminished to de-minimis levels with new requests close to zero since last autumn and the FCA have confirmed the end of the scheme in March.

RMBS Market

The UK RMBS market has opened the year on a very strong note. Alongside our own highly successful, heavily oversubscribed debut deal for Keystone (see below), a second debut deal for another debut portfolio BTL originator, LendCo, also attracted significant oversubscription across the capital stack and saw strong price performance. This has been followed by a further non-bank deal which is yet to price – a near-prime owner-occupied deal from seasoned originator and issuer Kensington, which is also expected to attract strong demand.

Fund Commentary

At the forefront of activity for the last month was the launch of Hops Hill No.1, the £400m debut securitisation of our first Keystone portfolio (Cornhill 4). We have long advocated the quality of this pool and the value it would bring to the fund, especially given its exceptional performance during the pandemic with Payment deferrals peaking at just 3.1% (compared to the market average in the mid-teens) and falling back to 0% well before the year-end. This was borne out by the overwhelming success of the deal. The books were >3.4x oversubscribed at the senior end and up to 8.2x on the mezzanine notes. This meant that we were able to tighten pricing by 15bps from initial guidance on the seniors and by 25bps or more on the mezzanine tranches. Furthermore, the deal also saw an extremely broad range of investors – the widest distribution we've experienced for a UKML deal – and from a wide variety of investor classes and geographies – not just the UK. The portfolio and structure was ready to launch early last November, but with a number of market uncertainties at that time, such as Brexit and the vaccine rollouts, we strategically decided to hold off until the New Year in order to achieve optimal execution, particularly given that this would deliver the added benefit of generating more loans and launching a larger deal, at a better price – hence further enhancing returns for the fund. We were also able to further increase the deal size by incorporating an additional £63m of "pre-funding" – i.e. securitising not just the loans already in the pool, but also loans currently in the pipeline but not yet completed – the first deal since the pandemic to be able to incorporate this feature. In particular, the price improvement we achieved by waiting is a huge success, not just because we also achieved it on a larger pool. The price of the entire deal improved by almost 20bps, and with leverage on the transaction in the high teens, that's an incremental return for the fund of between 3.5% and 4%, compared to the level signalled to investors in last year's presentations and gives a resulting IRR likely to be in excess of 15% once the pre-funding is completed in May – an notable achievement given the high quality of the loans, and most importantly a significant boost for delivering returns to fund investors going forward. Whilst the pre-funding is being completed we will be finalising the terms on the new warehouse for the second portfolio – which will also benefit from the price improvements seen on the securitisation – further boosting returns. Finally, we have also completed the ramp-up of the Cornhill No.5 portfolio with TML, who in the immediate future will next be originating mortgages for their corporate partner, Shawbrook Bank, whilst continuing to service the Cornhill No.5 loans and those in the Barley Hill No.1 pool. We will look to securitise these at the most appropriate time in the future.

Investment Outlook

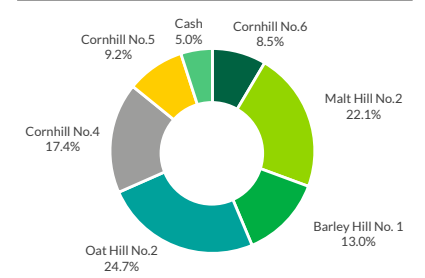
With banks' supply set to remain minimal, given the accommodative central bank funding available to them, then the non-bank RMBS sector will continue to be the mainstay of issuance this year, and we expect to see regular deals as issuers' funding arrangements are termed out. Most originators last issued gradually through Q3 and early Q4 of last year following the lending and funding market cessation during the initial pandemic-driven lockdown, and that supply was gratefully absorbed by the market, so we expect to see a similar pattern this year, and the lack of bank issued paper will continue the positive trend for the demand/supply dynamic.

Portfolio Summary	Buy-to-Let			Owner Occupied		
	Purchased		Oat Hill 1	Forward Flow Originated		
	Cornhill 6	Malt Hill 2		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	£154m	£332m	£471m	£337m*	£146m	£235m*
Number Accounts	850	1,907	3,695	1,561*	867	1,205*
Average Mortgage Size	£181k	£174k	£128k	£216k	£169k	£195k
WA Indexed LTV	61.94%	60.17%	62.67%	71.73%	64.13%	70.08%
WA Interest Rate	2.33%	2.71%	1.37%	3.42%	4.21%	3.88%
WA Remaining Term (mth)	185	210	111	265	276	306
WA Seasoning (mth)	65	47	167	10	28	12
3mth + Arrears (% balance)	0.00%	0.07%	0.81%	0.00%	2.75%	0.19%

*Completed loans

as at 31/12/2020

Investment breakdown



as at 31/12/2020

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*:	£154.4mn
Shares in Issue:	232mn
Price per Share*:	66.50p
NAV per Share*:	81.43p
NAV per Share (inc Dividend)*:	107.68p
Premium / (Discount) to NAV*:	-18.33%

Source: TwentyFour Asset Management. * as at 30/11/2020

Glossary

ABS:	Asset Backed Securities
BTL:	Buy-to-Let
RICS:	Royal Institute of Chartered Surveyors
RMBS:	Residential Mortgage Backed Securities
TML:	The Mortgage Lender

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

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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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	0.81%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.15%
	Total 0.96%
Servicing and Transaction costs (for information)*	2.18%

*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 30/06/2020.