

UK Mortgages Limited

IMPORTANT: This fact sheet contains expressions of opinion and forward-looking statements of expectation. Any such view, expectation or opinion is solely attributable to the Investment Manager.

31 December 2021

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

Commentary

Mortgage and Housing Market

Looking back at 2021 as a whole, data from both Nationwide and Halifax showed the average UK house price rose during the year by approximately 10%, with around 1% of that gain occurring during December. The December report from RICS pointed towards the persistent imbalance between supply and demand in the housing market as a contributing factor to the price rise. The survey also showed 9% more respondents reported an increase in new buyers whilst a net balance of -14% saw a drop in new listings – the ninth month in a row that this metric has been negative. Furthermore, the new year has opened strongly, with Zoopla reporting property demand rose by 49% in January, the largest New Year increase in five years. Yorkshire Building Society (YBS) and Halifax both reported that first-time buyer (FTB) numbers had exceeded 400,000 in 2021, with YBS pointing out that this is the highest number seen in 15 years. Their analysis found that FTBs represented 50% of all house purchases with a mortgage, with the stamp duty relief offered during the year creating opportunities at the bottom of the housing ladder.

Tempering the exuberance somewhat, the Bank of England's latest credit conditions survey reported that lenders expect demand for both house purchases and re-mortgages to decrease in Q1 2022, with December's base rate rise and expectations of further increases likely to have an impact on lending later in 2022.

RMBS Market

The New Year got off to a flying start in the UK RMBS market with several deals announced and successfully priced. Strong oversubscription levels, once again demonstrated the depth of investor demand for high quality floating rate product. That said, some of the latter deals ran into a little more resistance, however this was probably attributable to a combination of weaker collateral pools and the distraction of some significant broader market volatility. Looking past this flurry, the primary horizon now appears to be relatively clear and secondary markets remain robust. Therefore, any future supply is likely to be well received, particularly as the market expects several large deals to be called in the coming months. Not all of these deals are expected to be refinanced in the public markets.

Fund Commentary

Asset performance remains extremely stable – probably not surprising given the strong housing markets discussed above. In those portfolios with arrears, we saw just a marginal increase of one loan in each of the TML portfolios in arrears for three months or more. This slight increase is more than offset by a fall of six loans in the same bucket in the CHL portfolio. The longer term six months+ bucket in the TML pool remained unchanged. As has been the case since inception, neither of the Keystone portfolios have any loans in arrears. Meanwhile, origination in the Keystone pool continues to grow, with both the pre-offer and post-offer pipelines increasing as new applications were received and existing submissions were processed, respectively. At the same time, a further £20m of loans were added to the completions pot in what is traditionally a quiet month for mortgage transactions, bringing the portfolio total to almost £280m at the time of writing.

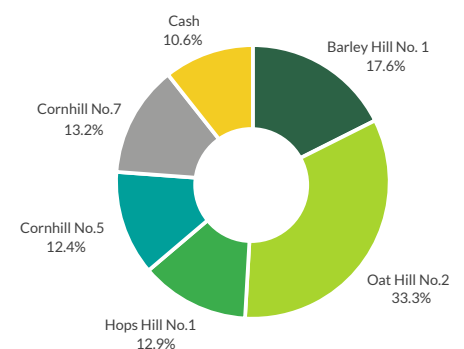
Investment Outlook

Following the burst of activity at the start of the New Year in UK RMBS, indications are that the pace will slow down a little in the near term giving investors a chance to consolidate their positions. As mentioned above, several large deals are due to refinance in the coming months, but market intelligence suggests that these may not appear in the public supply chain and could therefore exacerbate the positive demand-supply dynamic that has driven the tightening in RMBS spreads seen over the last year. That said, volatility from broader markets due to interest rate uncertainty may intercede from time to time, but given interest rates are likely to increase from here, we expect demand for the high quality floating rate paper that RMBS issuance comprises will remain strong, if not increase.

Portfolio Summary	Buy-to-Let			Owner Occupied	
	Purchased Oat Hill 2	Forward Flow Originated			
		Hops Hill 1	Cornhill 7	Barley Hill 1	Cornhill 5
Originator	Capital Home Loans	Keystone Property Finance		The Mortgage Lender	
Outstanding Balance	£439m	£382m	£259m	£93m	£184m
Number Accounts	3,436	1,708	1,017	622	982
Average Mortgage Size	£128k	£224k	£255k	£151k	£187k
WA Indexed LTV	56.95%	71.75%	71.97%	56.19%	62.02%
WA Interest Rate	1.37%	3.48%	3.41%	4.45%	4.16%
WA Remaining Term (mth)	101	256	277	258	293
WA Seasoning (mth)	179	20	5	41	24
3mth + Arrears (% balance)	1.06%	0.00%	0.00%	5.61%	1.27%

as at 31/12/2021

Investment breakdown



as at 31/12/2021

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*:	£127.84 mn
Shares in Issue*:	179mn
Price per Share*:	71.50p
NAV per Share*:	78.94p
NAV per Share (inc Dividend)*:	109.69p
Premium / (Discount) to NAV*:	-9.42%

Source: TwentyFour Asset Management. * as at 30/11/2021

Glossary

BoE:	Bank of England
BTL:	Buy-to-Let
CHL:	Capital Home Loans
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

This figure may vary from year to year.

Fund Managers

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.

Robert Ford
Partner, Portfolio Management, industry experience since 1986. Previously a Managing Director and Head of European ABS Trading at Barclays Capital.

Shilpa Pathak
Portfolio Assistant, industry experience since 2013. Previous roles include an application development consultant at Dow Jones and a software developer at Dell.

Silvia Piva
Portfolio Management, industry experience since 2007. Previously she was a structurer and originator at RBS covering UK financial institutions.

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 audited impact of IFRS 9 has been calculated at 0.99% 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	0.95%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.28%
Total 1.23%	
Servicing and Transaction costs (for information)*	2.55%

*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 31/10/2021.