TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

31 August 2021

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

Commentary

Mortgage and Housing Market

While recent data shows that activity in mortgage and housing markets has, understandably, slowed following the rush to complete transactions before the end of the Stamp Duty Relief period (which Rightmove estimate saved homeowners £6.1bn), there are few signs of a cliff edge. Despite the return to pre-pandemic transacting costs, general demand continues unabated. Nationwide showed a slowing of growth in September to just 0.1% after a bumper 2.0% in August, however, Halifax posted a post-2007 record rise of 1.7%, and e.surv Acdata showed a 1.2% rise for the month. Meanwhile, Bank of England data showed mortgage approvals easing slightly for a third consecutive month. However, they remain above pre-pandemic levels, and HMRC showed a bounce back in mortgage transactions following the summer slowdown. News remains positive in the rental sector (which is encouraging as much of the Company's portfolio targets BTL loans), with Rightmove reporting 8.6% annual growth in city centre rents, excluding London, which was still positive but more modest at 2.7%. Furthermore, they reported an 11% growth in suburban and rural rents compared to pre-pandemic levels, a situation supported by the HomeLet rental index survey, which showed an overall increase of 7.5% on the year, including a more bullish 6.4% rise in London.

RMBS Market

Primary market RMBS issuance bounced back strongly following a quiet summer. The UK saw four RMBS deals placed, two BTL and two non-conforming, both offering senior and mezzanine bonds, all met by solid demand across the capital stack. Over the last few years, the regulatory-driven migration has led most BTL borrowers to opt for five-year fixed-rate mortgages rather than two-year loans, which has prompted RMBS issuers to push out some call dates towards five years to better match the underlying loan maturities in transactions. As a result, senior AAA bonds now possess longer weighted average lives. While this increase precludes some investors from participating in these deals, oversubscription levels so far remain consistently strong, with issuers still achieving and therefore locking in attractive pricing for longer maturities.

Fund Commentary

The highlight for the month was the upgrade of the Class B mezzanine notes from the Barley Hill No.1 transaction to Aaa by Moody's, reflecting *"better than expected collateral performance and the increased levels of credit enhancement for the notes"*. This transaction was structured in such a way that there was always an expectation of upgrades to the mezzanine notes as the senior notes paid down, given the relatively short time to the reversion rate of the predominantly two-year underlying owner-occupied pool. It is nonetheless highly encouraging to see the agency's comments about positive pool performance. They also highlighted that the transaction has experienced no losses since closing and that current arrears and loss performance represented an improvement versus their original stress model by a factor of 20%.

The remaining underlying pools continue to perform well, with arrears in the CHL pool falling back to April levels and no sign of any arrears in either of the Keystone pools, the second of which continues to grow nicely.

Investment Outlook

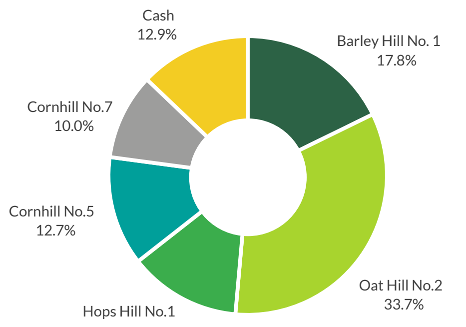
The UK rates market is now pricing in two base rate hikes in 2022; one in Q1 and one in Q3. There has been a lot of speculation around the timing of any rate hikes. Should rates rise, it is worth noting that this is generally positive for RMBS bonds, given they are almost entirely composed of floating-rate notes, and for UKML, which hedges its underlying fixed-rate loan exposure. Therefore, it is effectively a floating rate fund.

The primary RMBS pipeline for Q4 looks reasonably steady against a supportive market backdrop both fundamentally, with UK job vacancies at a record high despite the impending end of the furlough scheme, and technically, with ongoing central bank support despite the end of the ultra-cheap TFSME.

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	£450m	£392m	£153m	£105m	£214m
Number Accounts	3,529	1,766	560	678	1,127
Average Mortgage Size	£128k	£222k	£273k	£155k	£190k
WA Indexed LTV	57.87%	71.82%	72.09%	57.70%	63.58%
WA Interest Rate	1.37%	3.47%	3.44%	4.45%	3.96%
WA Remaining Term (mth)	104	259	281	264	298
WA Seasoning (mth)	175	16	3	37	20
3mth + Arrears (% balance)	1.26%	0.00%	0.00%	5.58%	0.86%

as at 31/08/2021

Investment breakdown



as at 31/08/2021

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:*	£127.13mn
Shares in Issue:*	179mn
Price per Share:*	71.10p
NAV per Share:*	77.33p
NAV per Share (inc Dividend):*	106.96p
Premium / (Discount) to NAV:*	-8.06%

Source: TwentyFour Asset Management. * as at 31/07/2021

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. The unaudited impact of IFRS 9 has been calculated at 1.22% on the Fund's NAV for the period ending 31 December 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	0.91%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.18%
Total	**1.08%**
Servicing and Transaction costs (for information)*	2.38%

*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 31/05/2021.

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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