



26 February 2021

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

## Commentary

### Mortgage and Housing Market

Mixed data continues to emanate from the housing and mortgage sector, particularly following the recent budget in early March. Data from the Office for National Statistics showed annualised house price growth slowing in January to 7.5% from 8% the previous month, while Halifax reported that house prices fell for the second consecutive month in February by 0.1%, following a 0.3% drop the previous month. Conversely, Nationwide reported an unexpected rise of 0.7% in the same month and RICS data for February also showed an improvement, as did Rightmove.

Mortgage market data was also mixed with the BoE reporting a dip in mortgage approvals in January. Likewise, UK Finance reported mortgage volumes hit a 13-year high in Q4 2020, whilst HMRC pointed to a "sprint finish" with transactions up 23% and 47% in January and February respectively as buyers raced to complete transactions before the original March stamp duty deadline.

Following the budget, the three-month extension to the Stamp Duty relief period, plus a further three-month extension at half the relief level appear to have reignited interest. Accordingly, MoneySuperMarket reported an increase in mortgage enquiries of over 400% in the first week of March, and Winkworth reported the busiest day ever for the property market, immediately following the budget. All that said, some caution remains as the BoE also reported the availability of 90% LTV mortgages reached the lowest on record in Q4 2020.

### RMBS Market

The UK RMBS market remains well supported with generally sparse supply. A large legacy transaction from UKAR, essentially the final chapter in the Northern Rock/Bradford & Bingley saga, was well signalled and largely pre-placed. Since then just two more deals have arrived; a deal from an established non-conforming lender and a rare prime deal with an unusual "social bond" tag from Yorkshire Building Society were well received. With a predominance of BTL so far this year for which STS has no benefits, this is only the second public STS deal of the year in the UK, emphasising the scarcity of prime product and UK RMBS as a whole.

## Fund Commentary

The first leg of the two Coventry portfolio sales was completed at the end of February, leading to the first of the two previously announced tenders. The second is due to take place shortly after the second planned portfolio sale at the end of May, subject to successful completion. The first tender with a value of £20m at a price of 75 pence per share was oversubscribed, with around 83.9m shares validly tendered for approx. 26.67m shares.

Meanwhile, Keystone continues to make excellent progress completing the prefunding loans to finalise the topping up of the pool for the Hops Hill No.1 transaction, ahead of schedule, and ready to transition origination across to the second warehouse (to be called Cornhill 7).

Asset performance remained relatively steady, although a couple of further loans in the Barley Hill and Cornhill 5 pools moved into the 3m+ arrears bucket. As previously mentioned, we do expect some deterioration as the lockdown unfolds and government support is gradually removed, but we expect this to be well within modelled stresses. These loans generally have low LTV exposure, and we monitor each loan's progress on a line-by-line basis every month with the servicing team at TML, to ensuring we possess accurate information to allow appropriate action should a repossession, for example, become necessary in the future.

## Investment Outlook

With both RMBS and housing/mortgage markets performing strongly, the outlook for origination remains positive. Concerns of a cliff-edge slowdown in housing markets when the stamp duty relief period was due to come to an end appear to have been averted following its recent extension to June and the provision of tapered support until September. However, a slowdown may still be possible as that timing will coincide with end of other government support measures, such as the furlough scheme and the TFSME. However, the reduction in support is now likely to be far less abrupt than previously feared. As previously mentioned, any future downturn would follow a period of sustained growth since last summer and any further outperformance this year, thereby providing significant protection for existing stock.

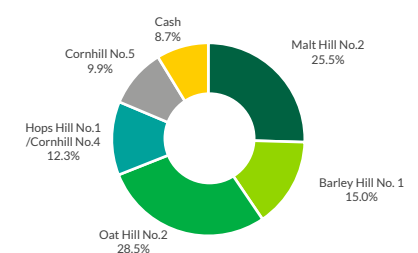
Meanwhile the technical RMBS supply-demand imbalance remains in place with ongoing strong oversubscription for deals and a generally sparse pipeline.

Portfolio Summary	Buy-to-Let			Owner Occupied	
	Purchased		Forward Flow Originated		
	Malt Hill 2	Oat Hill 2	Cornhill 4	Barley Hill 1	Cornhill 5
Originator	Coventry Building Society	Capital Home Loans	Keystone Property Finance	The Mortgage Lender	The Mortgage Lender
Outstanding Balance	£327m	£467m	£385m*	£140m	£233m
Number Accounts	1,886	3,660	1,750*	836	1,202
Average Mortgage Size	£174k	£128k	£220k	£167k	£194k
WA Indexed LTV	55.86%	61.27%	71.87%	62.12%	67.86%
WA Interest Rate	2.71%	1.37%	3.44%	4.27%	3.89%
WA Remaining Term (mth)	208	110	264	273	304
WA Seasoning (mth)	49	169	11	30	14
3mth + Arrears (% balance)	0.07%	0.78%	0.00%	4.18%	0.74%

\*Completed loans

as at 26/02/2021

## Investment breakdown



as at 26/02/2021

## 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*:	£157.2mn
Shares in Issue:	232mn
Price per Share*:	67.75p
NAV per Share*:	80.34p
NAV per Share (inc Dividend)*:	107.72p
Premium / (Discount) to NAV*:	-15.67%

Source: TwentyFour Asset Management. \* as at 31/01/2021

## Glossary

BoE:	Bank of England
BTL:	Buy-to-Let
HMRC:	Her Majesty's Revenue and Customs
LTV:	Loan-to-Value Ratio
RICS:	Royal Institute of Chartered Surveyors
RMBS:	Residential Mortgage Backed Securities
ONS:	Office of National Statistics
TFSME:	Term Funding Scheme with additional incentives for SMEs
TML:	The Mortgage Lender
UKAR:	UK Asset Resolution

## 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	0.83%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.16%
	<b>Total 0.99%</b>
Servicing and Transaction costs (for information)*	2.24%

\*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 31/12/2020.