TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

30 October 2020

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

Commentary

Mortgage and Housing Market

The strength of the mortgage and housing markets has continued to dominate headlines, with figures from all sides beating expectations. The Bank of England reported house purchase mortgage approvals increased to 97.5k in October from 92.1k in September, their highest level since September 2007 and well above the consensus estimate of 84.5k. At the same time, according to the National Association of Estate Agents Propertymark's housing report, the number of prospective buyers in the UK reached its highest level ever for the month of October, and furthermore visits to the three main property websites – Rightmove, Zoopla and OnTheMarket – were up 30% year-over-year during November. Finally, Nationwide reported yet another rise in house prices, up 0.9% on the month. Undoubtedly much of this buoyancy is being generated by the current stamp duty reduction – with the inclusion of this month's data, Nationwide's house price index shows prices up 6.2% since the threshold was raised in June. As a result, there are also expectations that prices and interest will be reversed, possibly sharply, once the threshold returns to the £125k level from £500k in April. However, uncertainties remain and the relief may yet be extended like many other measures or phased out rather than creating a cliff effect, and there is still talk of a new mortgage guarantee scheme from the government. Regardless, it is also noticeable that households appear to be preparing for a more uncertain 2021 by reducing their unsecured debt burden, with the stock of consumer credit now 8.8% lower than its peak a year ago with increased savings from accumulation during the pandemic likely being used to pay down debt.

RMBS Market

The year-end is approaching fast and the primary markets have effectively come to a halt. There is little anticipation of any new bank issuance due to the abundant supply of cheap central bank funding, and virtually all non-bank issuers printed either shortly before or after the COVID-19 crisis began, thereby emptying their warehouses. With the lending cessation during the first lockdown meaning that stocks of new assets really only began to be rebuilt after the summer, it's now likely to be Q1 2021 before lenders have accumulated enough critical mass to need to fund again, though the strong housing market should ensure a busy time through Q1 and Q2. Meanwhile, having recovered from the slight weakening towards the end of the previous month prompted by uncertainty over the US election result and the spectre of further lockdowns, secondary markets have remained robust and generally positive, buoyed by the encouraging vaccine news. However, volumes and momentum have also slowed and with Thanksgiving typically seen as the witching hour before the shutters are gradually pulled down for the Christmas break, there is unlikely to be much further major activity before year-end unless unforeseen macro events intervene.

Fund Commentary

Visible take-up of the extended deadline for payment holiday requests continues to be relatively small. In the first few weeks most lenders have seen just a handful of requests, and these have been outweighed by the number of borrowers returning to making payments at the end of their deferral period. The exposure in the combined TML portfolios was down to around 1.75% in mid-November from a peak of over 40%. Similarly, exposure in the BTL portfolios continues to fall and they are performing well. Meanwhile the Fund's board, having concluded its strategic review at the end of October alongside the publication of the annual financial results, followed this with a further series of shareholder consultations to present their findings. As a result of those consultations and having received strong support from shareholders for their proposal, an EGM has now been announced to take place on December 4th; shareholders will vote on the recommendation that the company should continue operating as a publicly traded investment company under a revised mandate offering increased focus on enhancing liquidity and returns, while continuing to seek to narrow the share price discount to net asset value. The latest NAV release for September also included the 2.24p uplift from the share buybacks that month. This repurchase also reduces the dividend funding requirement going forward, thereby furthering the path towards a fully covered dividend. Alongside this, the portfolio managers have been working to prepare for a securitisation of the Keystone portfolio as indicated in the RNS announcing the EGM. This has included a non-deal roadshow for investors to introduce them to Keystone's business, followed up by a more in-depth investor due diligence session. Both of these were held virtually and saw strong investor attendance, particularly given the portfolio's outstanding loan performance through the COVID-19 disruption. The timing of any potential deal is market dependent as well as considering factors such as portfolio size, timing of holidays, macro conditions and the like.

Investment Outlook

The anticipated lack of primary supply should continue to support the strong favourable technical for RMBS into year-end and the New Year. However, numerous macro uncertainties remain including the roll-out and likelihood of success of the COVID-19 vaccines, the unfinished Brexit talks, potential Tory party rebellions against COVID-19 restrictions and several other lesser possible distractions that could cause an uptick in broader market volatility which may also flow through to the ABS sector. Once the EGM is completed, we would expect a relatively clear path for the portfolio managers to firstly place a successful debut Keystone securitisation and follow this with a new warehouse for a second transaction.

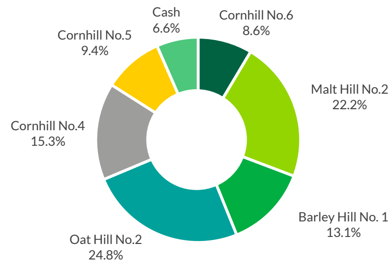
Portfolio Summary	Buy-to-Let				Owner Occupied	
	Purchased			Forward Flow Originated		
	Cornhill 6	Malt Hill 2	Oat Hill 1	Cornhill 4	Barley Hill 1	Cornhill 5
Originator	Coventry Building Society	Coventry Building Society	Capital Home Loans	Keystone Property Finance	The Mortgage Lender	The Mortgage Lender
Outstanding Balance	£157m	£335m	£476m	£302m*	£158m	£237m*
Number Accounts	866	1,922	3,730	1,398*	920	1,211*
Average Mortgage Size	£181k	£174k	£128k	£216k	£172k	£196k
WA Indexed LTV	61.98%	60.21%	62.65%	71.59%	64.18%	70.24%
WA Interest Rate	2.35%	2.71%	1.37%	3.41%	4.18%	3.88%
WA Remaining Term (mth)	187	212	113	264	277	307
WA Seasoning (mth)	63	45	165	9	26	10
3mth + Arrears (% balance)	0.00%	0.07%	0.79%	0.00%	1.97%	0.19%

1. Dividend guidance in this factsheet is a target only and not a profit forecast and there can be no assurance that this target will be met.

* from February 2020, pipeline has been excluded and figure refers to completed loans only

as at 30/10/2020

Investment breakdown



as at 30/10/2020

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:*	£143.9mn
Shares in Issue:	232mn
Price per Share:*	62.00p
NAV per Share:*	83.55p
NAV per Share (inc Dividend):*	107.18p
Premium / (Discount) to NAV:*	-25.79%

Source: TwentyFour Asset Management. * as at 30/09/2020

Glossary

BTL: Buy-to-Let
RMBS: Residential Mortgage Backed Securities
TML: The Mortgage Lender

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

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.

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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UK Mortgages Limited

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