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 January 2022

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

Commentary

Mortgage and Housing Market

The housing market started 2022 on a similar trajectory to that observed through the whole of 2021, with Zoopla reporting a 49% increase in the number of buyers compared to the average for the same period over the past three years. This spike also helped push up average house prices with the strongest start to a year since 2005, rising 0.8% on the month and 11.2% year-on-year, according to Nationwide. The trend spilled over into the rental market, which has also seen heightened demand and a corresponding increase in rental prices according to the latest ONS data. Accordingly, rents rose by 2% on an annual basis in January. Perhaps unsurprisingly, the strong property market also resulted in record interest in mortgages. According to Twenty7Tec, the platform saw 1.4m mortgage searches in January, including 1m searches for standard residential mortgages, the most the company had recorded in a single calendar month. This number also surpassed the number of searches recorded last year during the respective rushes to beat the stamp duty holiday deadlines in June and September. Mortgage performance data has also been improving. According to UK Finance, the number of homeowners with mortgage arrears reduced by 1% in the fourth quarter of 2021 despite the removal of the government's furlough scheme at the end of September. However, despite this positive start to the year, Bloomberg reported that estate agents and lenders alike have warned that the housing market could be set for a slowdown in 2022 due to the effects of anticipated Bank of England rate rises and increases in the cost of living on buyer demand.

RMBS Market

As mentioned last month, the primary UK RMBS market had a flying start to the year, and a flurry of new issues was met by strong investor demand. However, by the middle of the month, broader market volatility spurred by uncertainty around inflation and interest rates plus the heightened concerns surrounding the Russia-Ukraine situation caused the froth to come off the market. As a result, a level of caution crept in. That said, investor appetite remained relatively robust for several reasons, albeit at slightly cautious, wider levels due to somewhat weaker collateral in some later deals where clearing levels were understandably lower. Firstly, the primary pipeline was virtually emptied, with no expectations for further immediate supply. Likewise, several large redemptions were refinanced away from the public markets, further constricting supply.

Fund Commentary

Two major items have dominated recent fund activity. At the beginning of February, the boards of UKML and TwentyFour Income Fund (TFIF) announced that they have agreed the terms of a proposed merger of the two companies, whereby the UKML assets would be sold to TFIF in return for TFIF shares, subject to a UKML shareholder vote expected in March, and the UKML structure ultimately wound up. The merger is expected to create a significant uplift in market value for UKML shareholders, estimated at c.15% at the time of the announcement. This was followed closely by the Barley Hill No.2 securitisation, comprising the TML originated assets of Barley Hill No.1 and Cornhill No.5. The deal was structured with a transferrable junior/equity piece that could be sold at any point in the future if required but initially retained. Meanwhile, the senior and mezzanine investment grade tranches were marketed and sold in the usual way. As mentioned above, markets had backed off a little from the tighter levels at the beginning of the year. Still, nevertheless, the deal received substantial investor interest, with the senior notes oversubscribed by 2.6x and both the B and C classes by 3x or more. Moreover, the senior notes priced almost 20bp tighter than the original Barley Hill No.1 deal three years ago and the net funding cost for the combined placed notes totalled just over Sonia + 1%; slightly better even than the level achieved for last year's Hops Hill No.1 deal. With the new, more efficient structure, this means that the estimated IRR over the four-year life of the deal, assuming the remaining loans are then sold at par, is likely to be in excess of 20%.

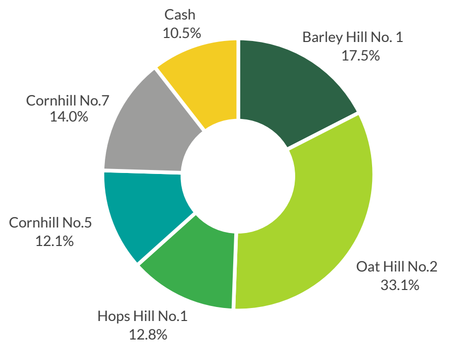
Investment Outlook

The robust RMBS supply-demand technical remains in force, as evidenced by the healthy oversubscription levels and generally good pricing execution achieved by the stronger issuers, despite the mild spread retracement, mainly in AAAs, as broader market volatility spilled into the ABS sector. Meanwhile, the rises in Bank of England Base rates and expectations for further increases in future months make UK RMBS an ever increasingly attractive asset class given its floating rate nature.

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	£437m	£380m	£279m	£91m	£175m
Number Accounts	3,420	1,696	1,116	609	945
Average Mortgage Size	£128k	£224k	£250k	£150k	£186k
WA Indexed LTV	55.77%	71.74%	72.05%	54.34%	59.90%
WA Interest Rate	1.37%	3.49%	3.40%	4.45%	4.22%
WA Remaining Term (mth)	100	255	276	257	292
WA Seasoning (mth)	180	21	5	42	25
3mth + Arrears (% balance)	1.17%	0.00%	0.00%	5.40%	1.45%

as at 31/01/2022

Investment breakdown



as at 31/01/2022

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:*	£131.06 mn
Shares in Issue:*	179mn
Price per Share:*	73.30p
NAV per Share:*	80.41p
NAV per Share (inc Dividend):*	111.16p
Premium / (Discount) to NAV:*	-8.84%

Source: TwentyFour Asset Management. * as at 31/12/2021.

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.

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 0.50% on the Fund's NAV for the period ending 31 December 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	0.92%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.29%
Total	**1.21%**
Servicing and Transaction costs (for information)*	2.75%

*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 31/12/2021.

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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