

UK Mortgages Limited

29 February 2020

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

Commentary

Given the number of recent investor communications via RNS and video update etc., the release of this factsheet has been delayed, and has been released with a more streamlined commentary. Comments on the portfolios below also refer to a period prior to the outbreak of the Covid-19 in the UK. Further information will be given in future factsheets, once updated figures for the affected period are available.

Mortgage Market

Whilst data in both housing and mortgage markets was showing encouraging signs of new growth prior to the outbreak of Covid-19, any focus on data which has yet to take into account the extraordinary events since the virus broke is now relatively meaningless. That said, it might be hoped that once some semblance of normality is resumed, a reboot of the housing market could lead to a slow resumption of previous trends. Commentary on data showing the effects of the pandemic on the mortgage market will follow in subsequent factsheets, once it is available.

RMBS Market

RMBS markets have also been severely affected by the disruption with spreads drifting in early March but trading rapidly wider later in the month – something of a lag to broader credit markets, but often typical in ABS, as wider trends are absorbed. Similarly, having reached a peak at quarter-end something of a recovery has begun, again lagging broader credit markets.

The medium-longer term outlook is likely to be more positive for secondary spreads once a resumption is under way with future new issuance from the bank and building society sector now likely to be limited given the access to central bank funding provided by the new Term Funding Scheme (TFSME), similar to the low issuance pattern observed after the original TFS was introduced following the Brexit vote.

Cornhill Mortgages No.6 – CH6, and Malt Hill No.2 – MH2 (Coventry Building Society)

Both Coventry portfolios continue to exhibit exceptionally strong performance, with just 3 loans in the MH2 portfolio in arrears at the end of January, one of which is more than three months behind. Prepayments in both portfolios were minimal.

Barley Hill No.1 – BH1, and Cornhill Mortgages No.5 – CH5 (The Mortgage Lender – TML)

Asset performance in BH1 remained stable, with a small increase of two further loans in the greater than three months in arrears bucket, bringing the total to nine loans. Prepayments of earlier originated loans continue to come through as those loans reach their reset dates with about £5m of principal repaid, similar to previous months and generally in line with expectations.

In CH5, growth continued again with completions approaching £190m at the end of February. Just two loans are three months or more in arrears, unchanged from the previous three months.

Oat Hill No.1 – OH1 (Capital Home Loans – CHL)

Performance to the end of February remained stable and generally in line with expectations, with prepayments slow and steady. The number of longer term arrears was very slightly lower with just 27 loans from a pool of over 4,150 more than three months in arrears, with the actual value of arrears slightly higher at just £57k from a pool of £490m of loans.

Cornhill Mortgages No.4 – CH4 (Keystone Property Finance – KPF)

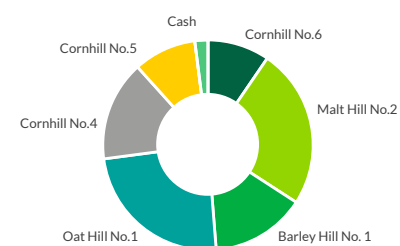
The portfolio continued to grow in February with approximately £180m of completions. Once again, there continues to be no signs of any loans in arrears.

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	£176m	£340m	£490m	£181m*	£192m	£188m*
Number Accounts	983	1,948	3,855	874*	1,077	967*
Average Mortgage Size	£179k	£175k	£127k	£211k	£179k	£194k
WA Indexed LTV	62.12%	60.29%	65.65%	71.52%	66.47%	72.79%
WA Interest Rate	2.76%	2.71%	2.02%	3.47%	4.15%	3.92%
WA Remaining Term (mth)	193	220	120	269	284	315
WA Seasoning (mth)	55	37	157	5	19	4
3mth + Arrears (% balance)	0.00%	0.03%	0.56%	0.00%	1.26%	0.08%

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

as at 29/02/2020

Investment breakdown



as at 29/02/2020

Investment Outlook

The uncertainty that the consequences of the Covid-19 outbreak will bring are still at a very early stage with little data available at this stage. Further updates will be available in future factsheets once that data becomes available.

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*:	£193mn
Shares in Issue:	£273mn
Current Price per Share*:	70.50p
Current NAV per Share*:	79.84p
Current NAV per Share (inc Dividend)*:	102.72p
Premium / (Discount) to NAV*:	-11.70%

Source: TwentyFour Asset Management. * as at 31/01/2020

Glossary

ABS:	Asset Backed Securities
RMBS:	Residential Mortgage Backed Securities
TFS:	Term Funding Scheme
TML:	The Mortgage Lender
BTL:	Buy-to-Let

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

* as at 31/08/2017

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. The impact of IFRS 9 has been calculated at 0.48% on the Fund's NAV, in the 30 June 2019 year-end accounts. 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	0.87%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.17%
Total	1.04%
Servicing and Transaction costs (for information)*	1.82%

*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 31/09/2019.

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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