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.

TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

30 June 2020

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

Commentary

Mortgage and Housing Market

As housing and mortgage markets continue to reopen after the lockdown, reports of a busy time for estate agents have been encouraging, albeit much of the early activity may be catching up on the previous pipeline. Both Nationwide and Halifax reported small falls in their respective indices. However, some predictions have been more positive, particularly following the Chancellor's announcement of a temporary removal of Stamp Duty up to £500,000 making property transactions more attractive, which is expected to boost purchase activity further, and subsequently Rightmove have reported a 'mini-boom' as buyers start looking for properties, HMRC also reported a 32% jump in property transactions in June.

RMBS Market

The RMBS market has continued its recovery, and the primary UK RMBS market saw several new non-bank transactions following last month's reopening after the Covid-19 induced shutdown. Four further deals came to market in the first half of July, mostly pricing close to or inside the pricing levels seen last month. These included UKML's Oat Hill No.2 transaction (see below) which achieved the tightest pricing of all at the senior level. Subsequently another three similar transactions were marketed. In addition, a prime transaction of owner occupied loans from a new, refined Master Trust structure has been announced by Coventry Building Society.

Fund Commentary

The main event for the fund last month was the successful launch of the delayed refinancing of the previous Oat Hill securitisation into Oat Hill No.2. Once it had become clear that due to the Covid-19 outbreak, refinancing the deal in May as originally planned might not be feasible, work began on finding an interim funding solution in order to effect the basic refinancing as soon as possible, with a plan to return to a public securitisation when markets reopened. That interim solution was arranged in the form of a backstop agreement with Santander, and was signed on 7th July, allowing a call notice to be issued by UK Mortgages Corporate Funding Designated Activity Company to redeem the outstanding notes of the Oat Hill No.1 deal. As UK RMBS spreads had recovered to a level that made primary issuance viable once more with the new issue market reopening in mid-June, we were able to move directly to announcing the public securitisation the following day and the deal was launched and priced later the same week after a short marketing period. Oat Hill No.2 was also the first refinancing amongst a series of deals which had missed calls through this unprecedented period. Following the Covid-19 hiatus, this refinancing has now removed significant amounts of uncertainty and achieved the Fund's previously stated aim of releasing a substantial amount of capital, which once the transaction settles in late August will allow the Fund to embark on its planned share buyback programme. Furthermore, with the first cohort of payment holidays coming to an end and many borrowers resuming payments, it is expected that future income will be boosted, and as a result the Fund is now also in a position to restore dividend payments to their previous target level as well as reimbursing the reduction in dividend made during the lockdown[1].

Data on payment resumptions as the first cohort of payment holidays come to an end is beginning to feed through and is showing encouraging signs. The majority of borrowers who requested an initial 3 month deferral did so in March or April. Those whose payment holidays began in April therefore had their 3rd deferral in June and are due to resume payments in July, although if they are continuing to be affected, they have the option of extending for up to a further 3 months. That take up of extensions has been relatively low, and therefore significant numbers of borrowers are returning to making payments. Our portfolios vary in type, and so have had a wide range of initial payment holiday experience. As might be expected, BTL transactions saw lower levels of requests overall given the dual recourse nature of the loans, i.e. where a tenant was affected, the landlord may still be in a position to make payments from other income sources. Four of our six portfolios are BTL. Our two Coventry portfolios saw a combined peak of 13% of deferrals (compared with around 18% in Coventry's owner occupied book), but currently only 11.8% of those that came to an end in June have extended. The CHL pool was similar with around 14.7% of borrowers taking a deferral, and just 17% of that first cohort requesting an extension. For Keystone the numbers were very low – perhaps an indication of the more professional landlord nature of the borrowers, where businesses are essentially the borrowers. Just 3.1% took a deferral and so far only 1 loan has extended. In the TML originated owner occupied pools, the numbers were understandably higher, and also reflect the specialist nature of their lending with a higher proportion of self-employed borrowers who didn't get access to the government's income support scheme for around two months after the lockdown. Similar to many other lenders in this sector, approximately 40% of borrowers took a deferral, but this number has fallen sharply with only 45% of those deferrals coming to an end in June requesting an extension. With these levels of reduction, this implies that the overall portfolio is expected to fall from a total number of 18.8% of payment deferrals to less than 6% over the next two months as the rest of the initial payment holiday requests roll off. Though the focus has been firmly on payment holidays, it should be noted that broader performance has remained broadly unchanged. Furthermore, with swap rates out to 5 years near zero, and mortgage rates unchanged, it is anticipated that the forthcoming period represents an attractive origination opportunity.

Investment Outlook

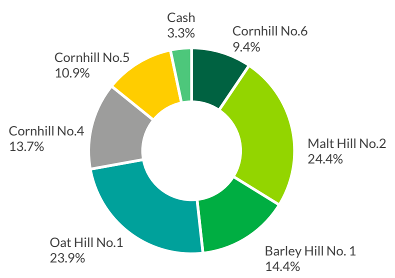
Once the current slew of deals are completed and after the onset of summer holidays, the primary market is expected to slow and in the Investment Manager's opinion it is likely that there could be further vacuum in supply as the lull in mortgage completions through the lockdown will lead to a shortage of assets for new transactions until loan stocks are built up again. Payment holiday data continues to be watched as an indicator for future credit performance but current indications show a trend for payment resumptions.

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	£170m	£339m	£484m	£247m*	£175m	£234m*
Number Accounts	953	1,941	3,800	1,136*	1,003	1,195*
Average Mortgage Size	£179k	£175k	£127k	£217k	£174k	£196k
WA Indexed LTV	61.79%	60.26%	64.80%	71.61%	65.43%	72.08%
WA Interest Rate	2.67%	2.71%	1.37%	3.41%	4.13%	3.87%
WA Remaining Term (mth)	188	216	117	266	281	311
WA Seasoning (mth)	59	41	161	7	22	7
3mth + Arrears (% balance)	0.00%	0.09%	0.76%	0.00%	1.16%	0.16%

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

as at 30/06/2020

Investment breakdown



as at 30/06/2020

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.

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:*	£133mn
Shares in Issue:	273mn
Price per Share:*	48.80p
NAV per Share:*	79.42p
NAV per Share (inc Dividend):*	102.67p
Premium / (Discount) to NAV:*	-38.55%

Source: TwentyFour Asset Management. * as at 31/05/2020

Glossary

Fund: UK Mortgages Limited
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. 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	0.80%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.17%
	Total 0.97%
Servicing and Transaction costs (for information)*	2.11%

*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 29/02/2020.

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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