

# TwentyFour Income Fund

## Proposed all share merger with UK Mortgages Limited

February 2022

# Compelling strategic, operational and financial rationale

<b>Creating market leading listed credit fund</b>	<ul style="list-style-type: none"> <li>✓ Strengthened market position thanks to greater scale and combined asset management expertise</li> <li>✓ Expected enlarged group: £720m NAV<sup>(1)</sup>, c.7.2% gross mark-to-market yield<sup>(2)</sup>, 11 investment professionals</li> </ul>
<b>Combining complementary portfolios with attractive characteristics</b>	<ul style="list-style-type: none"> <li>✓ TFIF's evolving strategy seeks the yield premium for lower liquidity, recognising that sourcing attractive risk-adjusted returns has become more challenging</li> <li>✓ Merger provides access to UKML's stable income generating assets consistent with this approach and underwritten by TwentyFour</li> <li>✓ Merger expected to diversify the source of income for the combined entity</li> </ul>
<b>Enhanced return profile</b>	<ul style="list-style-type: none"> <li>✓ Combined earnings expected to be a strong underpin to dividend target of at least 6p p.a.</li> <li>✓ Merger expected to be NAV accretive over medium term</li> <li>✓ TFIF annualised total NAV return of 7.7% since launch</li> </ul>
<b>Access to high quality originators</b>	<ul style="list-style-type: none"> <li>✓ Combined group better placed to capitalise on existing counterparty relationships, including access to origination by Keystone Property Finance and The Mortgage Lender</li> <li>✓ Consolidated focus on TFAM's future origination</li> </ul>
<b>Increased liquidity with a more diverse register</b>	<ul style="list-style-type: none"> <li>✓ Increased liquidity in the secondary market given greater scale and increased weighting in FTSE indices</li> <li>✓ High quality and more diverse shareholder register with scope to appeal to broader universe of potential investors</li> </ul>
<b>Synergies expected to create value</b>	<ul style="list-style-type: none"> <li>✓ Cost efficiencies and economies of scale</li> <li>✓ Lower combined OCR and KID cost ratio expected</li> </ul>

(1) This figure is provided for illustrative purposes only, on the basis that the calculation date of the Scheme had been 31 January 2022, and does not represent a forecast. The TFIF NAV and the TFIF share price, and therefore UKML shareholders' entitlements under the Scheme, may materially change up to the effective date. Source: TwentyFour.

(2) This figure is indicative and based on TwentyFour modelling, January 2022.

## Additional benefits for UKML shareholders

<b>Compelling value proposition</b>	<ul style="list-style-type: none"> <li>✓ Significant uplift in market value for UKML shareholding of c.15%<sup>(1)</sup>, from the elimination of the current c.8%<sup>(2)</sup> discount to UKML's NAV and competitive acquisition value<sup>(1)</sup></li> </ul>
<b>Retain exposure to high quality assets as part of a broader and more diversified investment mandate</b>	<ul style="list-style-type: none"> <li>✓ Greater stability anticipated in earnings, dividend and capital performance as part of TFIF's broader investment policy with proven track record</li> <li>✓ Maintain exposure to UKML's assets which are well positioned to offer an attractive risk/return profile, especially within the wider TFIF portfolio which principally provides floating rate exposure</li> <li>✓ Continue to benefit from the securitisation expertise developed by TwentyFour over UKML's life</li> </ul>
<b>Enhanced scale, liquidity and discount control</b>	<ul style="list-style-type: none"> <li>✓ Part of a larger, more liquid, Premium listed investment company</li> <li>✓ Benefit from TFIF's realisation opportunity in Q4-22 and three yearly thereafter</li> </ul>
<b>Attractive alternative to managed wind down</b>	<ul style="list-style-type: none"> <li>✓ If UKML is unable to narrow its discount in the short term, it is likely the company would have to enter into a quasi wind-down preventing UKML shareholders from maintaining access to the high-quality assets in the UKML portfolio in the future</li> <li>✓ The illiquid nature of the assets means any managed wind-down is likely to be a drawn out process as accelerated portfolio sales may not maximise value</li> </ul>
<b>Improved costs</b>	<ul style="list-style-type: none"> <li>✓ Combined cost ratio expected to be up to c.1%, compared to UKML's standalone ratio of 3.26%<sup>(3)</sup></li> </ul>
<b>Transaction structured to defer potential tax liability</b>	<ul style="list-style-type: none"> <li>✓ The mechanics of the Scheme are designed with the intention of allowing certain UKML shareholders subject to UK tax to continue to receive investment returns without triggering an immediate liability to capital gains tax</li> </ul>

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# Transaction structure & Timetable

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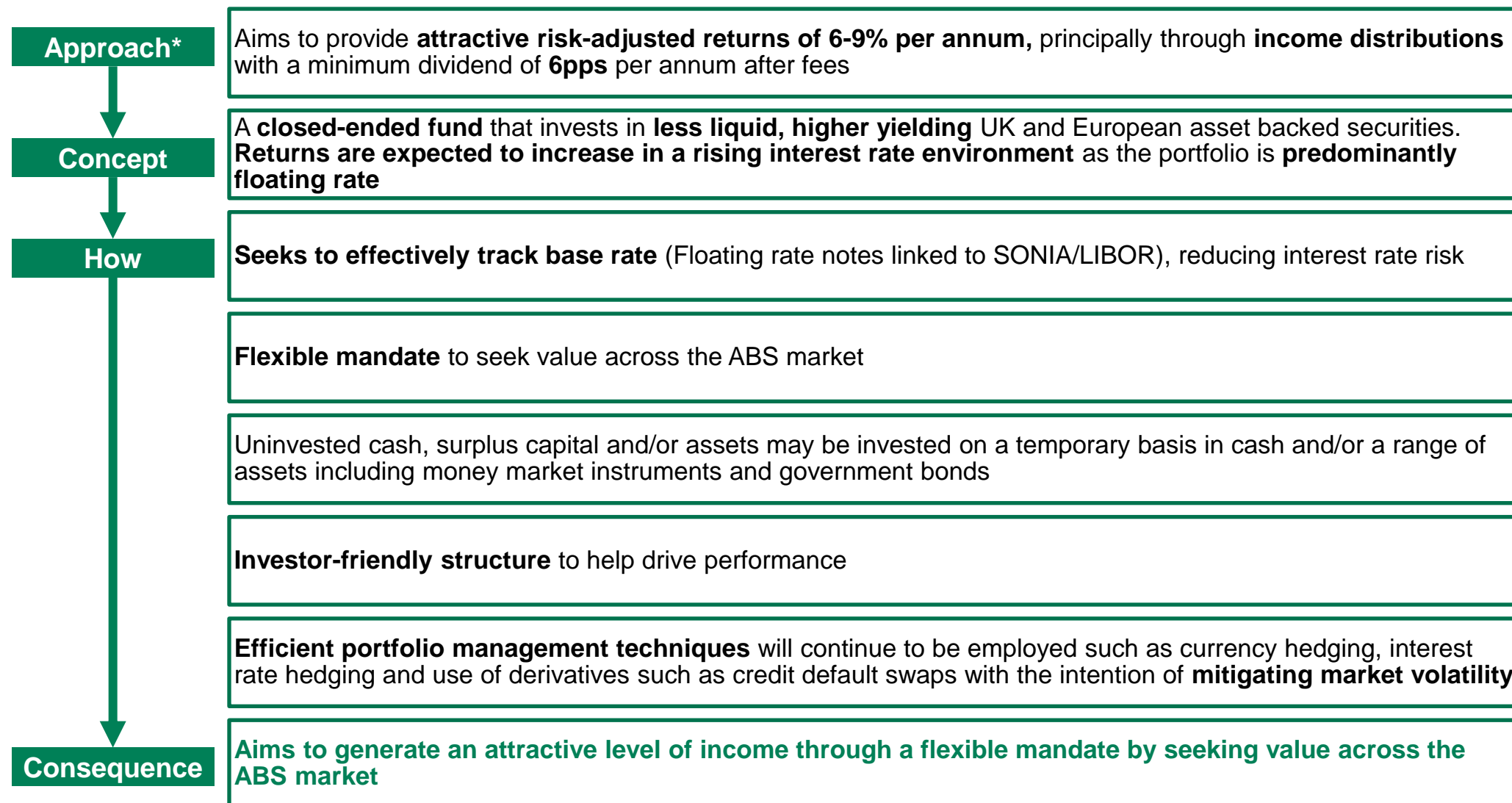
## Transaction structure

- Transaction to be effected by way of a scheme of reconstruction, consisting of the liquidation of UKML and the issue of new ordinary shares by TFIF (the “Scheme”)
- TFIF will acquire the assets comprising a “Rollover Pool” of UKML, being its undertaking, cash and other assets remaining after such cash and other net current assets of UKML have been set aside in a “Liquidation Pool” of a value sufficient to meet outstanding current and future liabilities, UKML’s costs of the Scheme and a retention to meet unknown and unascertained liabilities;
- The proposed acquisition value of the Rollover Pool will be satisfied through the issuance to UKML shareholders of new TFIF shares at a price representing a 1.25% premium to the NAV per TFIF share as at the calculation date for the Scheme
- UKML does not intend to declare any further dividends on its shares. The new TFIF shares will be entitled to receive all dividends declared by TFIF with a record date subsequent to the Scheme calculation date
- TFIF and UKML have each agreed to bear their own costs in relation to the Scheme.
- The transaction is subject to a number of conditions, including the approval of UKML shareholders and the FCA agreeing to admit the new TFIF shares

## Illustrative timetable

- 8 February 2022 – Announcement of proposed transaction
- Early March 2022 – Publication of TFIF’s Prospectus and UKML’s Circular
- Late March 2022 – Shareholder meeting of UKML
- Late March 2022 – Closing of Transaction

# TwentyFour Income Fund overview



\*This is a target only and does not represent a forecast of TFIF's profits. Past performance is not an indication of future performance. Subject to change, without notice, only the current prospectus or comparable document of the fund is legally binding. There is no guarantee that the objectives will be met.

# TwentyFour Income Fund highlights

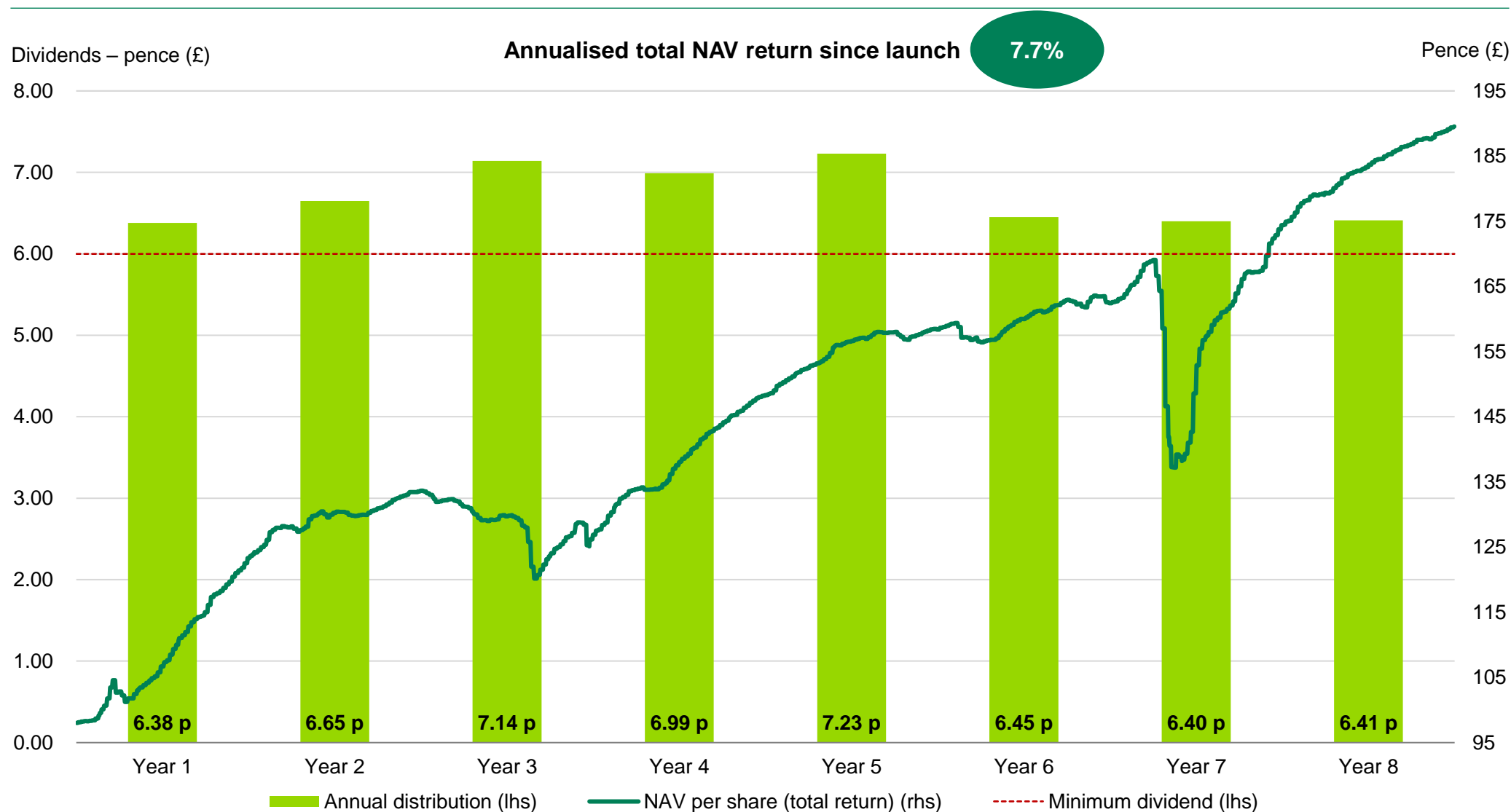
## TwentyFour Income Fund

<b>Fund size</b>	£573.6 million
<b>Launch date</b>	6 March 2013
<b>Gross purchase yield</b>	8.05%
<b>Gross mark-to-market yield</b>	6.90%
<b>Interest rate duration</b>	0.08yrs
<b>Credit spread duration</b>	2.70yrs
<b>1 year volatility<sup>1</sup></b>	1.16%
<b>Performance since launch</b>	92.53% (7.7% annualised)
<b>Issuers</b>	127
<b>2021 performance</b>	7.85%

**Past performance is not a reliable indicator of future performance.** \*The Gross Purchase Yield is shown at hedged portfolio level by calculating the return each bond earns on the price at which it was purchased, if held to maturity and gross of fund expenses. (1) Annualised standard deviation of monthly returns over previous 1 year period. Performance is presented in GBP on a NAV mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Performance data does not take into account any commissions and costs charged when shares are purchased and/or disposed. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

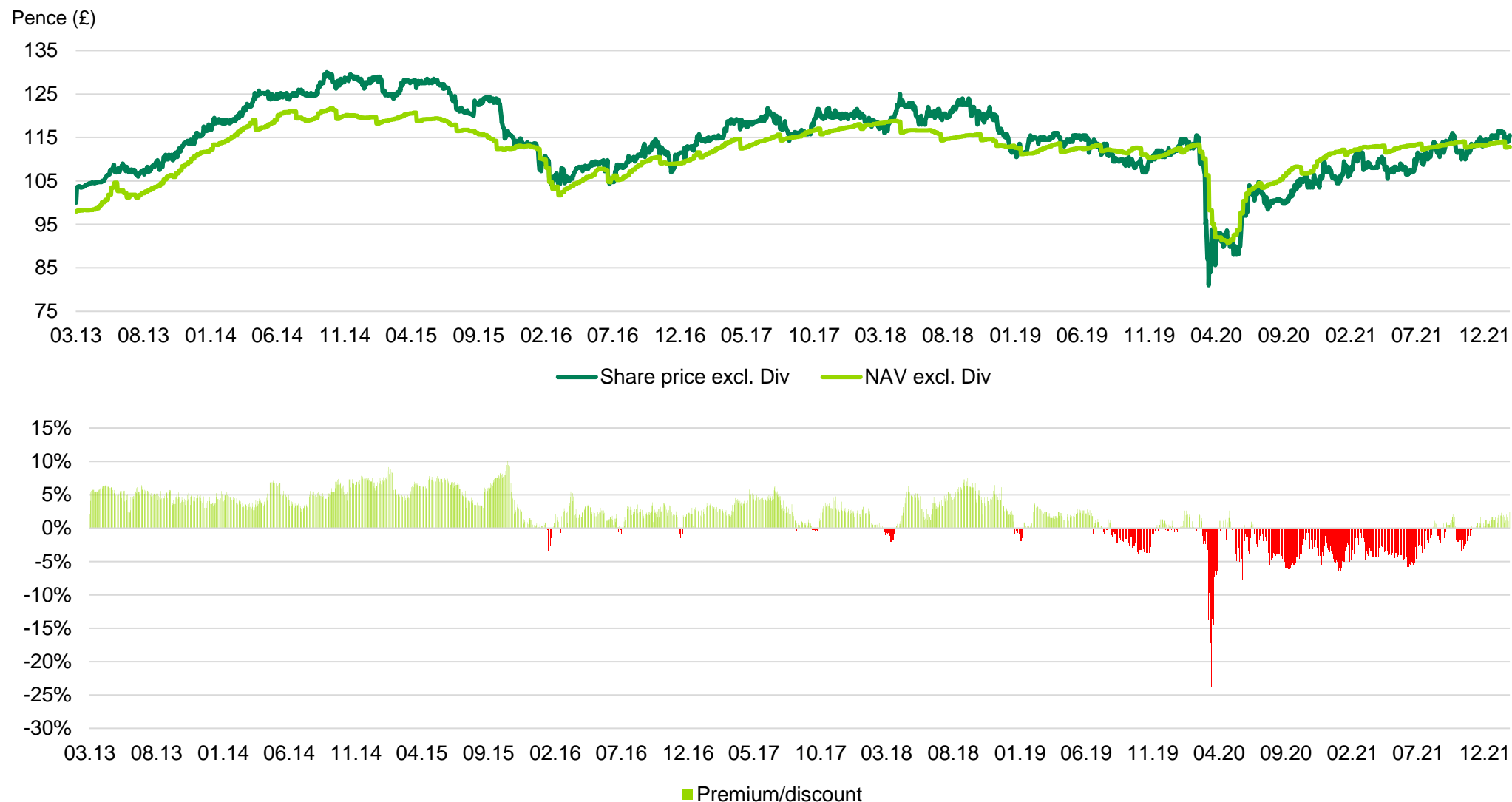
Source: TwentyFour; 31 December 2021, excluding NAV which is as at 31 January 2022.

# TwentyFour Income Fund total return and yearly dividends



**Past performance is not a reliable indicator of future performance.** Performance is presented on a mid-to-mid basis and net of all fund expenses. Performance data does not take into account any commissions and costs charged when shares are purchased and/or disposed. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. \*Inception date: 6 March 2013.

# TwentyFour Income Fund share price and premium/discount



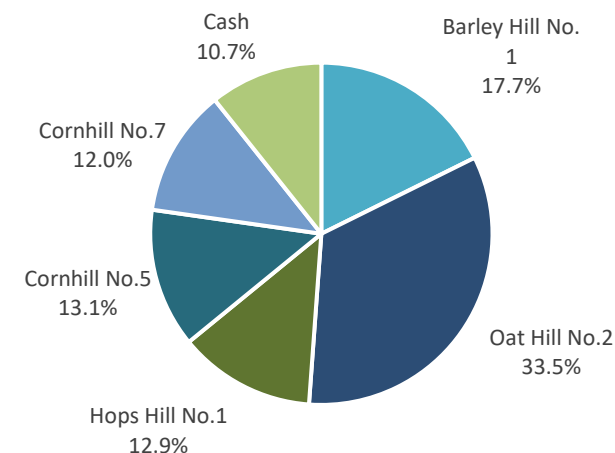
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## High quality UK RMBS investments

- UKML is invested in Profit Participation Notes and cash
- Exposure to equity tranches in UK RMBS
- BTL and NC RMBS exposure
- Good mix of younger and older vintage mortgages with low LTVs
- 2 investments are still in warehouse phase and yet to be publicly securitised, TFIF's flexible structure allows for a more efficient RMBS refinancing
- Ongoing exposure to high quality buy-to-let assets from Keystone

Investment Breakdown



Portfolio Summary	Buy-to-Let			Owner Occupied	
	Purchased Oat Hill 2	Forward Flow Originated			
		Hops Hill 1	Cornhill 7	Barley Hill 1	Cornhill 5
Originator	Capital Home Loans	Keystone Property Finance		The Mortgage Lender	
Outstanding Balance	£442m	£386m	£231m	£96m	£192m
Number Accounts	3,457	1,733	895	635	1,022
Average Mortgage Size	£128k	£223k	£259k	£151k	£188k
WA Indexed LTV	56.98%	71.73%	71.91%	56.09%	62.16%
WA Interest Rate	1.37%	3.48%	3.42%	4.43%	4.10%
WA Remaining Term (mth)	102	257	278	260	295
WA Seasoning (mth)	178	19	4	40	23
3mth + Arrears (% balance)	1.22%	0.00%	0.00%	5.26%	1.17%

# UKML portfolio is complementary to TFIF and in line with TFIF investment criteria

	TFIF	UKML	Combined
Prime RMBS	21.2%		17.0%
NC RMBS	14.6%	30.8%	17.7%
BTL RMBS	10.8%	58.4%	20.1%
CLO	39.7%		31.9%
CMBS	5.0%		4.1%
Consumer ABS	2.9%		2.4%
Auto loans	4.8%		3.9%
Student loans	0.9%		0.7%
Repo funding	-3.2%		-2.5%
Cash & Equivalents	3.3%	10.7%	4.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.00%</b>

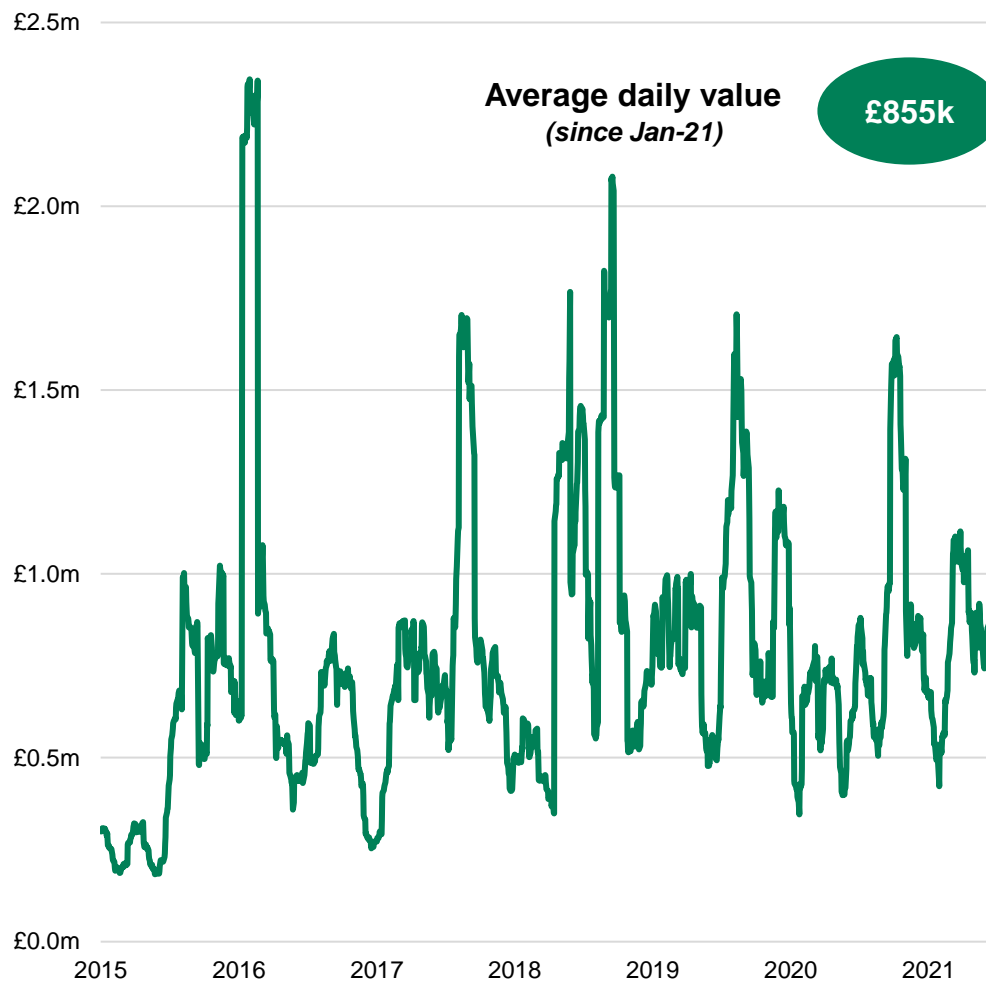
NAV	£573.6 million	£141.1 million
Market capitalisation	£587.3 million	£130.5 million
Interest rate duration	0.1yrs	0.1yrs
Gross purchase yield	8.1%	8 - 9%
Gross mark-to-market yield	6.9%	8 - 9%
Credit spread duration	2.7yrs	3.6yrs

UK exposure	39.7%	100.0%	51.5%
NR bonds	19.7%	100.0%	35.4%

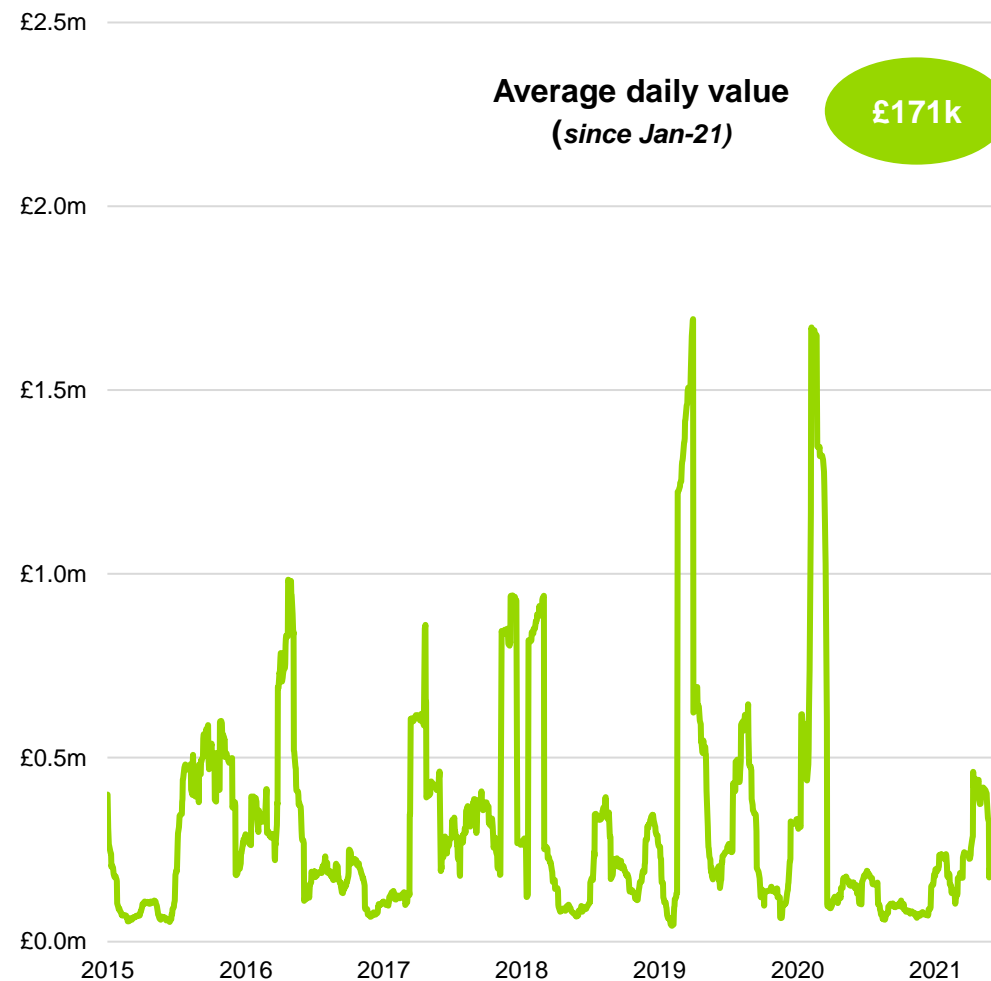
Past performance is not a reliable indicator of future performance. Source: TwentyFour; 31 December 2021 for TFIF and 30 November 2021 for UKML, excluding NAV (TFIF: 31 January 2022, UKML: 18 January 2022) and market cap (as at 31 January 2022 for both companies). Yield and Credit Spread duration for UKML assets are indicative and based on TwentyFour modelling.

# TFIF and UKML liquidity

## TFIF value traded (30 day rolling average)



## UKML value traded (30 day rolling average)



Past performance is not a reliable indicator of future performance. Source: Thomson Reuters Datastream. Daily value traded equal to daily volume multiplied by closing mid price. Average daily value traded between 1 January 2021 and 30 January 2022.

## Contact details

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