

UK Mortgages Limited

30 August 2019

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

Commentary

Following the successful EGM vote in August, the portfolio managers have begun to implement the amendments to the investment policy, albeit these will be mostly minor in the immediate term. Given investor feedback since the EGM and the ongoing widening of the discount, a RNS announcement has since been made to provide further insight into the Company's Buyback Policy and the potential quantum. As proposed at the EGM, if a discount of greater than 5% persists, then the reinvestment of uncommitted capital will not be allowed, and instead surplus capital will be used to buy back shares. While the Company is trading at a discount, repurchasing shares will be instantly accretive and offer value to investors. Furthermore the policy is not limited to the 5% discount, and should the discount be reduced within that range whilst not immediately investable capital remains, then further buybacks above the 5% level may also be considered by the Board. Notable capital releases will occur when each of the term securitised portfolios are refinanced, and we expect this to commence with the refinancing of the Oat Hill No.1 deal in May 2020. Depending on factors such as the structure and cost of the refinancing as well as prepayments etc., the amount released and available for buybacks is currently envisaged to be between £30-50m, a material amount within the context of the current market cap of £184m.

Mortgage Market

Housing and mortgage market data is once again mixed. However, whilst most house price indicators have continued to show either flat or sluggish growth, mortgage market figures now seem to be showing a few more positive signs. Transaction volumes, mortgage lending and mortgage approvals have all generally been growing, even through the traditionally quieter summer period. This is perhaps an indication that in some regions at least borrowers and house buyers have waited long enough; with house price figures indicating the north outperforming or possibly continuing to catch up with the south, where a Brexit-uncertainty-led listlessness still generally prevails.

RMBS Market

The UK RMBS market was initially slow to emerge from the summer break. The first deal, from Aldermore, followed by two building society deals from Yorkshire and then Leeds – the first from any building societies this year – were unsurprisingly all well received with very healthy levels of oversubscription. All three contained prime owner occupied loans and were STS and LCR eligible and so saw strong participation from bank treasury investors as well as asset managers. These have since been followed by several further deals (some of which are still in the marketing phase) from a slightly broader spectrum of issuers including a further prime deal from Lloyds, a BTL deal from Paratus plus two deals with mixed collateral including second lien loans – all of which also seem to be attracting strong demand.

Cornhill No. 6 - CH6 (refinanced from Malt Hill No. 1) and Malt Hill No.2 - MH2 (Coventry Building Society)

Both Coventry portfolios continue to exhibit exceptionally strong performance, with just two loans in CH6 and none in MH2 more than one month in arrears at the end of August. Prepayments remain in line with expectations, with a pick-up in CH6 in August as a further batch of loans reached the end of their current fixed rate period leading to about £9m of early redemptions. A further £7m of loans have currently switched to the SVR, most likely whilst those borrowers make up their minds whether to take a new fixed rate term loan with Coventry, move to another lender or possibly sell their property.

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

The Barley Hill securitisation has now completed its pre-funding phase, and asset performance remains extremely strong, with just the same four loans three months or more in arrears as at the end of the previous two months. In the new warehouse, CH5, the encouraging growth in origination and completion volumes continued again. Whilst August volumes were slightly lower than July, as might be expected during the summer period, September looks like being another record month for completions, albeit applications have slowed slightly. Accordingly, CH5 ended its first standalone month with over £50m of completions (including the loans that didn't form part of the BH1 pre-funding which have been flowing into the pool since May) plus a really healthy pipeline of well over £100m, and over £20m of further completions expected in September.

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

Once again, this deal continues to perform in line with expectations. Prepayments remain stable, and longer term arrears fell slightly for the third consecutive month with just 24 loans from a pool of over 3,950 more than three months in arrears at the end of August, and an arrears value of just £61k from a pool of £508m of loans.

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

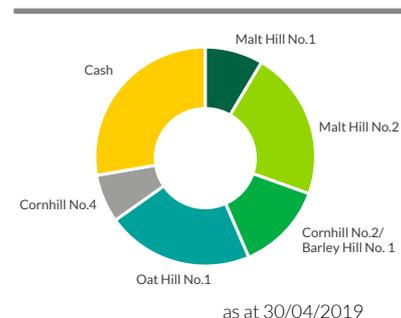
Application and completion volume continues to grow with the combined pipeline having reached over £200m by the end of August; and expected to be closer to £250m judging by subsequent growth seen during September. As might be expected at this early stage there are no signs of any loans in arrears.

Portfolio Summary	Buy-to-Let			Owner Occupied		
	Purchased		Oat Hill 1	Forward Flow Originated		
	Cornhill 6	Malt Hill 2		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	£184m	£343m	£508m	£206m*	£227m	£164m*
Number Accounts	1,027	1,962	3,953	965*	1,269	930*
Average Mortgage Size	£179k	£175k	£129k	£199k	£183k	£184k
WA Indexed LTV	62.35%	60.46%	65.43%	71.10%	67.80%	74.60%
WA Interest Rate	2.88%	2.71%	2.03%	3.60%	4.00%	4.15%
WA Remaining Term (mth)	199	226	126	264	290	316
WA Seasoning (mth)	49	31	151	4	14	1
3mth + Arrears (% balance)	0.00%	0.00%	0.59%	0.00%	0.21%	1.01%

* includes completions and pipeline

as at 31/07/2019

Investment breakdown



Investment Outlook

Portfolio management activity is now focused around gradually implementing the revised investment policies and managing and monitoring the ongoing investments. In UK RMBS, market soundings indicate a healthy ongoing pipeline following the current crop of deals in the market, with those issuers who are able to likely be keen to get to market ahead of the current Brexit deadline.

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*:	£196mn
Shares in Issue:	273 mn
Current Price per Share*:	71.75p
Current NAV per Share*:	81.22p
Current NAV per Share (inc Dividend)*:	101.85p
Premium / (Discount) to NAV*:	-11.66%

Source: TwentyFour Asset Management. * as at 31/07/2019

Glossary

ABS:	Asset Backed Securities
EGM:	Extraordinary General Meeting
RMBS:	Residential Mortgage Backed Securities
IPD:	Interest Payment Date
BoE:	Bank of England
TFS:	Term Funding Scheme
RICS:	Royal Institution of Chartered Surveyors
TML:	The Mortgage Lender
BTL:	Buy-to-Let
SVR:	Standard Variable Rate
LTV:	Loan-to-Value
NPL:	Non-Performing Loans
STS:	Simple Transparent and Standardised securitisation
ESMA:	European Securities and Market Authority
HPI:	House Price Index

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

* as at 31/08/2017

Fund Managers

Robert Ford
Partner, Portfolio Manager, industry experience since 1986. Previously a Managing Director and Head of European ABS Trading at Barclays Capital.

Ben Hayward
Partner, Portfolio Manager, industry experience since 1998. Previously he was a senior fund manager to four portfolios at Citigroup Alternatives.

Douglas Charleston
Portfolio Manager, 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 Manager, 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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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 the adoption of IFRS 9 – the company will be reporting its results in accordance with IFRS 9 with effect from 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 0.20% on the Fund's NAV, in the 30 June 2018 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	0.86%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.16%
Total	1.02%
Servicing and Transaction costs (for information)*	1.73%

*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 31/07/2019.