



31 October 2019

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

Commentary

The ongoing focus for the portfolio management team, alongside the day to day management of the existing investments, is the finessing of the current portfolio financing arrangements ahead of making preparations for the upcoming transaction re-financings and securitisations due in 2020. This begins with the Oat Hill No.1 transaction, which is due in May; early groundwork for that project is in progress.

Mortgage Market

Contrarian data continues to abound in housing and mortgage markets as Brexit uncertainty continues to strangle activity. The ONS and Halifax showed monthly house price increases of 1.3% and 0.9% respectively, whilst Nationwide's index was barely changed at 0.2% and Rightmove was down 1.3% in their latest releases. Hometrack reported that property prices in key cities have increased by 2.4% in the last year but noted that this was half the average growth rate over the last 5 years, whilst Knight Frank reported a jump of 24% in exchanges in Prime Central London from a year previously.

The Halifax did however note that seasonally adjusted residential transactions in September reached their highest level since August 2017, which was supported by an increase in mortgage approvals according to the BoE, but Zoopla reported that the time it takes to sell properties in UK cities has reached a three-year high at 12 weeks, compared to 8 weeks in 2016.

RMBS Market

The tone of the RMBS market remains broadly constructive. Steady primary market issuance took YTD UK RMBS volume ahead of the issuance level for the whole of 2018 – an outstanding achievement given the slow start to the year following the introduction of the new regulatory framework.

This recent growth included the largest UK Prime RMBS deal of the year coming from Lloyds, which also carried the now almost obligatory STS designation for prime deals, and where very high investor demand saw the deal upsized. The positive technical continued as the market absorbed all RMBS supply with good levels of oversubscription, particularly where mezzanine tranches were available, with deals pricing at the tighter end of initial price guidance. The positive sentiment filtered through into secondary performance where both senior and mezzanine spreads were around 5bp tighter over the month.

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 one loan in any form of arrears across both portfolios at the end of October. Prepayments in both portfolios were also minimal.

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

Asset performance in BH1 remains very strong, albeit two further loans fell into the three months or more in arrears bucket, making a total of six with an arrears balance of just £38k from £214m of loans outstanding. Prepayments of the earlier originated loans continue to come through as expected as those loans reach their reset dates.

In CH5, growth continued again with another record month of completions in October, the third in the last four months, with the total passing the £100m mark and further strong growth expected as the pipeline continues to build. One of the three loans in arrears last month was cured in full, leaving just two.

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 with just 20 loans from a pool of over 3,900 more than three months in arrears at the end of October, with an arrears value of just £62k from a pool of £500m of loans.

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

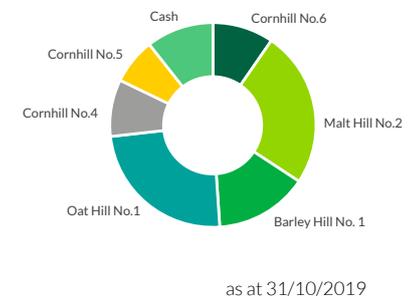
Volumes continue to grow with this portfolio also passing the £100m of completions milestone during October and the combined pipeline approaching £300m. Once again, there continues to be no signs of any loans in arrears.

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	£181m	£342m	£500m	£294m*	£214m	£212m*
Number Accounts	1,011	1,957	3,913	1,346*	1,210	1,063*
Average Mortgage Size	£179k	£175k	£128k	£206k	£177k	£189k
WA Indexed LTV	62.36%	60.42%	65.25%	70.63%	67.33%	73.68%
WA Interest Rate	2.81%	2.71%	2.03%	3.56%	4.08%	4.01%
WA Remaining Term (mth)	197	224	124	265	288	314
WA Seasoning (mth)	51	33	153	4	16	2
3mth + Arrears (% balance)	0.00%	0.00%	0.56%	0.00%	0.54%	0.15%

* includes completions and pipeline

as at 31/10/2019

Investment breakdown



Investment Outlook

The backdrop to the RMBS market remains generally positive overall, given the ongoing geopolitical and macro backdrop.

The strong UK pipeline of recent RMBS issuance was in part driven by issuers wanting to get their deals priced ahead of the 31st October Brexit deadline. With that now pushed into January and the year-end approaching, it's likely that we will see a slowdown in primary issuance, although we do still expect a handful of further primary activity, especially whilst demand remains strong as has been the case throughout the year, and this should be positive for spreads.

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*:	£184mn
Shares in Issue:	£273mn
Current Price per Share*:	67.50p
Current NAV per Share*:	81.03p
Current NAV per Share (inc Dividend)*:	101.66p
Premium / (Discount) to NAV*:	-16.70%

Source: TwentyFour Asset Management. * as at 30/09/2019

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 Citi 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 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 30/09/2019.