

UK Mortgages Limited

29 November 2019

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

Commentary

We continue to finesse some of the current portfolio financing arrangements ahead of making preparations for the upcoming transaction re-financings and securitisations due in 2020, which will begin with the Oat Hill No.1 transaction due in May, and some early planning for that project is also progressing.

Mortgage Market

Whilst housing and mortgage market data remains relatively dampened some more encouraging signs may be beginning to emerge, especially with the likelihood of Brexit now being settled by the end of January. Whilst the ONS reported that annual house price growth at 0.7% for October was at its lowest level in 7 years, Rightmove predicted a rise of 2% in 2020. Furthermore UK Finance reported first time buyer approvals rose by 2.8% compared to last October, and that the number of home mover mortgages completed in the month was 4.2% higher than a year ago. Yorkshire Building Society also reported that house price affordability had increased in almost two-thirds of the country during 2019.

RMBS Market

Alongside an increasingly more stable macro backdrop the ABS market continued to see healthy levels of issuance throughout November, with YTD supply at a comparable level to last year at the same point. This has been positive for the market and it's notable that there has been a much more diverse amount of issuance versus 2018 from both a geographical and issuer perspective. The RMBS market continues to be the largest sector and the UK the largest geography. November saw the return of Co-op Bank to the prime RMBS market with their first publicly placed issue since 2012. The Principality Building Society also successfully placed a second prime RMBS deal of the year indicating perhaps that, as might be expected, banks are beginning to return to the ABS market for funding as some of the central bank funding sources, such as TFS, begin to taper off in the medium term. This has undoubtedly been helped by the ongoing development of STS issuance with every UK owner-occupied deal that could achieve the label opting to do so.

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 each portfolio in any form of arrears at the end of November. 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, with still just six loans in the three months or more in arrears bucket, and an arrears balance of just £43k from £208m of loans outstanding. Prepayments of the earlier originated loans continue to come through with about £5.5m of prepayments this month, which is generally in line with expectations as those loans reach their reset dates.

In CH5, growth continued again with another record month of completions in November, the fourth in the last five months, with the total now just under the £125m mark and further strong growth expected as the pipeline continues to build. Just two loans remain in arrears, the same as last month.

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

Once again, this deal continues to perform in line with expectations. Prepayments remain stable, and while the number of longer term arrears trickled marginally higher, only 25 loans from a pool of 4,200 are more than three months in arrears at the end of November, with the actual value of arrears falling slightly to just £58k from over £490m of loans.

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

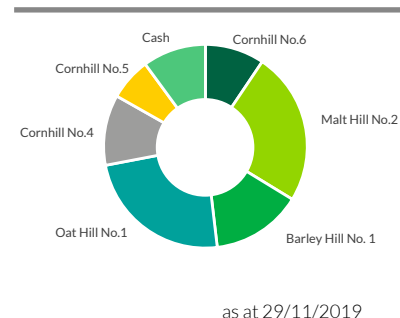
Volumes continue to grow with this portfolio also having another record month of completions during November and also totalling just under £125m from over 600 loans and with the combined pipeline now well over £300m. Once again, there continues to be no signs of any loans in arrears.

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	£180m	£342m	£498m	£315m*	£208m	£241m*
Number Accounts	1,004	1,955	3,896	1,445*	1,178	1,219*
Average Mortgage Size	£179k	£175k	£128k	£204k	£176k	£191k
WA Indexed LTV	62.30%	60.38%	65.26%	70.70%	67.28%	73.27%
WA Interest Rate	2.82%	2.71%	2.03%	3.53%	4.09%	3.99%
WA Remaining Term (mth)	196	223	123	266	286	316
WA Seasoning (mth)	52	34	154	4	16	2
3mth + Arrears (% balance)	0.00%	0.00%	0.63%	0.00%	0.56%	0.12%

* includes completions and pipeline

as at 29/11/2019

Investment breakdown



Investment Outlook

The RMBS and ABS primary markets are noticeably slowing down as we run into the year end. The overall tone is generally constructive and the positive sentiment which currently prevails is likely to keep volatility low. Dealer inventory levels remain low which should be supportive for spreads in the near term.

With the UK Election having taken place since the end of the month, but prior to the publication of this factsheet, the Tory victory should now ensure that Brexit takes place by the end of January and will help to remove some of the uncertainty that has been stifling markets. However, there remains a long road ahead as trade agreements with the EU and the US are to be negotiated during the transition period. Alongside this, the signing of the first phase of a trade deal between the US and China should remove some of the broader geopolitical risk that has also been hampering markets.

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*:	£181mn
Shares in Issue:	£273mn
Current Price per Share*:	66.25p
Current NAV per Share*:	80.36p
Current NAV per Share (inc Dividend)*:	102.11p
Premium / (Discount) to NAV*:	-17.56%

Source: TwentyFour Asset Management. * as at 31/10/2019

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.