



# UK Mortgages Limited

31 December 2019

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

## Commentary

Progress continues to be made with finessing some of the current portfolio financing arrangements in addition to preparing for the upcoming transaction re-financings and securitisations due in 2020. This will begin with the Oat Hill No.1 transaction due in May, the planning for which is progressing.

### Mortgage Market

Whilst it's very early to tell and December figures are always harder to read given the seasonal factors, we are seeing some signs that confidence may be returning to housing and mortgage markets following the decisive General Election result. The near certainty that Brexit will now go ahead at the end of January, albeit with numerous hurdles still to be negotiated during the transition period, could at the very least spur many of those who have been sitting on the sidelines for the past 3 years back into action. Mortgage approvals rose 1.9% in December according to e.surv, with UK Finance reporting the same metric had hit an almost 3 year high. Meanwhile the ONS showed house prices grew by 2.2% with Halifax showing a 2.3% rise and also reporting that overall house prices had trebled in the last 20 years, with at least a doubling seen in every region.

### RMBS Market

The UK RMBS market remained stable into the year end with low levels of volatility. Although there was no new issue supply in December, the primary market finished 2019 with the highest amount of issuance since 2011 at around £26bn, despite the very slow start to the year due to the introduction of the new regulatory framework. The market embraced the main development of STS-labelled deals which saw steady supply and the transition to SONIA-based deals from LIBOR in the UK has also been seamless. Despite the ongoing geopolitical factors of Brexit, trade wars, tension in the Middle-East and a cooling European economy, credit fundamentals continued to show strong ongoing underlying loan performance, with very low levels of arrears across the board.

## Cornhill Mortgages No.6 – CH6, and Malt Hill No.2 – MH2 (Coventry Building Society)

Once again, both Coventry portfolios continue to exhibit exceptionally strong performance, with just one loan (in MH2) a month in arrears at the end of December. Prepayments in both portfolios were also minimal.

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

Asset performance remains very strong, with just seven loans in the greater than three months in arrears bucket, with an arrears balance of just £50k from £202m of loans outstanding. A typical example is where the borrowers have undergone a relationship breakup, leading to missed payments, but where the property is now for sale and ultimately no loss should be expected given the LTV on the loan. Meanwhile, prepayments of the earlier originated loans continue to come through with about £6m of prepayments this month, similar to last month and generally in line with expectations as those loans reach their reset dates.

In CH5, growth continued again with another strong month of completions despite the seasonal break, totalling almost £150m and with a combined pipeline of almost £260m. Just two loans are three months or more in arrears, the same as last month.

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

This deal also continues to perform in line with expectations. Prepayments remain slow and stable, and the number of longer term arrears was unchanged with just 25 loans from a pool of almost 4,200 are more than three months in arrears at the end of December, with the actual value of arrears also unchanged at just £58k from a pool of £495m of loans.

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

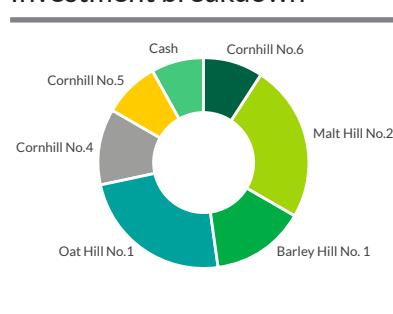
Volume growth continues with another excellent month of completions during December taking the total to over £140m from almost 700 loans and with the combined pipeline now over £340m. Once again, there continues to be no signs of any loans in arrears.

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	£179m	£341m	£495m	£341m*	£202m	£259m*
Number Accounts	996	1,953	3,879	1,591*	1,121	1,303*
Average Mortgage Size	£179k	£175k	£128k	£210k	£180k	£193k
WA Indexed LTV	62.27%	60.35%	65.23%	71.25%	67.04%	73.19%
WA Interest Rate	2.79%	2.71%	2.02%	3.51%	4.11%	3.98%
WA Remaining Term (mth)	195	222	122	267	286	316
WA Seasoning (mth)	53	35	155	5	17	3
3mth + Arrears (% balance)	0.00%	0.00%	0.62%	0.00%	0.60%	0.05%

\* includes completions and pipeline

as at 31/12/2019

## Investment breakdown



as at 31/12/2019

## Investment Outlook

The broad consensus suggests more of the same for RMBS in 2020, although with potential for an increase in issuance as the first drawdowns under the UK's Term Funding Scheme are due to start being repaid towards the end of the year. Whilst some issuers have returned to the market for the first time in many years, it is also worth considering that UK banks have been more inclined to use the covered bond market for a cheaper cost of funding, albeit spreads between covered bonds and RMBS have converged more recently.

The outlook for spreads is relatively constructive. A more stable regulatory and technical backdrop should maintain the market's current momentum. Fundamentals are likely to remain supportive with economists expecting a relatively benign environment in 2020, with low interest rates, potential for a more buoyant housing market and steady levels of employment. As such, spreads could tighten modestly during the year, qualified by the likelihood that the market will see some periods of wider macro volatility which might lead to pockets of widening.

## 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:*	£199mn
Shares in Issue:	£273mn
Current Price per Share:*	72.75p
Current NAV per Share:*	80.62p
Current NAV per Share (inc Dividend):*	102.37p
Premium/(Discount) to NAV:*	-9.76%

Source: TwentyFour Asset Management. \* as at 30/11/2019

## 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



**TwentyFour AM**  
John Magrath  
Tel. 020 7015 8912  
john.magrath@twentyfouram.com



**Numis Securities**  
Chris Gook  
Tel. 020 7260 1378  
c.gook@numis.com

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