



31 March 2021

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

## Commentary

### Mortgage and Housing Market

Virtually every metric shows housing and mortgage activity reinvigorated following the extension of the stamp duty relief period to June with a further taper until September. Halifax and Rightmove reported house prices at a record high with the ONS reporting the highest growth rate in over six years and HMRC data showed a record number of transactions in March.

The BoE reported a strong revival in lending following a drop off prior to the budget, whilst RICS and GetAgent said the same about housing demand. Both Twenty7Tec and Experian reported a jump in residential mortgage searches and Reallymoving said demand for conveyancing quotes doubled in March, with both measures showing strong interest from first time buyers. Finally Moneyfacts reported mortgage availability at its highest level for a year as lenders broaden their product ranges following the pandemic-induced tightening.

One slight cloud was in London where demand, sales and growth have all suffered, particularly in the prime central areas, but also more generally as the so called 'race for space' encourages homeowners to move out of town.

### RMBS Market

The primary UK RMBS market saw steady issuance throughout March, with a welcome Prime RMBS STS social bond deal from Yorkshire Building Society, which was well-received together with a BTL deal from an established non-bank lender. There were also deals from a repeat non-conforming issuer partially refinancing a called transaction, a more esoteric deal made up of residential loans mixed with a proportion of commercial real estate lending and finally, a smaller BTL transaction from multiple originators via a US bank financing platform. With most of these deals compacted into the early part of the month, and following a busy February, the UK market has essentially digested a large volume of primary issues over a six week period leading to some stabilization in spreads following the tightening in January and February. As a result, the tone in secondary markets remained positive with spreads trading sideways in the senior space and slightly weaker (5-10bp) in the mezzanine part of the stack. As primary issues tapered off in the second half of the month, secondary activity also dropped off significantly and with strong technicals still prevalent, spreads retraced the slight weakness by month-end.

## Fund Commentary

In yet another busy month for the portfolio managers, all the major objectives from last December's EGM have now essentially been achieved in just under four months. In fact, with new origination almost a month ahead of schedule, and the first of two tenders completed three months earlier than anticipated, progress has been exceptional. The structure and signing of the second Keystone warehouse, Cornhill No.7, was concluded with new provider Santander in early April, and began funding loans virtually immediately. In fact, with Keystone having had a record month of origination in March with over £40m of completions, that means that not only has the prefunding for the Hops Hill No.1 securitisation been completed over a month early, improving income for UKML, but also ensuring that the new warehouse gets off to a flying start with over £25m of loans available on day one, further enhancing returns. Furthermore with a post-offer pipeline of almost £100m and almost the same again in the pre-offer pipe, then prospects for completions through the summer, prior to the end of the stamp duty relief period look very strong. Keystone has also recently rolled out a "green mortgage" product, offering a slightly discounted rate to properties with a higher EPC rating, incentivising landlords seeking new loans to upgrade the energy efficiency of their properties in order to benefit from the better rate. Furthermore these loans will help to ensure that future Hops Hill securitisations can be included by investors in sustainable investment mandates, thereby broadening the investor base and ultimately enhancing pricing, further benefiting UKML. Asset performance remained relatively steady, with just a small increase in arrears in the Barley Hill pool, although encouragingly the property securing one of the largest loans in arrears has now been sold (subject to contract) and therefore, once completed will fall out of the bucket, reducing the balance considerably. As previously mentioned, we do expect some further arrears as the lockdown unfolds and government support is gradually removed, but new cases have already noticeably slowed and as with the loan detailed above, management of existing situations is ongoing and active.

## Investment Outlook

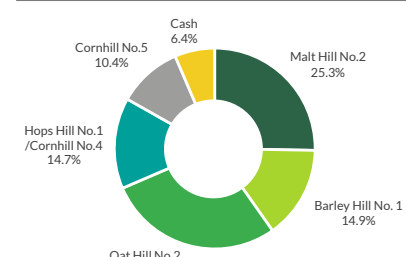
With RMBS issuance in March having tapered off quite quickly as Easter approached, deal flow over the next month or two appears to be quieter thus far. This should be supportive for spreads in the near term and lead to fewer windows of temporary spread volatility driven by periods of elevated issuance, as seen in some more recent weeks. Meanwhile strong origination in mortgage markets and a healthy pipeline bodes well for portfolio growth ahead of the tapering and ultimate end of the stamp duty relief period in the autumn and whilst this might keep the traditional seasonal summer slowdown in abeyance, we do expect a return to more regular volumes in the medium term.

Portfolio Summary	Buy-to-Let			Owner Occupied	
	Purchased		Forward Flow Originated		
	Malt Hill 2	Oat Hill 2	Hops Hill 1/ Cornhill 4	Barley Hill 1	Cornhill 5
Originator	Coventry Building Society	Capital Home Loans	Keystone Property Finance	The Mortgage Lender	The Mortgage Lender
Outstanding Balance	£325m	£463m	£424m*	£142m	£231m
Number Accounts	1,873	3,628	1,882*	801	1,197
Average Mortgage Size	£174k	£128k	£225k	£165k	£193k
WA Indexed LTV	55.99%	61.24%	71.87%	61.90%	67.69%
WA Interest Rate	2.71%	1.37%	3.44%	4.35%	3.89%
WA Remaining Term (mth)	208	109	265	273	303
WA Seasoning (mth)	50	170	11	31	15
3mth + Arrears (% balance)	0.19%	0.78%	0.00%	4.50%	0.84%

\* includes loans securitised into Hops Hill 1 and Cornhill 4 loans in transition.

as at 31/03/2021

## Investment breakdown



as at 31/03/2021

## 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*:	£167.7mn
Shares in Issue:	232mn
Price per Share*:	72.25p
NAV per Share*:	80.07p
NAV per Share (inc Dividend)*:	107.45p
Premium / (Discount) to NAV*:	-9.77%

Source: TwentyFour Asset Management. \* as at 28/02/2021

## Glossary

BoE:	Bank of England
BTL:	Buy-to-Let
EPC:	Energy Performance Certificate
HMRC:	Her Majesty's Revenue and Customs
RICS:	Royal Institute of Chartered Surveyors
RMBS:	Residential Mortgage Backed Securities
ONS:	Office of National Statistics
TML:	The Mortgage Lender

## Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

## Fund Managers

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

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

**Douglas Charleston**  
Portfolio Management, 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 Management, 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, along with the recent addition of mortgage payment holidays. The unaudited impact of IFRS 9 has been calculated at 0.92% on the Fund's NAV, for the 30 June 2020. 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	0.83%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.16%
	<b>Total 0.99%</b>
Servicing and Transaction costs (for information)*	2.24%

\*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 31/12/2020.