



30 April 2021

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

Commentary

Mortgage and Housing Market

Once again, housing market indicators show an ongoing strong performance in virtually every measure. Halifax and Nationwide reported annual increases of 8.2% and 7.1%, respectively. Halifax expected growth to slow later in the year. At the same time, Nationwide said increased savings during lockdown had improved affordability, and prices could continue to rise as available homes didn't match demand. Barrows and Forrester went further, predicting average house prices could climb by another £23,000 this year. Search Acumen reported an extra 171,000 sales since stamp duty relief was introduced in June last year. Zoopla reported the value of homes sold in the first 15 weeks of 2021 was almost £150bn, double that of both 2020 and 2019. The aggregate increase in value was led by growth in Manchester, Liverpool and Leeds, and a lack of property availability. Knight Frank pointed to an apparent demand for country houses, pushing those prices higher by 6.7% in the first quarter alone. Supply was also highlighted by RICS, who pointed to lower estate agent inventories whilst Google Trends data showed visits to the main property websites at 30% above the comparable 2017-2019 figures. In the mortgage market, the BoE did show a fall in mortgage approvals in March, however, Moneyfacts reported an increase in the number of deals available to consumers, albeit primarily for low-deposit loans prompted by the government's new 90%-95% LTV guarantee scheme.

RMBS Market

After a robust first quarter of primary issuance, April proved to be a quieter month with nothing in the way of new supply. Meanwhile, the tone in secondary markets remained constructive, with lower volumes of bonds evident from BWICs, light dealer inventories and a continued strong, technical backdrop. Spreads resumed the grind tighter across the capital stack, following the slight supply-driven retracement in March, as demand outstripped supply once again. AAA NC and BTL spread were around 10bps tighter month on month and mezzanine around 15-20bps with strong demand seen in that sector.

Fund Commentary

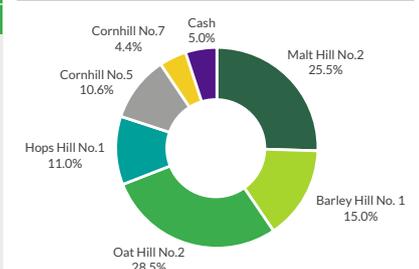
With the signing of the second Keystone warehouse completed early in the month, the remainder of April was generally a quieter period for the portfolio managers. That said, the impending completion of the sale of the second Coventry portfolio at the end of May, continues to occupy the attention with the final documentation to complete, the swap unwinds to manage, and the settlement to arrange. Once the quantum of the sale is finalised, we expect the second tender to occur, most likely in early June, as previously announced. We expect the second tender to possess a substantially similar size and level as the previous tender in March. Meanwhile, completions in the second Keystone portfolio (Cornhill 7) continue to grow with a further £25m of assets added to the warehouse in April, in line with expectations, following the record month in March. After completing the final loans into the Hops Hill No.1 securitisation, Cornhill 7 stood at almost £50m of loans at the end of April, the initially expected date for the addition of first loans; an excellent achievement, adding both value and increased income to the fund. Furthermore, Keystone's loans continue to perform exceptionally. The only loan marked as in arrears at month-end subsequently cleared its arrears balance. All of the 29 borrowers granted a payment holiday last year are now in the process of repaying, with nine having repaid the accrued deferral already. In the TML portfolios, asset performance remained relatively steady, albeit with another small increase in the value of arrears in the Barley Hill pool, although the number of loans in arrears actually decreased by one. Meanwhile, sales have also been agreed on two additional properties, and a fourth is on the market. Litigation has also begun on a further five cases. However, these may not result in ultimate foreclosure as legal proceedings can often be the ultimate catalyst to bring delinquent borrowers back into compliance. We expect the arrears population to continue to evolve as the effects of the pandemic unwind further. Still, current performance is encouraging given the size of the payment holiday population at the peak last year, and we take a loan-by-loan focus on all arrears loans to ensure the most efficient outcome where possible.

Investment Outlook

Fundamentals in the RMBS market remain positive, with the extension and subsequent tapering of stamp duty relief alleviating a possible cliff-edge house price reaction as those schemes cease. Likewise, the implementation of the new government guarantee scheme further fuels the ability for borrowers to get on the property ladder. Additionally, reports indicate excess savings accumulated over the last year continue, and downward revisions to economists' previous estimates of peak unemployment continue to buoy UK consumers. Whilst this is positive for performance in the near term, a move to a more normal level of support for consumers as economies reopen will likely see deterioration in loan performance on a longer-term view. We don't expect this to have any significant issues on the portfolios, albeit, as previously stated, we expect a moderate increase in arrears over the near-medium term as the effects of government support are unwound the economy normalises.

| Portfolio Summary | Buy-to-Let | | | Owner Occupied | | |
|----------------------------|---------------------------|--------------------|---------------------------|---------------------------|---------------------|---------------------|
| | Purchased | | Forward Flow Originated | | | |
| | Malt Hill 2 | Oat Hill 2 | Hops Hill 1 | Cornhill 7 | Barley Hill 1 | Cornhill 5 |
| Originator | Coventry Building Society | Capital Home Loans | Keystone Property Finance | Keystone Property Finance | The Mortgage Lender | The Mortgage Lender |
| Outstanding Balance | £322m | £461m | £400m | £48m | £124m | £230m |
| Number Accounts | 1,863 | 3,609 | 1,801 | 165 | 768 | 1,193 |
| Average Mortgage Size | £173k | £128k | £222k | £294k | £161k | £193k |
| WA Indexed LTV | 55.96% | 60.65% | 71.87% | 71.79% | 60.62% | 66.53% |
| WA Interest Rate | 2.71% | 1.37% | 3.44% | 3.46% | 4.38% | 3.89% |
| WA Remaining Term (mth) | 207 | 108 | 263 | 277 | 271 | 301 |
| WA Seasoning (mth) | 51 | 171 | 12 | 1 | 32 | 16 |
| 3mth + Arrears (% balance) | 0.07% | 1.25% | 0.02% | 0.00% | 5.22% | 0.89% |

Investment breakdown



as at 30/04/2021

as at 30/04/2021

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*: | £151.02mn |
| Shares in Issue: | 205mn |
| Price per Share*: | 73.50p |
| NAV per Share*: | 80.66p |
| NAV per Share (inc Dividend)*: | 108.04p |
| Premium / (Discount) to NAV*: | -8.88% |

Source: TwentyFour Asset Management. * as at 31/03/2021

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% |
| | Total 0.99% |
| 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.