

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

Commentary

The portfolio managers remain occupied with the ongoing administration and maintenance of the fund's existing investments and continue looking further into new opportunities, including working on a number of prospects which should they progress to transaction stage and depending on size and structure may ultimately require the raising of further capital.

Mortgage Market

Overall house prices remain sustained by the limited supply of properties in the market, as evidenced by UK Finance, who show 2018 as a record year for remortgages; the most active since 2008.

Both the RICS market survey and the Halifax HPI report pointed to a slow real estate market in November, going towards the end of the year. Whilst this is somewhat a seasonal effect, it is also, according to Halifax, the lowest growth since 2012 and the third month out of the last four with falling house prices. However, empirical evidence from various market commentators in December seems to point to a surprisingly unseasonal upturn towards the very end of the year.

High employment, wage growth and historically low mortgage rates continue to make home ownership more affordable for many, though new figures from the Bank of England reveal unprecedented numbers of borrowers (47% of all borrowers in Q3 18) are taking on high loan-to-income loans to be able to afford a property, which critics fear are dangerously high levels of debt in a rush for ultra-cheap loans.

RMBS Market

While broader credit markets have been experiencing volatility for a while, and ABS spreads had slowly deteriorated over the summer and early autumn, the tip-over into ABS was only really seen from mid-November, and this continued into December, with spreads reaching their widest levels since Q1 2016. Thin trading levels heading into the seasonal break meant absolute levels are difficult to determine, but generically, Prime UK RMBS would be seen as much as 50bps wider than the tight levels of the summer, while BTL and non-conforming maybe 60bps to 75bps wider. As usual, the primary market also slowed down, but with a couple of deals still being marketed into the middle of the month, it was hard for the market to stabilise and quieten until this supply had been placed.

Malt Hill No.1 and No.2 (Coventry Building Society)

The Malt Hill No.1 and No.2 portfolios continue to exhibit exceptionally strong performance, with only one loan in Malt Hill 1 in arrears at the end of November. Prepayments remain stable, in line with investment modelling expectations.

Cornhill Mortgages No.2 (The Mortgage Lender – TML)

At the end of November, completed origination had reached almost £190m with a further £50m in the pipeline, which has received a boost following the redesign and launch of the product suite. Asset performance remains extremely strong, with just three loans in arrears, of which two are continuing to make regular payments, and the third where the property is being sold by the borrower and is expected to complete in December.

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

This investment also continues to perform in line with expectations. Prepayments remain stable at just below 6% p.a. on a 3-month rolling basis and just 64 loans from almost 4,500 were a month or more in arrears at the end of November.

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

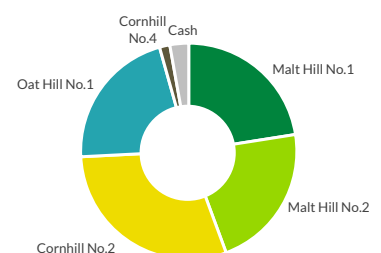
New completions continued through the first part of December, but then slowed significantly as conveyancing activity effectively ceased with solicitors' firms closing for the festive period. Applications, however, continued to grow with a pipeline of around £60m by the seasonal shutdown; approximately £15m of which were at the binding offer stage.

Portfolio Summary	Buy-to-Let				Owner Occupied
	Purchased			Forward Flow	Forward Flow
	Malt Hill No. 1	Malt Hill No. 2	Oat Hill No. 1	Cornhill 4	Cornhill 2
Originator	Coventry Building Society	Coventry Building Society	Capital Home Loans	Keystone Property Finance	The Mortgage Lender
Outstanding Balance	£207m	£349m	£530m	£59m*	£241m*
Number Accounts	1,153	1,984	4,121	253	1,344
Average Mortgage Size	£180k	£176k	£129k	£232k	£180k
WA Current Indexed LTV	62.81%	60.61%	65.75%	67.41%	66.38%
WA Interest Rate	2.78%	2.71%	2.04%	3.68%	3.71%
WA Remaining Term (mth)	208	235	134	264	292
WA Seasoning (mth)	40	22	142	0	11
3mth + Arrears (% balance)	0.06%	0.00%	0.77%	0.00%	0.08%

* includes completions and pipeline

as at 30/11/2018

Investment breakdown



as at 30/11/2018

Investment Outlook

The portfolio managers continue to source and analyse investment opportunities in a variety of formats, and we remain engaged on several potential projects, which are at different stages. Any expectation of deployment would be some way into the future, allowing sufficient time for fundraising should it be required.

New securitisation regulations come into force from the beginning of 2019 and with a number of technical points still to be finalised, there may be a primary market hiatus early in the year which could support spreads, albeit macro volatility and geopolitical events, in particular the lead up to Brexit and the political infighting across the government and parliament, may put a cap on or even negatively affect any technical drivers.

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:*	£243mn
Shares in Issue:	273 mn
Current Price per Share:*	89.00p
Current NAV per Share:*	83.51p
Current NAV per Share (inc Dividend):*	100.01p
Premium / (Discount) to NAV:*	6.58%

Source: TwentyFour Asset Management. ** as at 31/10/2018

Glossary

ABS:	Asset Backed Securities
RMBS:	Residential Mortgage Backed Securities
IPD:	Interest Payment Date
BoE:	Bank of England
TFS:	Term Funding Scheme
RICS:	Royal Institution of Chartered Surveyors
NWM:	NatWest Markets
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
ASSET MANAGEMENT

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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 the adoption of IFRS 9 – the company will be reporting its results in accordance with IFRS 9 with effect from 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 0.20% on the Fund's NAV, in the 30 June 2018 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	0.96%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.14%
Total	1.10%
Servicing and Transaction costs (for information)*	1.69%

*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 31/10/2018.

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The value of investments and the income from them can fall as well as rise. An investor may not get back the amount of money that he/she invests.

This document has been issued by TwentyFour Asset Management LLP.

For definitions of the investment terminology used within this document please see glossary at: <https://twentyfouram.com/glossary>

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