UK Mortgages Limited

31 May 2019

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

Commentary

The main activity over the past few weeks has seen the portfolio management team preparing a webinar (which was held in June and is available for replay via the fund's website) and a series of investor meetings relating to an announcement by the board of a reduction in the dividend from 6p to 4.5p. The webinar covers the rationale for the dividend reduction and also outlines the reasoning and basis for proposals to be put to shareholders at a forthcoming EGM for amendments to the investment policy, in particular to provide greater flexibility with regards to the leverage strategy, given the high quality of the investment portfolio, aimed principally at delivering a sustainable level of dividends and rebuilding the Company's net asset value over time. Alongside this, we continue to finalise the details of the follow-up warehouse for The Mortgage Lender, ready for when the prefunding period of Barley Hill No.1 finishes in August.

Mortgage Market

Housing and mortgage market data continues to be mixed but most house price indicators were either flat or slightly better, with the June-19 RICS survey also showing a rise in buyer demand for the first time in two years. Whilst London prices showed a sharp year-on-year fall according to the Land Registry's June-19 data, albeit less so according to Rightmove. UK Finance also showed a fall in lending in their May-19 data, and the BoE also reported a fall in mortgage approvals in May.

RMBS Market

A combination of consistent primary issuance and a busy secondary market weighed a little on secondary spreads, although flow still traded at respectable levels with decent liquidity provided by dealers. Meanwhile, all primary deals were successfully placed with good demand, albeit oversubscription levels varied from just covered to multiple times done with particularly strong demand in the mezzanine area, and deals continue to price at the tighter end of guidance. The annual Global ABS conference in early June was bigger than ever with a post-crisis record number of attendees. The broad consensus from participants was positive for the market with confidence in structures and a view that in relative value terms, ABS markets are likely to outperform other credit markets. Regulation continues to be a much discussed topic but overall there is a sense of more certainty, as more STS labelled transactions are coming to the market; a positive development for both issuers and investors into the future.

Cornhill No. 6 (refinanced from Malt Hill No. 1) and Malt Hill No.2 (Coventry Building Society)

The Malt Hill No.1 and No.2 portfolios continue to exhibit exceptionally strong performance, with only two loans more than one month in arrears across both deals at the end of May and prepayments in line with modelling expectations.

Cornhill Mortgages No.2/Barley Hill No.1 (The Mortgage Lender – TML)

The completed securitisation continues its pre-funding phase, and asset performance remains extremely strong, with just four loans three months or more in arrears at the end of May, and an encouraging ongoing pick-up in origination volumes being observed.

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

This deal also continues to perform in line with expectations. Prepayments remain stable, and longer term arrears falling slightly with just 36 loans from over 4,000 more than three months in arrears at the end of May, with an arrears value of just £111k from a pool of £517m of loans.

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

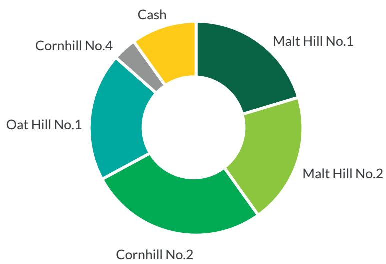
New origination and completion volume continues to encourage with the combined pipeline having reached about £125m by the end of May and completions passing the £50m mark during the following month. As might be expected at this early stage there are no signs of any loans in arrears.

Portfolio Summary	Buy-to-Let				Owner Occupied
	Purchased			Forward Flow	Forward Flow
	Cornhill 6	Malt Hill 2	Oat Hill 1	Cornhill 4	CH2/BH1*
Originator	Coventry Building Society	Coventry Building Society	Capital Home Loans	Keystone Property Finance	The Mortgage Lender
Outstanding Balance	£196m	£346m	£517m	£127m**	£238m
Number Accounts	1,093	1,972	4,017	607	1,313
Average Mortgage Size	£179k	£175k	£129k	£210k	£181k
WA Indexed LTV	62.47%	60.52%	66.25%	70.87%	67.56%
WA Interest Rate	2.84%	2.71%	2.03%	3.63%	3.89%
WA Remaining Term (mth)	202	229	128	262	292
WA Seasoning (mth)	46	28	148	2	12
3mth + Arrears (% balance)	0.01%	0.07%	0.88%	0.00%	0.25%

* includes loans securitised into Barley Hill 1 and Cornhill 2 loans in transition
** includes completions and pipeline

as at 31/05/2019

Investment breakdown



as at 31/05/2019

Investment Outlook

Work continues to finalise the follow-up warehouse for The Mortgage Lender, ready for when the prefunding period for Barley Hill No.1 finishes in August. Alongside this, we continue to work on investor engagement in light of the webinar and upcoming EGM to consider the proposed changes to investment policy. The elevated level of UK RMBS issuance, from both new and repeat issuers, is likely to start to taper off once the current crop of deals have been placed. Prime RMBS deals with the STS label have seen strong oversubscription from investors keen to add bonds, however spreads have traded sideways in the main, due to the heavier overall supply. The current geopolitical backdrop remains positive for spreads in general, and as we approach the summer lull with decreasing supply we expect a quieter overall market.

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:*	£218mn
Shares in Issue:	273 mn
Current Price per Share:*	80.00p
Current NAV per Share:*	81.00p
Current NAV per Share (inc Dividend):*	100.50p
Premium / (Discount) to NAV:*	-1.23%

Source: TwentyFour Asset Management. * as at 30/04/2019

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
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

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	0.94%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.15%
Total	**1.09%**
Servicing and Transaction costs (for information)*	2.27%

*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 31/05/2019.

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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