

UK Mortgages Limited

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

Commentary

A significant focus this month has been investigating the implementation of some minor structural changes to Malt Hill No.1, designed to benefit both senior noteholders and the fund's junior investment. These would be designed to avoid possible unnecessary technical redemptions for senior noteholders, thereby delivering an expected life broadly in line with initial expectations, and allowing UKML to maintain leverage as planned for this investment.

Further to that, business continues in the normal way, with the PM's time absorbed by the search for new opportunities, surveillance of the existing investments and maintenance of the funding vehicles.

Mortgage Market

Broader mortgage and housing markets seem to have mostly reached stalling point at national level, although at a regional level the picture continues to be more mixed. According to July's RICS survey, the headline house price growth rate slipped to the softest reading since 2013, but with prices on an upward path in the South West, the Midlands and Northern Ireland, and downwards in London and the South East. The stock of properties on offer also continues to reduce, with an ongoing fall in fresh listings for more than a year as of June 2017.

First-time buyers and remortgage borrowers continue to sustain volumes of mortgage origination, which remains subdued overall, and despite increased volumes, BTL remains in negative territory year-on-year due to last year's stamp duty changes and further tax and regulatory changes coming down the line. It is interesting to note that according to the BoE Q2 CCS, lenders increased credit availability for the second quarter of the year but expected it to be reduced again over Q3 due to more conservative criteria being introduced on higher LTVs, which are typically taken up by first time buyers.

RMBS Market

Whilst the beginning of August was unseasonably busy in some parts of the ABS market with an overhang from deals marketing in July, it was a quieter month in UK RMBS, with no transactions of note coming to the market, but a pipeline building towards the end of the month, with at least one non-conforming BTL and a prime RMBS lining up for September. We also expect the autumn may bring the gradual return of primary issuance by high street banks and building societies as we approach the end of the TFS window in February 2018. UK RMBS secondary spreads remain stable at the tight end of the spectrum, with little exchange in the market, again due to the holiday season.

Malt Hill No. 1 (Coventry Building Society)

The portfolio continues to exhibit strong performance, beating our best expectations with no loans in arrears.

Having closely followed the population of loans with an initial 2-year fixed-rate rolling off in May, the PMs identified a risk for both the noteholders and UKML due to some loan reset characteristics versus the pre-determined conditions set within the Malt Hill No.1 structure. We are currently in the process of investigating solutions intended to find a beneficial solution for all stakeholders.

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

Drawings continued in July under the facility provided by NWM for the TML portfolio, and as a result a few elements of the drawing process are being streamlined so as to ensure they are carried out in the most efficient and timely manner. A number of players are involved for each drawing and for the renewal of NWM commitments; this has been absorbing significant attention for all parties with excellent results so far.

As of the end of July c. £118m mortgages had been originated or in the pipeline, with volumes remaining stable at the pace of the last few months, which is in line with revised projections.

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

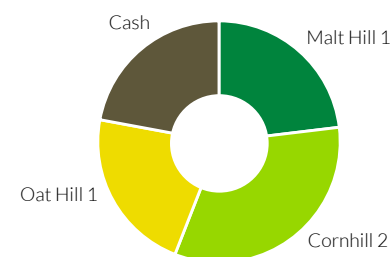
August saw the first interest payment date for the securitisation, which resulted in a generous payment to the DAC (and therefore UKML) at the bottom of the waterfall. This is driven by mainly two factors: i) the low coupon on the senior notes and ii) the fact that this first interest period benefits from a longer period of collections than the interest period on the notes. Excluding this last element, the payment of the excess is still in line with our projections and we are satisfied by the performance of the assets, with only 0.80% of the entire pool overdue on one or more instalments, and a recovery rate of 78.4% on the loans in repossession since closing.

Portfolio Summary	Malt Hill No. 1	Cornhill No. 2	Oat Hill No. 1
Originator	Coventry Building Society	The Mortgage Lender	Capital Home Loans
Outstanding Balance	£265m	£119m*	£574m
Number Accounts	1,500	608*	4,431
Average Mortgage Size	177k	196k	129k
WA Current Indexed LTV	63.7%	66.5%	67.5%
WA Interest Rate	3.19%	3.51%	1.54%
WA Remaining Term (mth)	226	297	148
WA Seasoning (mth)	23	3	126
3mth + Arrears (% balance)	0.00%	0.00%	0.57%

* includes completions and pipeline

as at 31/07/2017

Investment breakdown



as at 31/07/2017

Investment Outlook

The capital returned following the launch of Oat Hill No.1 has brought new energy to the search for further investment opportunities in order to minimise any cash drag. The amount of available capital would already allow for the purchase of a smaller portfolio and provides an excellent starting point to initiate conversations. In any event, the intention is to identify and secure any opportunities before proceeding and should that opportunity prove larger, then to explore the possibility of raising additional capital as required. The PMs are progressing conversations on a number of fronts and will provide further details should they become more concrete.

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:*	£240.9 mn
Shares in Issue:	250 mn
Current Price per Share:*	96.38p
Current NAV per Share:*	89.10p
Current NAV per Share (inc Dividend):*	96.60p
Premium / (Discount) to NAV:*	8.16%

Source: TwentyFour Asset Management. * as at 30/06/2017

Trading Information

TIDM	ISIN	SEDOL	Distribution Frequency	AMC (%)	OCF (%)*
UKML	GG00BXDZMK63	BXDZMK6	Quarterly	0.75	1.20

* as at 31/07/2017

Fund Managers

Robert Ford

Partner with 31 years' experience, previously a Managing Director and Head of European ABS Trading at Barclays Capital.

Ben Hayward

Partner with 19 years' structured finance experience; previously senior fund manager to four portfolios at Citi Alternatives.

Douglas Charleston

Portfolio Manager with 11 years' experience. Previous roles include a structurer at Lloyds, ratings analyst at S&P and a portfolio manager at Nationwide.

Silvia Piva

Portfolio Manager with over 9 years' experience. Previously she was a structurer and originator at RBS covering UK financial institutions.

Shilpa Pathak

Portfolio Assistant with 2 years' experience. 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.

Glossary

ABS:	Asset Backed Securities
RMBS:	Residential Mortgage Backed Securities
BoE:	Bank of England
CCS:	Credit Conditions Survey
CML:	Council of Mortgage Lenders
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

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

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