31 January 2018

TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

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, which as described further below continue to beat expectations in terms of performance.

The start of 2018 also brings about a raft of planning exercises on various fronts, such as the introduction of new accounting principles, along with analysis of the accounting treatment of proposed investments, strategy discussions with the board, and planning for the year ahead.

Mortgage Market

The January 2018 RICS UK Residential Market Survey results continue to display a lack of momentum, with the average number of properties on estate agents' books shrinking for the fifth month in a row. However, the survey results point to further price growth in many areas, with the strongest figures being reported in Wales, Northern Ireland and the North West, with the annual headline figure remaining positive at +8% at a national level.

According to UK Finance, gross mortgage lending for January was £21.9bn, broadly in line with the monthly average in 2017, and +9.7% year-on-year. Volumes continue to be driven by re-mortgaging activity, with borrowers typically either looking to lock in a favourable rate for a longer period, consolidate debts or to fund home improvements, whilst moving opportunities remain limited.

RMBS Market

Good levels of activity in the securitisation space continued across the spectrum in February, with two traditional UK RMBS master trusts returning to the market, joined by a specialist BTL RMBS and the first Sharia-compliant UK RMBS deal. All were positively received by the market, with oversubscribed order books across the capital structure and deals pricing at or inside the tighter end of guidance.

From a structural perspective we saw another transaction with an element of pre-funding, a feature used increasingly in RMBS over the past year, as it allows lenders to fund some of their future origination up front, whilst investors are able to employ more capital in assets they know and like. It is now a significant consideration when structuring a new deal with assets under current origination, and a feature to be considered for suitable future UKML securitisations when demand is strong, and asset origination flow is available.

Malt Hill No. 1 (Coventry Building Society)

The portfolio continues to exhibit exceptionally strong performance, with none of the 1,245 loans in the portfolio in arrears as at the end of January. As anticipated, prepayments within the portfolio continue to slow down and the investment leverage for the foreseeable future remains therefore broadly in line with initial projections.

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

As at the end of January, completions and pipeline had passed the £150m mark, with completed origination at approximately £120m. The portfolio continues to show asset performance that beats the most optimistic expectations, with only one loan currently in arrears, which is being closely monitored.

This month TML launched a new product suite – essentially a simplified sub-suite of their previous product range – in response to feedback from intermediaries during the first year of origination. The overall credit-underwriting boundaries remain unchanged, but borrowers will now have more certainty as to which rate they qualify for at the start of the application process. This should help to boost introductions and also increase the conversion rate from first enquiry to completion.

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

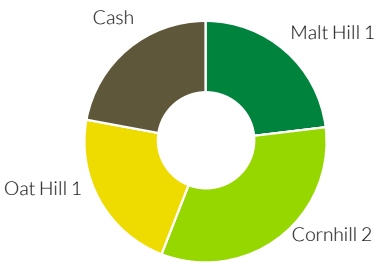
This investment also continues to perform in line with expectations. Just 39 loans are a month or more in arrears, a significant reduction from the previous month, much of which is ascribable to the arrangement plans that are in place with the borrowers that have missed payments in the past and therefore gradually reducing the arrears.

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	£224m	£154m*	£559m
Number Accounts	1,245	819	4,326
Average Mortgage Size	180k	189k	129k
WA Current Indexed LTV	63.35%	66.36%	67.86%
WA Interest Rate	2.89%	3.59%	1.79%
WA Remaining Term (mth)	218	295	141
WA Seasoning (mth)	30	6	133
3mth + Arrears (% balance)	0.00%	0.00%	0.27%

* includes completions and pipeline

as at 31 Jan 2018

Investment breakdown



as at 31 Jan 2018

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:*	£225.3 mn
Shares in Issue:	250 mn
Current Price per Share:*	90.13p
Current NAV per Share:*	87.39p
Current NAV per Share (inc Dividend):*	97.89 p
Premium / (Discount) to NAV:*	3.13%

Source: TwentyFour Asset Management. * as at 31/12/2017

IFRS 9

With regards to the adoption of IFRS 9 – the company has a 30 June 2018 year-end and therefore it will be reporting its results in accordance with IFRS 9 with effect from 1 July 2018. Given this timeframe a full assessment of any materiality is yet to be finalised. 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 loans within our portfolio will be factored into our provision calculations. The impact of IFRS 9 is expected to be less than 0.5% on the fund's NAV, with the final numbers to be confirmed in the 30 June 2018 year-end accounts. We will update this estimate should it change materially up to and including our June 30 factsheet. 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.

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
Distribution Frequency	Quarterly
AMC (%)	0.60

* as at 31/08/2017

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 and any expectation of deployment would be over the course of the next 3 to 6 months, a timeframe that would allow sufficient time for fundraising should it be required.

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
IPD:	Interest Payment Date
BoE:	Bank of England
CCS:	Credit Conditions Survey
ONS:	Office of National Statistics
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

OCF Breakdown

UK Mortgages Ltd	0.92%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.10%
	Total 1.02%
Servicing and Transaction costs (for information)*	1.14%

*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 31/12/2017.

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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