

City Of London Corporation
Monthly Investment Analysis Review

July 2015



City Of London Corporation

Monthly Economic Summary

General Economy

A mixture of events took place in July, both home and abroad. All eyes were on Greece at the start of the month who missed their first repayment at the end of June, but salvaged a deal in mid July. George Osborne delivered his first budget of the new parliament with a range of policies, of which some were unanticipated. The rate of expansion in US Non Farm payrolls eased, leading some market participants to suggest that this could delay Federal Reserve policy action.

George Osborne presented the first Tory Budget for nearly 20 years in the early stages of the month. Surprisingly, the policies outlined in the Budget ranged from both right and left leaning measures. Policies such as £12bn of welfare cuts and increasing taxes by more than £6bn were expected from a Chancellor who is free from the compromises of a coalition. However, minimum wage hikes to £7.20 next year reaching £9 in 2020 and crackdowns on £5bn of tax avoidance, including abolishing the right to claim permanent “non-dom” status, were less expected.

The Chancellor purported the deficit should fall 3.7% this year and expected to fall further in the coming years, eventually reaching a surplus in 2019/2020. On the other hand, new growth forecasts by the Office for Budget Responsibility (OBR) were revised down slightly to 2.4% from the 2.5% quoted in March. Finally, the Chancellor increased the tax-free personal allowance in income tax to £11,000 stating it would always rise with national minimum wage in future.

CPI figures for June showed inflation fell back to 0%. The drop was brought about by a fall in energy, food, summer clothing and import prices. Further downward pressures on inflation may continue as Brent crude dropped further at the start of July and the UK may face another short period of deflation. Inflation has remained below its 2% target since the close of 2013, but has dropped sharply this year, exacerbated by the falling oil prices in the second half of 2014. However, Bank of England Governor Mark Carney expects price pressures to pick up as this year progresses, as 2014's energy price drops fall out of the calculations. He expects inflation may well return to its 2% target by early 2017.

The MPC kept Bank Rate at 0.5% as expected, with all members voting in favour of the status quo. Despite no inflation, the Bank of England Governor stated that the decision on policy rates will become more finely balanced around the turn of the year as the MPC has taken the view that UK's low inflation is a temporary phenomenon. These more hawkish comments led to Sterling strengthening against both the dollar and the euro.

Greece missed its initial payment of €1.6bn to the IMF, which was expected but the expiry of its second bailout programme of €142bn, without a new programme being in place, was less so. Greece held a referendum on 5th July to determine whether the public agreed with the creditors' demands which resulted in a resounding 'No', pushing the country closer to a 'Grexit'. This raised fears that Greece would default on its upcoming bond payment to the ECB. However, before this happened, a deal was finally reached on the outline terms of a new bailout of potentially €86bn from the troika of ECB, European Commissions and International Monetary Fund (IMF). Ahead of final agreements on the bailout, the European Financial Stability Mechanism provided a €7bn bridging loan to meet its short term debt obligations, namely to the IMF and ECB.

The UK recorded its lowest deficit for quarter two in seven years, with borrowing falling from £10.2bn a year earlier to £9.4bn in June. Factors contributing to the fall were gains in income tax receipts and corporation tax, which reached their highest levels at £11.5bn and £1.7bn, respectively.

Retail Sales took an unanticipated dip last month due to consumers purchasing fewer household goods. This resulted in the annual rate of spending growth hitting its lowest rate in more than two years. In addition, retail sales volume undershot all forecasts and dropped by 0.2% in June to show its lowest annual growth, of 4%, since September 2014.

UK unemployment increased for the first time in two years. The number of people in employment fell by 67,000 due to a decline in the amount of people in part-time work. This subsequently caused unemployment to rise to 5.6% in March to May, from 5.5% in the three months to April. On a more positive note, the ONS stated that total earnings, including bonuses displayed their strongest growth in more than five years. Continued improvement in this should help underpin UK growth in coming quarters.

A large number of Americans left the labour force, causing US job growth to slow in June. Nonfarm payrolls increased by 223,000 in the previous month, but 432,000 people dropped out of the labour force. This caused the unemployment rate to fall by 0.2% to 5.3%, its lowest level since April 2008. However, wage growth stalled in the month. Continuing the mixed theme to the data, revisions to previous releases showed 60,000 fewer jobs were created than previously reported in April and May.

In spite of the mixed messages from the data, the Federal Reserve stated that the US economy and jobs market has continued to improve. This added to the possibility of a rate rise in September. Fed officials said the economy overcame a slowdown in the first quarter and this view was backed by the official data release. Even though there had been a decline in the energy sector, Q2 GDP picked up due to increased consumer spending offsetting soft business spending. This saw GDP grow by 2.3% (on an annualised basis) whilst revisions were made to GDP in Q1 from -0.2 to 0.6%.

Currency

Sterling opened the month at \$1.563 against the US dollar and closed at \$1.561. Against the Euro, sterling opened the month at €1.408 and closed at €1.412.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the second quarter of 2016. Capital Economics left their forecast unchanged in July. They expect the first Bank Rate increase to come in Q2 2016.

Bank Rate	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.50%	0.50%	0.75%	0.75%

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Current Investment List

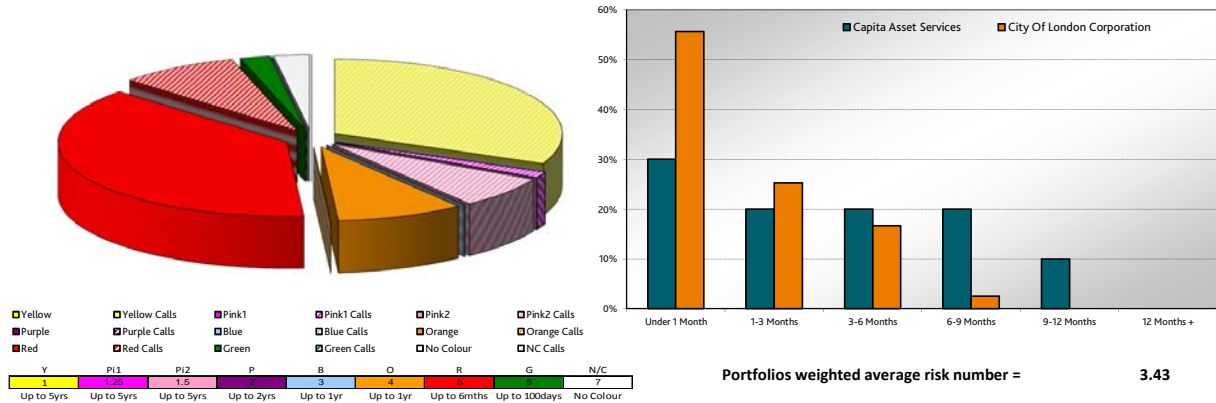
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Federated Investors (UK)	92,300,000	0.45%		MMF	AAA	0.000%
EMMF Federated Sterling Cash Plus Fund	5,000,000	0.65%		EMMF	AAA	0.000%
MMF Invesco	97,200,000	0.40%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.39%		MMF	AAA	0.000%
EMMF Payden Sterling Reserve Fund	55,000,000	1.30%		EMMF	AAA	0.000%
MMF Standard Life	51,700,000	0.47%		MMF	AAA	0.000%
EMMF Standard Life Short Duration Cash Fund	5,000,000	0.64%		EMMF	AAA	0.000%
Lloyds Bank Plc	67,300,000	0.50%		Call	A	0.000%
Nationwide Building Society	10,400,000	0.50%	05/05/2015	05/08/2015	A	0.001%
National Australia Bank Ltd	3,800,000	0.42%	05/05/2015	05/08/2015	AA-	0.000%
Yorkshire Building Society	6,400,000	0.47%	06/05/2015	06/08/2015	A-	0.001%
Nationwide Building Society	2,100,000	0.50%	06/05/2015	07/08/2015	A	0.001%
Lloyds Bank Plc	18,500,000	0.57%	07/05/2015	07/08/2015	A	0.001%
National Australia Bank Ltd	3,600,000	0.42%	06/05/2015	10/08/2015	AA-	0.000%
Yorkshire Building Society	3,000,000	0.47%	08/05/2015	10/08/2015	A-	0.002%
Australia and New Zealand Banking Group Ltd	6,900,000	0.50%	18/05/2015	19/08/2015	AA-	0.000%
Nationwide Building Society	3,400,000	0.52%	28/05/2015	28/08/2015	A	0.005%
Australia and New Zealand Banking Group Ltd	10,000,000	0.50%	01/06/2015	01/09/2015	AA-	0.001%
Lloyds Bank Plc	10,500,000	0.57%	01/06/2015	01/09/2015	A	0.005%
Nationwide Building Society	9,000,000	0.55%	04/06/2015	04/09/2015	A	0.006%
Nationwide Building Society	5,000,000	0.52%	04/06/2015	04/09/2015	A	0.006%
Nationwide Building Society	10,000,000	0.55%	05/06/2015	07/09/2015	A	0.006%
Coventry Building Society	5,000,000	0.45%	10/06/2015	10/09/2015	A	0.007%
Australia and New Zealand Banking Group Ltd	5,000,000	0.50%	10/06/2015	11/09/2015	AA-	0.001%
Nationwide Building Society	5,800,000	0.51%	10/06/2015	14/09/2015	A	0.008%
Nationwide Building Society	9,300,000	0.52%	15/06/2015	15/09/2015	A	0.008%
Svenska Handelsbanken AB	5,000,000	0.49%	11/06/2015	15/09/2015	AA-	0.001%
Yorkshire Building Society	4,000,000	0.47%	11/06/2015	16/09/2015	A-	0.008%
Coventry Building Society	1,800,000	0.46%	11/06/2015	16/09/2015	A	0.008%
Yorkshire Building Society	3,200,000	0.47%	16/06/2015	16/09/2015	A-	0.008%
National Australia Bank Ltd	7,000,000	0.44%	17/06/2015	17/09/2015	AA-	0.001%
Nationwide Building Society	5,000,000	0.50%	17/06/2015	17/09/2015	A	0.008%
Nationwide Building Society	4,200,000	0.50%	24/06/2015	24/09/2015	A	0.009%
Lloyds Bank Plc	5,100,000	0.57%	25/06/2015	25/09/2015	A	0.010%
Australia and New Zealand Banking Group Ltd	3,000,000	0.40%	25/06/2015	28/09/2015	AA-	0.001%
Nationwide Building Society	3,500,000	0.50%	25/06/2015	29/09/2015	A	0.010%
Nationwide Building Society	7,300,000	0.52%	26/06/2015	30/09/2015	A	0.010%
Coventry Building Society	5,400,000	0.45%	01/07/2015	01/10/2015	A	0.011%
Nationwide Building Society	14,200,000	0.54%	01/07/2015	02/10/2015	A	0.011%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Nationwide Building Society	7,800,000	0.54%	01/07/2015	05/10/2015	A	0.011%
Svenska Handelsbanken AB	20,000,000	0.51%	02/07/2015	06/10/2015	AA-	0.001%
National Australia Bank Ltd	7,200,000	0.44%	08/07/2015	08/10/2015	AA-	0.001%
Coventry Building Society	7,800,000	0.45%	10/07/2015	12/10/2015	A	0.012%
Nationwide Building Society	5,400,000	0.50%	16/07/2015	16/10/2015	A	0.013%
Nationwide Building Society	10,600,000	0.55%	07/07/2015	19/10/2015	A	0.014%
Lloyds Bank Plc	3,500,000	0.57%	07/07/2015	19/10/2015	A	0.014%
Barclays Bank Plc	39,000,000	1.00%	27/11/2014	27/11/2015	A-	0.020%
Barclays Bank Plc	36,000,000	0.71%	06/07/2015	21/12/2015	A-	0.024%
Lloyds Bank Plc	32,200,000	1.00%	22/12/2014	22/12/2015	A	0.024%
Barclays Bank Plc	25,000,000	0.76%	20/07/2015	20/01/2016	A-	0.029%
Skipton Building Society	20,000,000	1.05%	22/04/2015	22/04/2016	BBB	0.110%
Total Investments	£794,400,000	0.62%				0.009%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.43**

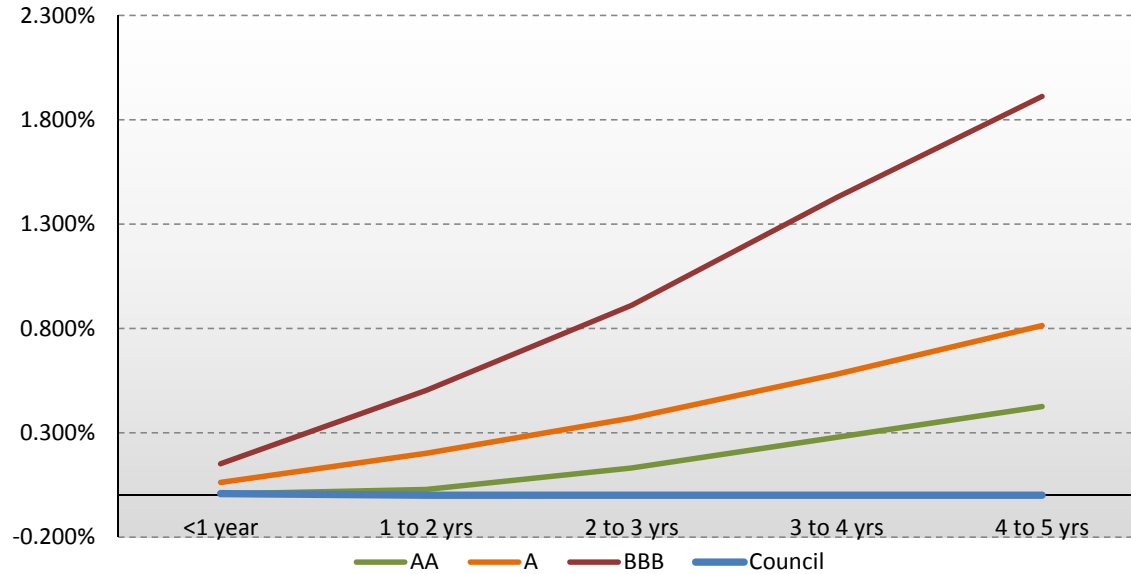
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs WAM	Excluding Calls/MMFs/EMMFs WAM at Execution
Yellow	31.62%	£251,200,000	100.00%	£251,200,000	31.62%	0.43%	0	0	0	0
Pink1	1.26%	£10,000,000	100.00%	£10,000,000	1.26%	0.65%	0	0	0	0
Pink2	6.92%	£55,000,000	100.00%	£55,000,000	6.92%	1.30%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	9.00%	£71,500,000	0.00%	£0	0.00%	0.48%	46	94	46	94
Red	46.59%	£370,100,000	18.18%	£67,300,000	8.47%	0.65%	72	142	88	174
Green	2.09%	£16,600,000	0.00%	£0	0.00%	0.47%	25	94	25	94
No Colour	2.52%	£20,000,000	0.00%	£0	0.00%	1.05%	266	366	266	366
Total	100.00%	£794,400,000	48.28%	£383,500,000	48.28%	0.62%	45	86	77	166

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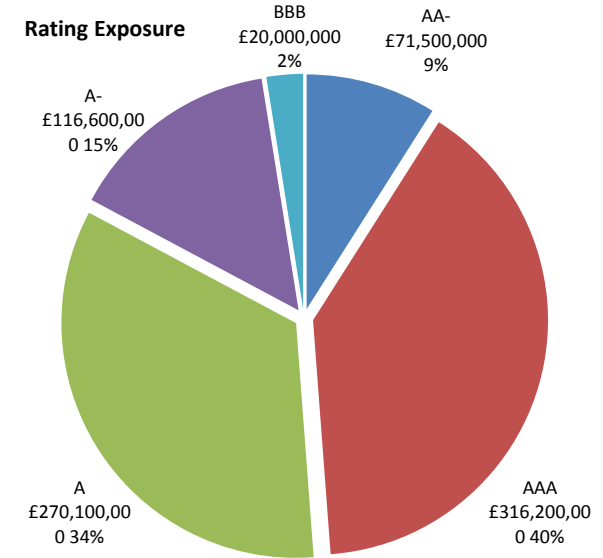
Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.007%	0.029%	0.130%	0.278%	0.425%
A	0.062%	0.202%	0.370%	0.581%	0.813%
BBB	0.150%	0.502%	0.910%	1.428%	1.912%
Council	0.009%	0.000%	0.000%	0.000%	0.000%



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
15/07/2015	1378	Santander UK plc	UK	Long Term Rating affirmed at 'A', Outlook changed to 'Positive' from 'Stable'. Short Term Rating affirmed at 'F1'.
15/07/2015	1378	Abbey National Treasury Services plc	UK	Long Term Rating affirmed at 'A', Outlook changed to 'Positive' from 'Stable'. Short Term Rating affirmed at 'F1'.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
01/07/2015	1375	Credit Industriel et Commercial	France	Long Term Rating Upgraded to 'Aa2' from 'Aa3', removed from 'Positive Watch' and placed on 'Negative Outlook'. Short Term Rating affirmed at 'P-1'.
09/07/2015	1376	UBS Ltd	UK	Long Term Rating affirmed at 'A2', removed from 'Negative Watch' and placed on 'Stable Outlook'. Short Term Rating affirmed at 'P-1', removed from 'Negative Watch'.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
13/07/2015	1377	Danske Bank	Denmark	Long Term Rating affirmed at 'A', Outlook changed to 'Stable' from 'Negative'. Short Term Rating affirmed at 'A-1'.
24/07/2015	1379	Bank of America, N.A.	USA	Long Term Rating affirmed at 'A', Outlook changed to 'Positive' from 'Stable'. Short Term Rating affirmed at 'A-1'.
24/07/2015	1379	Citibank, N.A.	USA	Long Term Rating affirmed at 'A', Outlook changed to 'Positive' from 'Stable'. Short Term Rating affirmed at 'A-1'.
24/07/2015	1379	Goldman Sachs International Bank	UK	Long Term Rating affirmed at 'A', Outlook changed to 'Positive' from 'Stable'. Short Term Rating affirmed at 'A-1'.