



City Of London Corporation

Monthly Investment Analysis Review

October 2018

Monthly Economic Summary

General Economy

The data releases for the month began with September's Markit/CIPS Manufacturing Purchasing Managers Index (PMI) activity survey. This saw an increase from the previous revised figure of 53.0, to a stronger 53.8. Conversely, Construction PMI took another hit, as it went down to 52.1 from 52.9, lower than the 52.5 predicted. Service sector activity also fell, from 54.3 to 53.9. The report did show signs of steady growth, but hindered slightly by Brexit uncertainty.

The British summer surge turned out to be stronger than expected as hot weather spurred consumer spending. While data from the Office for National Statistics showed no growth on the month, it revealed that the economy expanded 0.7% during the 3 months to August. In year on year terms growth slowed to 1.5% from 1.7% in July.

In terms of the UK's trade balance the overall deficit decreased to £9.97bn, a drop of nearly £2bn. The non-EU figure also fell to £2.8bn. Both of these figures beat forecasts, and provide evidence of a rebalancing of the UK's trade. Unemployment remained at 4% for September, in line with forecasts and still at the lowest level since 1975. The basic wages of workers rose at their fastest pace in nearly a decade over the summer months, backing the Bank of England's view that a long period of weak pay increases is ending. The 3M y/y figure was 2.7% including bonuses and excluding bonuses, earnings rose by 3.1%. Although unemployment held at its four-decade low, the number of people in work fell by 5,000, the first decrease in nearly a year.

In mid-September, the Bank of England's Monetary Policy Committee chose to hold Bank Rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit uncertainty coming to the fore, markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.

The inflation figures for September fell more than expected, with the Consumer Price Index (CPI) y/y at 2.4%, down from the six month high of 2.7% in August. The ONS said that food prices, particularly meat and chocolate, represented the biggest drag on September's inflation rate. The monthly CPI figure was 0.1%, down from 0.7%, while Core CPI y/y fell to 1.9% from 2.1% previously. Meanwhile, factory gate producer price output gains were stronger than forecast, coming in at 3.1% y/y, on the back of a 0.4% m/m increase. Input price inflation accelerated to 10.3% y/y.

A free spending summer by British consumers came to an abrupt end last month with the biggest fall in sales in six months. Retail sales fell by a larger than expected 0.8% m/m in September, but the August gain was revised higher to 0.4%. British retailers have experienced mixed fortunes this month. While groceries have remained robust, a shift away from high street spending towards holiday and entertainment has taken its toll on clothing and homeware who lack an online presence.

In terms of public finances, Britain recorded a smaller than expected budget deficit in September. Public sector net borrowing, excluding banks, fell to £4.123bn, from the revised figure of £5.623bn, and the figure including banks also fell from last month's figure to £3.259bn. The shrinking of the UK budget gap provided additional leeway for Chancellor Hammond to provide a net giveaway in his Autumn budget. However, some of the surplus was held back by the Chancellor to potentially provide support to the economy in the event of a "No deal" Brexit.

The Eurozone's Q2 y/y GDP figure was revised higher, to 2.2% from 2.1%. At the same time, data also showed a preliminary figure of 1.7% y/y growth for Q3, which was less than expected. Meanwhile, US GDP slowed less than expected in the third quarter. It increased at a 3.5% annualised rate, supported by inventory investment and solid government spending. Within the figures, data suggested that business spending has stalled and residential investment has now declined for three consecutive quarters. Analysts suggested that the figures showed signs that the boost from tax cuts is fading and higher interest rates are hurting the housing

Housing

The Halifax measure showed British house prices falling at the fastest pace since April. The lender reported that house prices fell 1.4% on the month in September, after a 0.2% fall in August. This was a bigger drop than forecast. The y/y measure showed a 2.5% increase, down from the previous month's gain of 3.7%.

Elsewhere, Nationwide reported a rise of 0.3% m/m on house prices in September from August when they had fallen 0.5%, whilst the

Currency

Sterling opened the month at \$1.30 against the US Dollar and closed at \$1.27, with a high of \$1.32 during the period. Against the Euro, Sterling opened at €1.125 and closed at €1.122 peaking at €1.14 midway through the month.

Forecast

Link Asset Services suggests that the next interest rate rise will be to 1.00% in the second quarter of 2019, with further rises of 25 basis points in Q2 2020, and Q4 2020 eventually reaching 2.00% in March 2022. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and a further change in Q4 2020 to 1.75%.

Bank Rate	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-

City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
USDBF Aberdeen Standard Investments	5,000,000	0.58%		USDBF	AAA	0.000%
MMF CCLA	10,000,000	0.70%		MMF	AAA	0.000%
MMF Deutsche	51,700,000	0.70%		MMF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.60%		USDBF	AAA	0.000%
MMF Federated Investors (UK)	47,600,000	0.70%		MMF	AAA	0.000%
MMF Invesco	75,100,000	0.73%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	15,600,000	0.65%		Call	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.44%		USDBF	AAA	0.000%
National Australia Bank Ltd	10,000,000	0.81%	04/04/2018	05/11/2018	AA-	0.000%
Leeds Building Society	10,000,000	0.64%	07/06/2018	07/11/2018	A-	0.001%
Nationwide Building Society	25,000,000	0.76%	16/08/2018	26/11/2018	A	0.004%
Lloyds Bank Plc (RFB)	22,600,000	0.75%		Call32	A+	0.005%
Lloyds Bank Plc (RFB)	15,000,000	0.75%	01/06/2018	03/12/2018	A+	0.005%
National Australia Bank Ltd	15,000,000	0.84%	04/04/2018	18/12/2018	AA-	0.003%
Coventry Building Society	20,000,000	0.70%	02/01/2018	02/01/2019	A	0.009%
Nationwide Building Society	10,100,000	0.75%	04/09/2018	04/01/2019	A	0.010%
Goldman Sachs International Bank	20,000,000	0.95%	08/01/2018	08/01/2019	A	0.010%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	02/05/2018	23/01/2019	A+	0.012%
Northamptonshire County Council	20,000,000	0.73%	31/01/2018	30/01/2019	AA	0.006%
Barclays Bank Plc (NRFB)	14,000,000	0.93%	25/04/2018	01/02/2019	A	0.014%
Santander UK Plc	20,000,000	0.90%		Call95	A	0.014%
Goldman Sachs International Bank	15,000,000	1.01%	18/05/2018	18/02/2019	A	0.016%
London Borough of Southwark	20,000,000	1.10%	19/03/2018	28/03/2019	AA	0.010%
Goldman Sachs International Bank	10,000,000	1.20%	29/03/2018	29/03/2019	A	0.022%
Skipton Building Society	20,000,000	1.00%	23/04/2018	18/04/2019	BBB+	0.073%
Yorkshire Building Society	20,000,000	0.88%	27/04/2018	26/04/2019	A-	0.026%
Santander UK Plc	30,000,000	1.00%		Call180	A	0.027%
Barclays Bank Plc (NRFB)	25,000,000	1.07%	17/04/2018	01/05/2019	A	0.027%
Leeds Building Society	10,000,000	0.86%	16/05/2018	16/05/2019	A-	0.029%
Goldman Sachs International Bank	15,000,000	1.13%	18/05/2018	18/05/2019	A	0.029%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	08/06/2018	10/06/2019	A+	0.033%
Goldman Sachs International Bank	20,000,000	1.12%	02/07/2018	02/07/2019	A	0.036%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	13/07/2018	15/07/2019	A+	0.038%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	0.023%
Santander UK Plc	50,000,000	1.15%		Call365	A	0.054%

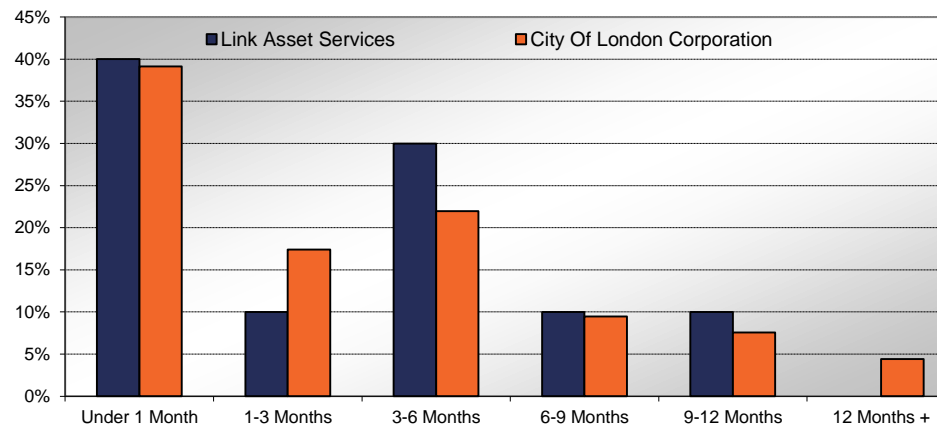
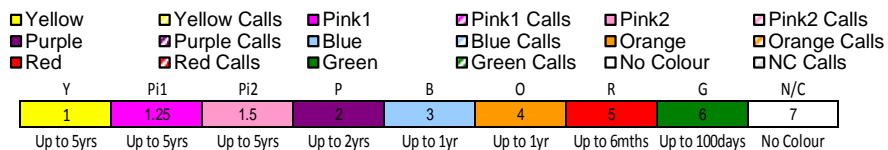
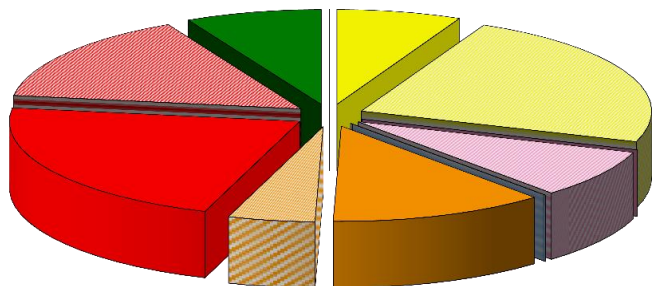
City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Goldman Sachs International Bank	20,000,000	1.32%		Call370	A	0.055%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	0.027%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
L&G UTM CLIENT ACC (UTM)	50,000,000	0.58%				
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	0.82%				
Total Investments	£891,700,000	0.84%				0.014%
Total Investments - excluding Funds	£791,700,000	0.85%				0.016%
Total Investments - Funds Only	£100,000,000	0.70%				

City Of London Corporation

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = 3.41

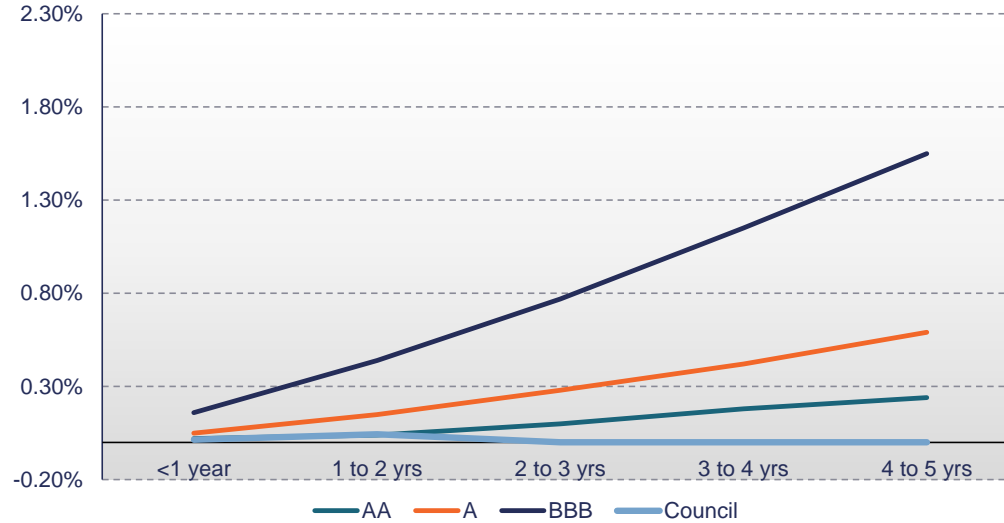
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Colour		Amount of		% of Call		Excluding Calls/MMFs/USDBFs			
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	30.24%	£239,400,000	77.03%	£184,400,000	23.29%	0.78%	46	98	199	427
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	8.21%	£65,000,000	100.00%	£65,000,000	8.21%	0.46%	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	16.82%	£133,200,000	28.68%	£38,200,000	4.83%	0.82%	104	225	138	308
Red	37.15%	£294,100,000	40.80%	£120,000,000	15.16%	1.01%	183	290	119	301
Green	7.58%	£60,000,000	0.00%	£0	0.00%	0.88%	149	328	149	328
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£791,700,000	51.48%	£407,600,000	51.48%	0.85%	111	200	140	325

City Of London Corporation

Investment Risk and Rating Exposure

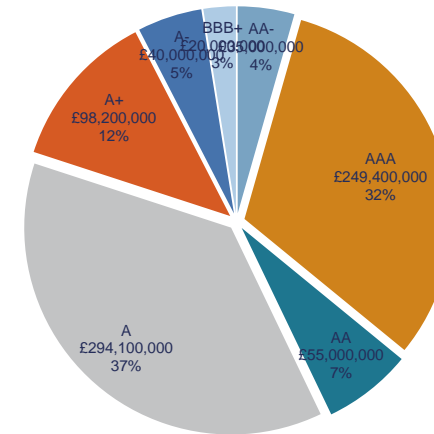
Investment Risk Vs. Rating Categories



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	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.015%	0.043%	0.000%	0.000%	0.000%

Rating Exposure



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.

City Of London Corporation

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
23/10/2018	1647	Canadian Imperial Bank of Commerce	Canada	Outlook on the Long Term Rating changed to Stable from Negative.

City Of London Corporation

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
15/10/2018	1645	Danske A/S	Denmark	Long Term Rating downgraded to 'A2' from 'A1'
26/10/2018	1649	JPMorgan Chase Bank N.A.	United States	Long Term Rating upgraded to 'Aa1' from 'Aa2', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook
29/10/2018	1650	Nationwide Building Society	United Kingdom	Outlook on the Long Term Rating was changed to Negative from Stable

City Of London Corporation

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
22/10/2018	1646	Credit Agricole Corporate and Investment Bank	France	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive. Colour based on Rating & Watches/Outlooks changed to 'Orange' from 'Red'
22/10/2018	1646	Credit Agricole S.A.	France	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive. Colour based on Rating & Watches/Outlooks changed to 'Orange' from 'Red'
24/10/2018	1648	Societe Generale	France	Outlook on the Long Term Rating changed to Positive from Stable

Whilst Link Asset Services makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Link Asset Services should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

Link Asset Services is a trading name of Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service, FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ. For further information, visit www.linkassetsservices.com/legal-regulatory-status.