



City Of London Corporation

Monthly Investment Analysis Review

May 2019

Monthly Economic Summary

General Economy

May's economic data began with April's Manufacturing Purchasing Managers Index (PMI), coming in slightly lower at 53.1 from the previously recorded figure of 55.1; this was broadly in line with forecasts as stockpiling that occurred before the potential Brexit date has subsequently slowed. However, Construction PMI moved out of contraction territory (ie a reading below 50) to a 3 month high of 50.5. The return to expansion was thanks to a pickup in housebuilding. To round the PMI figures off, Services also rose out of contraction territory, rising from 48.9 to 50.4 in April. Despite the overall improvement, underlying data within the survey showed new orders contracted for a fourth month in a row, the longest such run since the global financial crisis. Combined, the surveys left the Composite figure at 50.9, indicative of modest economic growth in the early stages of the second quarter.

The Bank of England's Monetary Policy Committee (MPC) voted unanimously to keep interest rates on hold at 0.75% in May. Despite this, Governor Mark Carney did use his press conference to warn that markets were underestimating the speed of potential hikes in the near future, but he also warned that Brexit uncertainty was still weighing on business investment.

The UK's trade deficit fell in March, from an upwardly revised £6.22bn to £5.41bn. Exports rose 2.7% m/m to £54.57bn while imports grew at a slower pace, rising 1.1% to £59.97bn. Meanwhile, Britain's economy registered a sharp boost in the first three months of 2019, rising at a quarterly rate of 0.5% in Q1, with y/y growth rising to 1.8%, up from 1.4% in the last 3 months of 2018 – this was the highest reading since Q3 2017. Part of this improvement was caused by manufacturers' stock building for a potential no-deal Brexit, which is expected to be reversed in Q2 and thus act as a drag.

The UK's labour market remains very tight, as the unemployment rate fell to 3.8% in the 3 months to March, from 3.9% previously, with the data release also showing that 99,000 more people gained employment. However, wage growth also fell slightly; average earnings "excluding bonuses" dropped from 3.4% to 3.3%, whilst the "including bonuses" figure showed a greater fall from 3.5% to 3.2%.

CPI inflation rose back above the Bank of England's 2% target in April, increasing from 1.9% y/y to 2.1%. The main reasons for this were cited as an increase in electricity and gas prices, whilst computer game and package holiday prices acted as a modest offset. The Core CPI figure (which strips out the more volatile components of inflation) remained at 1.8%, signalling that underlying inflationary pressures have not risen. The m/m CPI figure rose to 0.6% from 0.2% in the previous month.

British shoppers paused for breath in April after months of strong spending; retail sales remained flat in April m/m, and fell to 5.2% y/y from 6.7% in March. Consumer spending has generally been a bright spot for the UK economy, contrasting with falling investment by businesses. Surveys from the British Retail Consortium suggested that Britons spent more money in bars and restaurants at the expense of retailers last month.

May's Confederation for British Industry (CBI) and GfK surveys produced mixed results; the CBI's Distributive Trades Survey

(covering retailing) fell to -27 from a previous figure of +13, and its Industrial Trends survey also showed a drop, from -5 to -10. Contrasting these releases, the GfK Consumer Confidence reading showed a rise from -13 to -10, suggesting a rise in economic sentiment among consumers.

The government's public finances figures showed a deficit of £4.97bn in April, little different to £5bn in the same month last year, but the lowest April net borrowing figure since 2007. Excluding state-controlled banks, the deficit came in at £5.8bn, less than the £5.83bn a year earlier. The UK's government debt is £1.8trn as of the end of April, equivalent to 82.7% of GDP, a figure which has been falling over the last year.

In the USA, Nonfarm Payrolls came in at 263,000 in April, up from 189,000 in March and suggested lasting rigour in the US economy, combined with earnings remaining at 3.2% y/y and 0.2% m/m. The unemployment rate dropped to 3.6% to 3.8%, showing yet more tightening of the labour market. The second estimate of US GDP growth came in at 3.1%, above Q1's 2.2% figure, but slightly short of forecasts. Meanwhile, in the Eurozone, GDP growth remained at 1.2% in Q1, as the effects of the global slowdown, particularly in China, have taken hold. Unemployment fell to 7.6% from 7.7% last month, the lowest jobless rate since August 2008.

Housing

According to Nationwide, house prices increased by 0.9% y/y in April, and 0.4% on the month, both figures coming in above estimates. Meanwhile, Halifax's 3-month y/y figure increased dramatically to 5% from 2.6% previously, above estimates of a 4.5% jump. On the month, they increased from a previously negative figure of -1.3%, to +1.1%, also above forecasts.

Currency

Over the month of May, the pound eased against the dollar from \$1.312 to \$1.265. It was a similar story against the euro, beginning at €1.17 and ending at €1.133.

Forecast

Link Asset Services currently forecast the next rate rise to come in Q1 2020, followed by further rises in Q3 2020, and reaching 1.75% by Q1 2022. This forecast is scheduled to be reviewed following the release of the Bank of England Quarterly Inflation Report in August. Capital Economics have cut back their forecasts, not predicting a rate rise until Q3 2020.

Bank Rate								
	Now	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%

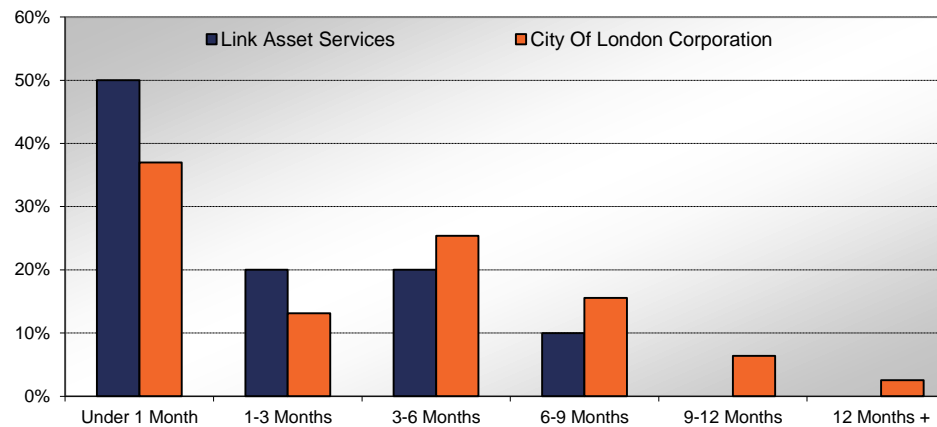
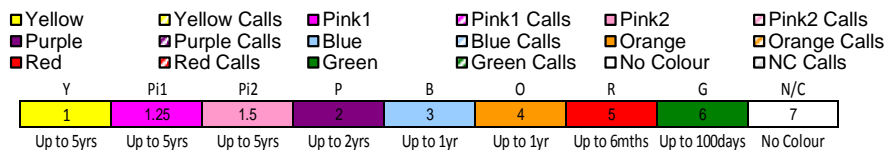
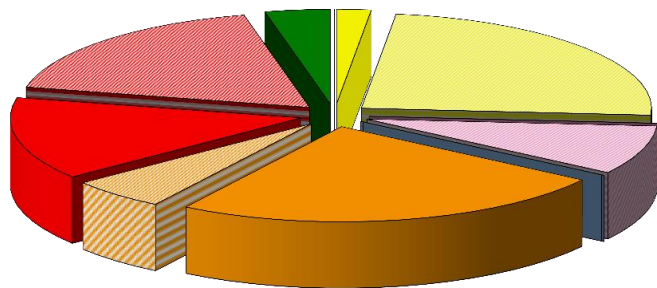
City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Fitch Long Term Rating	Historic Risk of Default
USDBF Aberdeen Standard Investments	5,000,000	1.05%		USDBF	AAA	AAA	0.000%
MMF Aberdeen Standard Investments	43,500,000	0.77%		MMF	AAA	AAA	0.000%
MMF CCLA	10,000,000	0.78%		MMF	AAA	AAA	0.000%
MMF Deutsche	37,400,000	0.75%		MMF	AAA	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.89%		USDBF	AAA	AAA	0.000%
MMF Federated Investors (UK)	46,000,000	0.77%		MMF	AAA	AAA	0.000%
MMF Invesco	52,500,000	0.80%		MMF	AAA	AAA	0.000%
Lloyds Bank Plc (RFB)	19,400,000	0.65%		Call	A+	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.88%		USDBF	AAA	AAA	0.000%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	08/06/2018	10/06/2019	A+	A+	0.001%
Goldman Sachs International Bank	20,000,000	1.12%	02/07/2018	02/07/2019	A	A	0.005%
Lloyds Bank Plc (RFB)	22,600,000	0.80%		Call32	A+	A+	0.005%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	13/07/2018	15/07/2019	A+	A+	0.006%
Australia and New Zealand Banking Group Ltd	20,000,000	0.91%	29/04/2019	29/07/2019	AA-	AA-	0.004%
Lloyds Bank Plc (RFB)	10,000,000	0.95%	28/03/2019	05/08/2019	A+	A+	0.010%
Lloyds Bank Plc (RFB)	15,000,000	0.95%	05/04/2019	05/08/2019	A+	A+	0.010%
Leeds Building Society	8,400,000	0.89%	03/04/2019	03/09/2019	A-	A-	0.014%
Santander UK Plc	20,000,000	0.90%		Call95	A	A+	0.014%
Barclays Bank Plc (NRFB)	25,000,000	0.98%	04/04/2019	04/09/2019	A	A+	0.014%
Lloyds Bank Plc (RFB)	10,000,000	1.00%	28/03/2019	30/09/2019	A+	A+	0.018%
Australia and New Zealand Banking Group Ltd	10,000,000	1.00%	02/04/2019	02/10/2019	AA-	AA-	0.008%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	AA-	0.009%
Australia and New Zealand Banking Group Ltd	20,000,000	1.01%	24/04/2019	24/10/2019	AA-	AA-	0.010%
Barclays Bank Plc (NRFB)	25,000,000	1.01%	29/04/2019	29/10/2019	A	A+	0.022%
Lloyds Bank Plc (RFB)	20,000,000	1.00%	08/05/2019	08/11/2019	A+	A+	0.023%
Lloyds Bank Plc (RFB)	20,000,000	1.00%	21/05/2019	21/11/2019	A+	A+	0.025%
Santander UK Plc	30,000,000	1.00%		Call180	A	A+	0.026%
Goldman Sachs International Bank	20,000,000	1.00%		Call185	A	A	0.027%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	AA	0.013%
Australia and New Zealand Banking Group Ltd	15,000,000	1.09%	27/03/2019	27/12/2019	AA-	AA-	0.014%
Australia and New Zealand Banking Group Ltd	11,400,000	1.07%	02/04/2019	02/01/2020	AA-	AA-	0.014%
Yorkshire Building Society	20,000,000	1.15%	26/04/2019	27/01/2020	A-	A-	0.035%
Coventry Building Society	20,000,000	1.00%	16/05/2019	17/02/2020	A-	A-	0.038%
Goldman Sachs International Bank	20,000,000	1.09%		Call270	A	A	0.039%
Santander UK Plc	50,000,000	1.15%		Call365	A	A+	0.053%
Goldman Sachs International Bank	20,000,000	1.32%	02/11/2018	Call	A	A	0.054%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date			
L&G UTM CLIENT ACC (UTM)	50,000,000	2.24%					
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	2.29%					
Total Investments	£881,200,000	1.10%					0.013%
Total Investments - excluding Funds	£781,200,000	0.95%					0.014%
Total Investments - Funds Only	£100,000,000	2.27%					

City Of London Corporation

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = 3.40

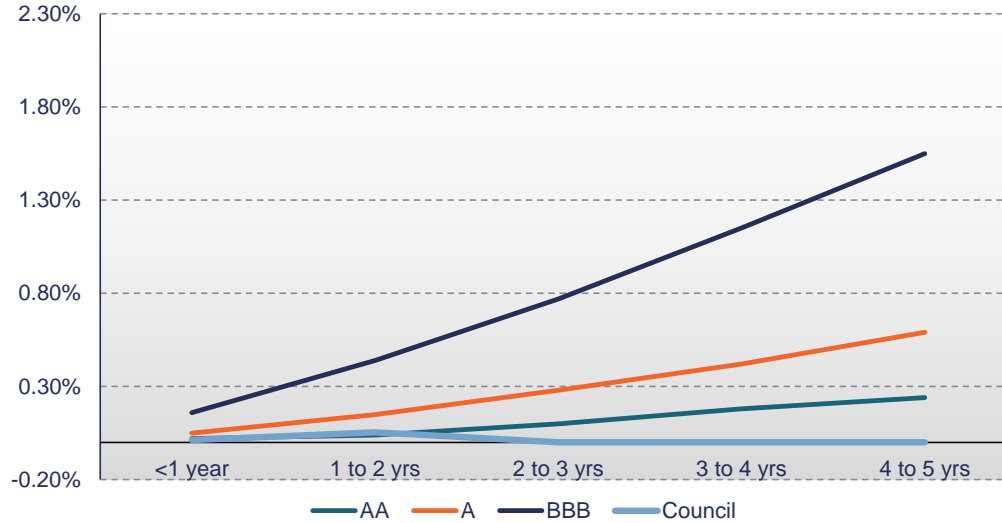
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	26.16%	£204,400,000	92.66%	£189,400,000	24.24%	0.81%	15	43	199	581
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	8.32%	£65,000,000	100.00%	£65,000,000	8.32%	0.89%	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	29.88%	£233,400,000	17.99%	£42,000,000	5.38%	0.95%	100	189	118	227
Red	32.00%	£250,000,000	56.00%	£140,000,000	17.92%	1.06%	216	253	177	260
Green	3.64%	£28,400,000	0.00%	£0	0.00%	1.07%	198	240	198	240
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£781,200,000	55.86%	£436,400,000	55.86%	0.95%	110	157	147	254

City Of London Corporation

Investment Risk and Rating Exposure

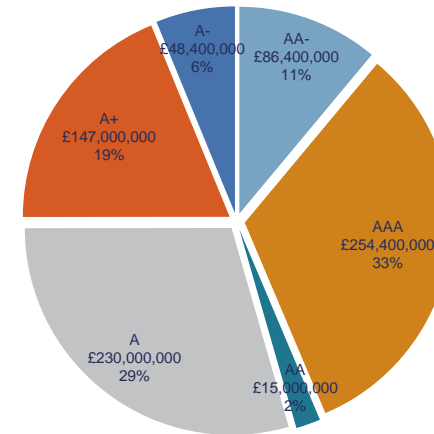
Investment Risk Vs. Rating Categories



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	0.013%	0.054%	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
				No Rating Changes to Report.

City Of London Corporation

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
17/05/2019	1683	Barclays Bank Plc (NRFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Positive from Stable.
17/05/2019	1683	Goldman Sachs International Bank	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative.

City Of London Corporation

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
16/05/2019	1682	Natwest Markets Plc (NRFB)	United Kingdom	The Long Term Rating was upgraded to 'A-' from 'BBB+' and the Outlook on the Long Term Rating was changed to Stable from Positive.
16/05/2019	1682	National Westminster Bank Plc (RFB)	United Kingdom	The Long Term and Short Term Ratings were upgraded to 'A' from 'A-' and 'A-1' from 'A-2' respectively. At the same time, the Outlook on the Long Term Rating was changed to Stable from Positive.
16/05/2019	1682	The Royal Bank of Scotland Plc (RFB)	United Kingdom	The Long Term and Short Term Ratings were upgraded to 'A' from 'A-' and 'A-1' from 'A-2' respectively. At the same time, the Outlook on the Long Term Rating was changed to Stable from Positive.
21/05/2019	1684	Credit Suisse AG	Switzerland	The Long Term Rating was upgraded to 'A+' from 'A' and the Outlook on the Long Term Rating was changed to Stable from Positive.

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