



City of London Corporation

Monthly Investment Analysis Review

May 2020

General Economy

Although the Flash Manufacturing PMI for May rose to 40.6 from April's Final release of 32.6, it still pointed to the second steepest contraction in the manufacturing sector since 2009. In a similar vein, the Flash Services PMI rose to 27.8 from April's Final release of 13.4 – but this was still the second lowest reading since the survey began. As a result of these gains, the Flash Composite PMI for May rose to 28.9 from April's 13.8 – but still indicated that manufacturing output and service sector activity both contracted faster than during the financial crisis, with new orders and employment contracting at the second fastest rate since the survey began in 1998. The Construction PMI, meanwhile, (which is released on a different timescale to the main service and manufacturing reports) plunged to 8.2 in April from 39.3 in March – pointing to the steepest pace of contraction in the sector since the survey began in 1997.

GDP data revealed that the UK economy shrank by 2.0% in the three months to March after stagnating in the three months to February, but this was slightly better than market expectations of a 2.6% contraction. Nevertheless, it was still the steepest decline in GDP since Q4 2008. The broad-based nature of declines in activity illustrated the impact of the measures taken to reduce transmission of the coronavirus. As a result, the economy contracted by 5.7% in the twelve months to March, down significantly from the upwardly revised 0.2% y/y growth recorded in February – but, once again, this was better than the market's expectation of a 7.2% contraction. Meanwhile, a 12.9% m/m fall in exports saw the UK record a trade deficit of £6.68 billion in March, compared to a downwardly revised £1.54 billion deficit in February.

Against this backdrop, the UK's unemployment rate surprisingly fell to 3.9% in the three months to March from 4.0% in the three months to February, below market expectations of 4.4%. However, the data was based on surveys covering only one week of the coronavirus lockdown. More recent data showed that the number of people claiming unemployment related benefits rose by a record 856,500 during April, compared to 12,100 people in March. Average earnings in the three months to March rose by 2.4% from a year earlier, easing from a 2.8% rise in the previous period. Excluding bonuses, average earnings increased by 2.7%, which was also lower than the 2.9% gain recorded in the three months to February.

Consumer Price Inflation (CPI) fell to 0.8% y/y in April from 1.5% y/y in March, due in part to falls in energy and utility prices (the latter the result of the decline in Ofgem's price cap). However, the core CPI rate - which strips out the more volatile components - eased to 1.4% y/y in April from 1.6% y/y in March, also indicating easing underlying price pressures. As such, inflation is currently well below the Bank of England's 2% target. In monthly terms, the CPI fell 0.2% during April after being unchanged during March.

Retail sales, meanwhile, plunged a record 18.1% m/m during April, as many stores ceased trading in response to the coronavirus pandemic. This outturn was significantly worse than the 5.2% decline recorded in March, and less than expectations of a 16% decline. The year-on-year fall in retail sales of 22.6% was also a record. Mirroring the worsening impact of the coronavirus upon activity, the GfK Consumer Confidence index eased to a preliminary reading of -34 in May from -33 in April, reaching its lowest level since 2009. Against this economic backdrop, it was no surprise to see the MPC leave the Bank

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	58,600,000	0.31%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.32%		MMF	AAA	0.000%
MMF Deutsche	71,600,000	0.32%		MMF	AAA	0.000%
MMF Federated Investors (UK)	34,300,000	0.31%		MMF	AAA	0.000%
MMF Invesco	98,500,000	0.33%		MMF	AAA	0.000%
USDBF Aberdeen Standard Investments	5,000,000	0.74%		USDBF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.99%		USDBF	AAA	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.65%		USDBF	AAA	0.000%
Leeds Building Society	8,400,000	0.92%	12/12/2019	12/06/2020	A-	0.002%
Rushmoor Borough Council	10,000,000	0.90%	18/12/2019	18/06/2020	AA-	0.001%
Australia and New Zealand Banking Group Ltd	12,000,000	1.02%	29/07/2019	29/07/2020	A+	0.009%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	06/08/2019	06/08/2020	A+	0.010%
London Borough of Haringey	5,000,000	0.95%	14/02/2020	14/08/2020	AA-	0.005%
Plymouth City Council	10,000,000	0.92%	14/02/2020	14/08/2020	AA-	0.005%
Australia and New Zealand Banking Group Ltd	10,000,000	0.80%	17/02/2020	17/08/2020	A+	0.011%
National Westminster Bank Plc (RFB)	10,000,000	0.95%	01/11/2019	28/08/2020	A	0.013%
Santander UK Plc	20,000,000	0.90%		Call95	A	0.014%
Plymouth City Council	10,000,000	0.95%	23/12/2019	23/09/2020	AA-	0.008%
London Borough of Waltham Forest	5,000,000	0.80%	30/04/2020	30/09/2020	AA-	0.008%
Goldman Sachs International Bank	20,000,000	1.04%	02/01/2020	02/10/2020	A+	0.018%
National Westminster Bank Plc (RFB)	20,000,000	0.93%	06/01/2020	06/10/2020	A	0.018%
Barclays Bank Plc (NRFB)	25,000,000	1.01%	29/10/2019	29/10/2020	A	0.022%
Fife Council	6,000,000	0.95%	29/01/2020	29/10/2020	AA-	0.010%
London Borough of Waltham Forest	5,000,000	0.85%	30/04/2020	30/10/2020	AA-	0.010%
Lloyds Bank Plc (RFB)	10,000,000	1.10%	01/11/2019	02/11/2020	A+	0.022%
Lloyds Bank Plc (RFB)	15,900,000	1.10%	04/11/2019	04/11/2020	A+	0.023%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	06/11/2019	06/11/2020	A+	0.023%
London Borough of Southwark	15,000,000	0.85%	11/05/2020	11/11/2020	AA-	0.011%
Santander UK Plc	30,000,000	1.00%		Call180	A	0.026%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	27/11/2019	27/11/2020	A+	0.026%
Australia and New Zealand Banking Group Ltd	20,000,000	0.40%		Call185	A+	0.027%
Goldman Sachs International Bank	20,000,000	1.00%		Call185	A+	0.027%
Goldman Sachs International Bank	20,000,000	0.99%		Call185	A+	0.027%
Goldman Sachs International Bank	20,000,000	1.00%		Call185	A+	0.027%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	27/12/2019	29/12/2020	A+	0.031%
Lloyds Bank Plc (RFB)	10,000,000	1.10%	02/01/2020	04/01/2021	A+	0.031%
Australia and New Zealand Banking Group Ltd	10,000,000	0.98%	06/01/2020	06/01/2021	A+	0.032%
Goldman Sachs International Bank	20,000,000	0.96%		Call270	A+	0.039%
Northumberland County Council	5,000,000	1.00%	27/02/2020	25/02/2021	AA-	0.018%
Birmingham City Council	15,000,000	1.20%	28/02/2020	26/02/2021	AA-	0.018%

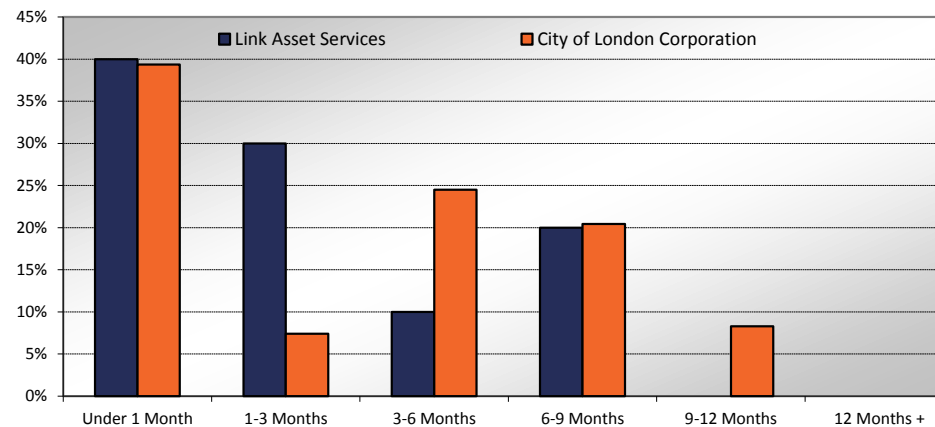
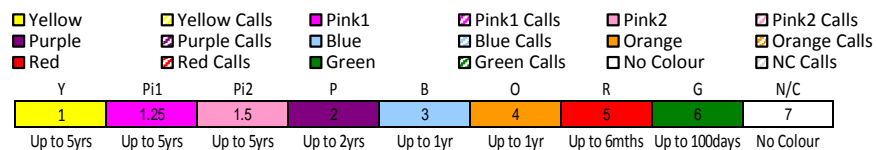
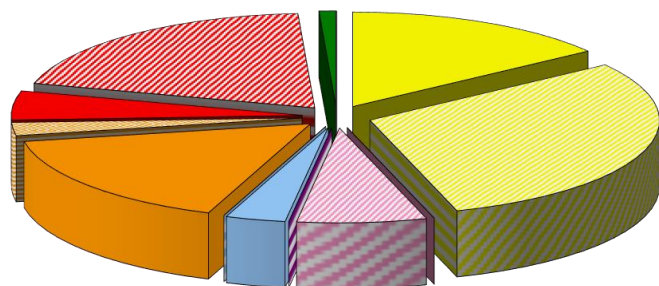
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Stockport Metropolitan Borough Council	15,000,000	1.05%	28/02/2020	26/02/2021	AA-	0.018%
Birmingham City Council	10,000,000	1.20%	02/03/2020	01/03/2021	AA-	0.018%
Manchester City Council	25,000,000	1.20%	26/03/2020	25/03/2021	AA-	0.020%
Santander UK Plc	50,000,000	1.15%		Call365	A	0.053%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
L&G	75,000,000	1.91%				
ROYAL LONDON	75,000,000	1.94%				
Total Investments	£1,055,300,000	0.94%				
Total Investments - excluding Funds	£905,300,000	0.78%				0.014%
Total Investments - Funds Only	£150,000,000	1.93%				

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Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **2.70**

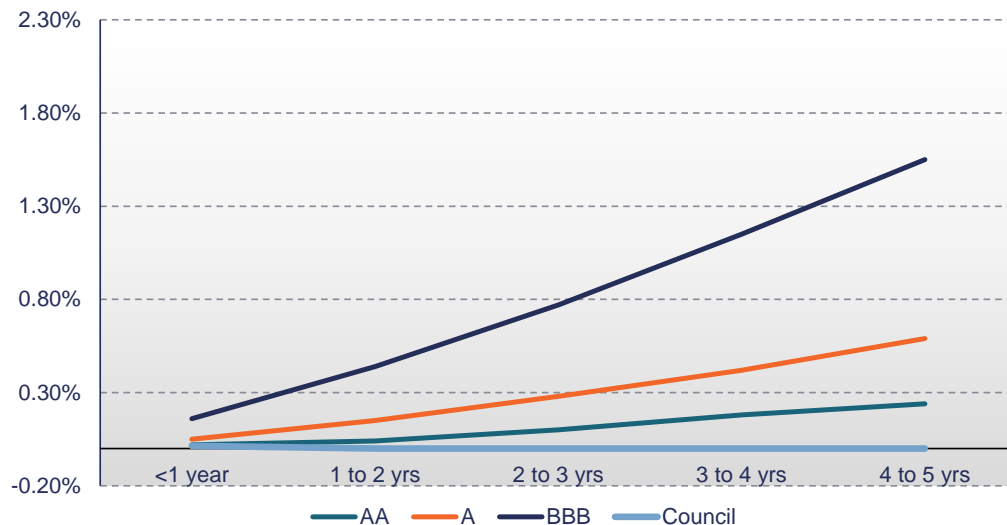
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	45.18%	£409,000,000	66.75%	£273,000,000	30.16%	0.56%	66	95	198	286
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	7.18%	£65,000,000	100.00%	£65,000,000	7.18%	0.68%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	3.31%	£30,000,000	0.00%	£0	0.00%	0.93%	115	283	115	283
Orange	18.55%	£167,900,000	11.91%	£20,000,000	2.21%	0.99%	155	334	151	354
Red	24.85%	£225,000,000	80.00%	£180,000,000	19.88%	1.02%	215	252	139	325
Green	0.93%	£8,400,000	0.00%	£0	0.00%	0.92%	12	183	12	183
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£905,300,000	59.43%	£538,000,000	59.43%	0.78%	116	179	160	316

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Investment Risk and Rating Exposure

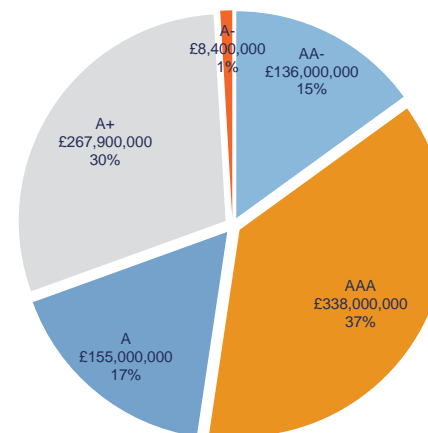
Investment Risk Vs. Rating Categories



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	0.02%	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	0.014%	0.000%	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.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
18/05/2020	1758	France Sovereign Rating	France	The Outlook on the Sovereign Rating was changed to Negative from Stable.
22/05/2020	1761	Australia Sovereign Rating	Australia	The Outlook on the Sovereign Rating was changed to Negative from Stable.
26/05/2020	1762	Macquarie Bank Ltd.	Australia	The Outlook on the Long Term Rating was changed to Negative from Stable.
29/05/2020	1763	Societe Generale	France	The Long Term Rating was downgraded to 'A-' from 'A' and was removed from Negative Watch and placed on Stable Outlook. The Viability Rating was downgraded to 'a-' from 'a' and was removed from Negative Watch.
29/05/2020	1764	Deutsche Bank AG	Germany	The Long Term, Short Term and Viability ratings were removed from Negative Watch and the Long Term Rating was placed on Negative Outlook.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
01/05/2020	1756	Nationwide Building Society	United Kingdom	The Long Term Rating was downgraded to 'A1' from 'Aa3' and the Outlook was changed to Stable from Negative.
01/05/2020	1756	Nottingham Building Society	United Kingdom	The Long Term Rating was downgraded to 'Baa2' from 'Baa1'.
01/05/2020	1756	Principality Building Society	United Kingdom	The Outlook on the Long Term Rating was changed to Negative from Stable.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
14/05/2020	1757	HSBC Bank PLC	United Kingdom	The Long Term Rating was downgraded to 'A+' from 'AA-' and the Outlook was changed to Stable from Negative. The Short Term Rating was downgraded to 'A-1' from 'A-1+'.
14/05/2020	1757	HSBC UK Bank PLC	United Kingdom	The Long Term Rating was downgraded to 'A+' from 'AA-' and the Outlook was changed to Stable from Negative. The Short Term Rating was downgraded to 'A-1' from 'A-1+'.
18/05/2020	1759	Societe Generale	France	The Outlook on the Long Term Rating was changed to Negative from Stable.
19/05/2020	1760	OP Corporate Bank PLC	Finland	The Outlook on the Long Term Rating was changed to Negative from Stable.

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