CAPITA

Asset Services

City of London Corporation

Cash portfolio performance measurement

1st July 2013 – 30th September 2013

Contents

Section 1

Quarterly Economic Review

During the quarter ended 30th September: -

- Indicators suggested that the economic recovery accelerated;
- Household spending growth remained robust;
- Inflation fell back towards the 2% target;
- The Bank of England introduced state-contingent forward guidance;
- 10-year gilt yields rose to 3% at their peak and the FTSE 100 fell slightly to 6460;
- The Federal Reserve decided to maintain the monthly rate of its asset purchases.

After strong growth of 0.7% in Q2, it appears that UK GDP is likely to have grown at an even faster pace in Q3. On the basis of past form, the CIPS/Markit business surveys for July and August point to quarterly growth of potentially over 1.0% in the third quarter of 2013. Similarly, the official data have continued to improve. Admittedly, industrial production was flat in July. But even if it held steady in the rest of the quarter, it would still be 0.9% higher in Q3 than in Q2. In addition, the service sector expanded by 0.2% m/m and the construction sector grew by 2.2% m/m in July after growth of 1.8% q/q in Q2.

Consumer spending also continued to rise and may beat the increase seen in Q2. While the 1.1% monthly rise in retail sales in July was almost entirely offset by a 0.9% fall in August, the unusually warm weather in August is likely to have had a part to play in this. The retail surveys also painted a positive picture for household spending growth, with the Bank of England's Agents' Scores, BRC and CBI retail sales indicators showing stronger growth in Q3. And while growth in non-high street spending may have slowed, it probably remained robust. For example, although annual growth in new car registrations eased from the 24% rate seen in Q2, it was still a strong 15% in August.

The run of good news on the labour market continued, with the ILO unemployment rate falling to 7.7% in July from 7.8% in June. Employment rose by 80,000 in the three months to July, supported by an even bigger rise in full-time employment. This meant that the ratio of full-time to part-time workers continued to rise after it troughed last summer. The timelier claimant count measure of the unemployment rate also fell. Indeed, the cumulative fall in unemployment of 68,900 in July and August – the biggest two month fall since May and June 1997 – brought the claimant count unemployment rate down from 4.4% at the end of Q2 to 4.2% in

August. Despite this, the headline (3 month average of the annual) rate of pay growth fell from 2.2% in June to just 1.1% in July. Excluding bonuses, earnings growth ticked up slightly to 1.1% y/y, but this remained well below the rate of CPI inflation at 2.7% in August, meaning real wages continued to fall.

Meanwhile, the cost of new credit has continued to fall, perhaps in response to the extension of the Bank of England's Funding for Lending Scheme (FLS) earlier this year. The quoted interest rate on a 5-year fixed mortgage at a 75% loan-to-value ratio was 3.34% in August, 7 basis points lower than in June and 77 basis points lower than when the FLS was introduced in July 2012.

Demand in the housing market continued to grow at a fast pace, supported by the FLS and the Government's Help to Buy scheme, which provide equity loans to credit-constrained borrowers. The RICS housing market survey reported that new buyer enquiries hit their highest level on record in August. Mortgage approvals for new house purchase rose to their highest level since February 2008 in August. Consequently, house prices continued to rise, with the Halifax and Nationwide measures recording 6.2% and 3.5% y/y rises in August, respectively. ONS data, though, shows that in real terms only London experienced year-on-year price rises in July. All other regions saw modest falls.

The economic recovery may finally be feeding through to the public finances. Although the government registered a surprise deficit in July (a month that normally delivers a surplus), in August net borrowing was 'just' £13.2bn, compared to £14.4bn in August 2012.

The new Governor of the Bank of England, Mark Carney, took office in July. Alongside the August Quarterly Inflation Report, the Bank introduced its new policy of forward guidance in which the Monetary Policy Committee (MPC) pledged not to raise official interest rates, or reduce the size of the asset purchase facility, until the ILO unemployment rate falls to 7%. At this point, the MPC would discuss whether or not to alter official policy. This guidance was subject to three 'knockouts' which, if breached, would invalidate the guidance. These are that the MPC forecasts inflation at or above 2.5% in 18-24 months' time, inflation expectations are no longer sufficiently well anchored or financial stability is threatened by the stance of monetary policy. On the MPC's current forecasts, the unemployment rate is most likely to reach 7% in late 2016.

However, financial markets continued to price in increases in Bank Rate by mid-2015, with overnight index swap rates and gilt yields rising after the announcement of forward guidance. Members of the MPC subsequently appeared at the Treasury Select Committee and three gave further speeches to clarify the guidance, but there was little market impact. However, the Bank of England's surveys suggest the message may have got through to the public as the balance of people expecting interest rates to rise over the next 12 months fell from 29% in May to 24% in August.

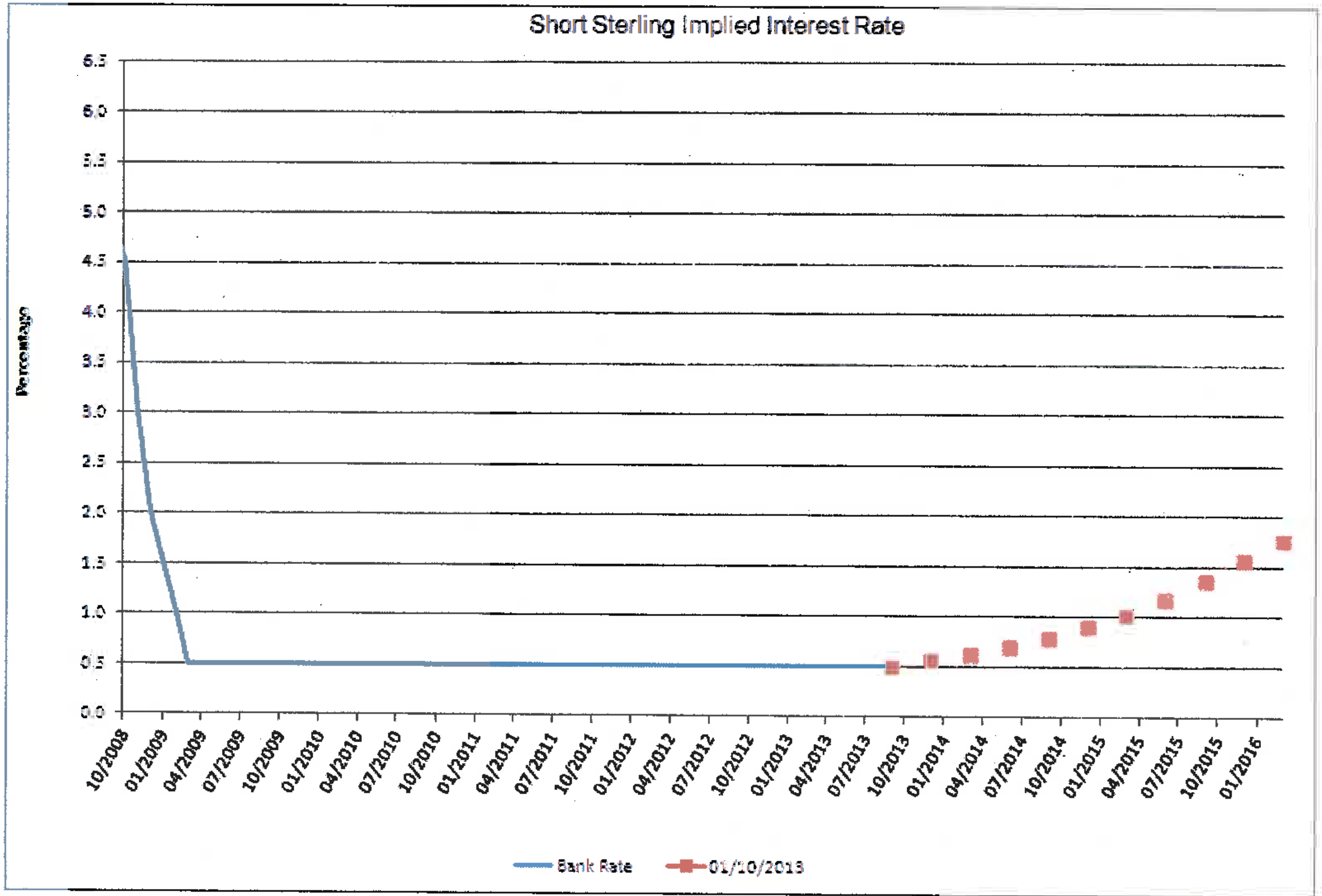
Meanwhile, CPI inflation fell from a 2013 peak of 2.9% in June to 2.7% in August. The fall was primarily the result of a drop in the contribution from petrol prices and a reduction in core inflation from 2.3% in June to 2% in August. CPI inflation looks likely to have edged down again in September, perhaps to about 2.5%, reflecting a further fading of both energy prices and core inflation.

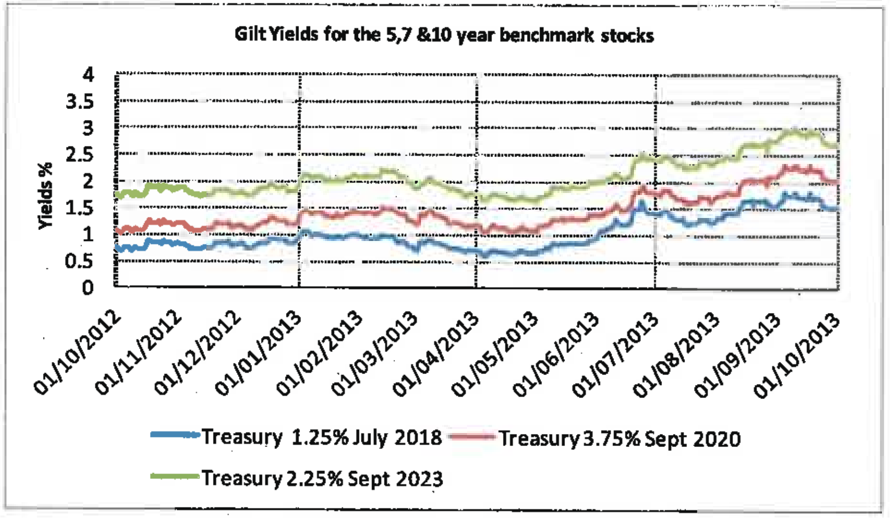
The big news in financial markets was that the Federal Reserve unexpectedly decided not to taper its asset purchases in September. In announcing its decision to maintain monthly purchases at $85bn, the Fed explained that it wanted to *"await more evidence that [the economic recovery] will be sustained before adjusting the pace of its purchases."* This came despite previous hints of tapering from the Fed and the fall in the unemployment rate in both July and August. It currently stands at 7.3%.

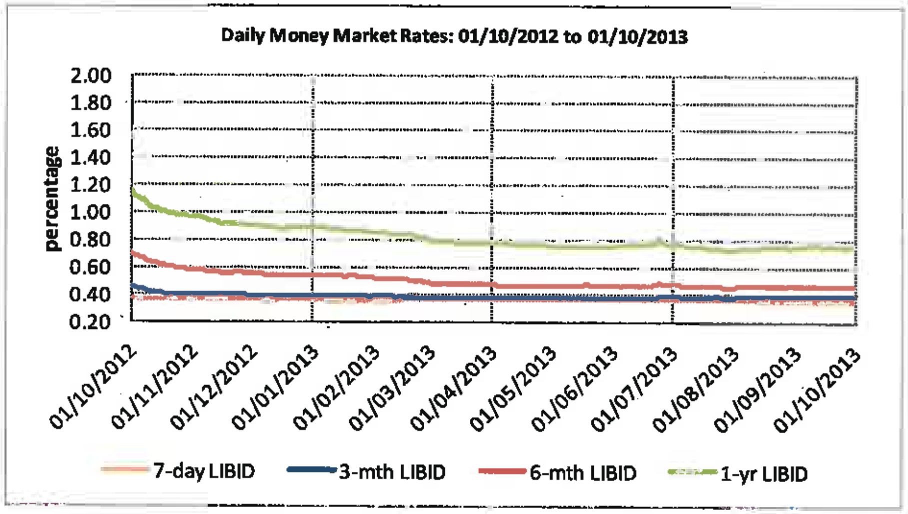
Across the quarter as a whole, advanced economy bond markets sold off, suggesting the rise in UK gilt yields was not solely down to markets' scepticism about domestic forward guidance. Gilt yields tracked US Treasury yields up, with ten-year gilts rising by around 60 basis points to reach 3% in early September for the first time since mid-2011. After the Fed's decision not to taper, gilt yields fell back, although not enough to offset the previous rise. Ten-year gilts finished the quarter at 2.7%. Equity markets stayed relatively flat over the quarter. While the FTSE 100 rose from 6470 to 6620 over the first few weeks of June, the index closed the quarter at 6462.

Meanwhile, Eurozone business surveys suggested that the economy continued to expand in Q3, albeit at a moderate pace. There was also a general election in Germany in which the incumbent Chancellor, Angela Merkel, performed better than expected by winning 41.5% of the vote. She is now likely to form a coalition, but it remains to be seen what form this will take.

Bank rate: Forecasts for interest rates as implied by short sterling futures







Gilt yields

	5 Year	7 Year	10 Year
31/12/2012	0.87	1.21	1.84
31/03/2013	0.71	1.17	1.77
30/06/2013	1.43	1.81	2.44
31/07/2013	1.25	1.67	2.36
31/08/2013	1.57	2.09	2.77
30/09/2013	1.53	2.03	2.72

Money Market rates

Bank Rate	7 Day LIBID	1 mth LIBID	3 mth LIBID	6 mth LIBID	1 year LIBID
0.50	0.36	0.37	0.39	0.54	0.89
0.50	0.37	0.37	0.38	0.48	0.78
0.50	0.36	0.37	0.39	0.47	0.77
0.50	0.36	0.37	0.38	0.46	0.73
0.50	0.36	0.37	0.39	0.47	0.75
0.50	0.36	0.37	0.39	0.46	0.75

Section 2

Rates of return

Capita Asset Services : Current Quarter & 1 - 3 Years to Date Universe of Less than 3 Years Portfolios Ending 30th September 2013

	Current Quarter		1 Year		2 Years		3 Years	
	Return	% tile	Return	% tile	Return	% tile	Return	% tile
Corporation of London - Internal	0.32%		2.18%		2.37%		2.46%	
3 Month LIBID	0.10%	67	0.40%	50	0.61%	67	0.63%	67
7 Day LIBID	0.09%	67	0.36%	67	0.41%	100	0.42%	100
Maximum	0.32%		2.18%		2.37%		2.46%	
25th Percentile	0.13%		0.58%		0.82%		0.92%	
Median	0.10%		0.40%		0.68%		0.85%	
75th Percentile	0.10%		0.37%		0.53%		0.55%	
Minimum	0.06%		0.29%		0.42%		0.43%	
# of Portfolios	7		7		7		7	

CAPITA

Asset Services

Section 3

Net returns: current quarter and annualised return

Comparative performances against benchmark & industry average

			Benchmark* (%)	Industry Average** (%)	Corporation of London - Internal	vs Benchmark (%)	vs Average (%)
2011/12		Mar	0.12	0.36	0.63	0.51	0.27
2012/13	2012/13	Jun	0.11	0.32	0.60	0.49	0.28
2012/13		Sep	0.10	0.35	0.64	0.54	0.29
2012/13		Dec	0.09	0.28	0.62	0.53	0.34
2012/13		Mar	0.09	0.17	0.64	0.55	0.47
2013/14	2013/14	Jun	0.09	-0.07	0.58	0.49	0.65
2013/14		Sep	0.09	0.10	0.32	0.23	0.22

*7-day deposit rate, **weighted average of 6 fund managers' results covering 35 funds

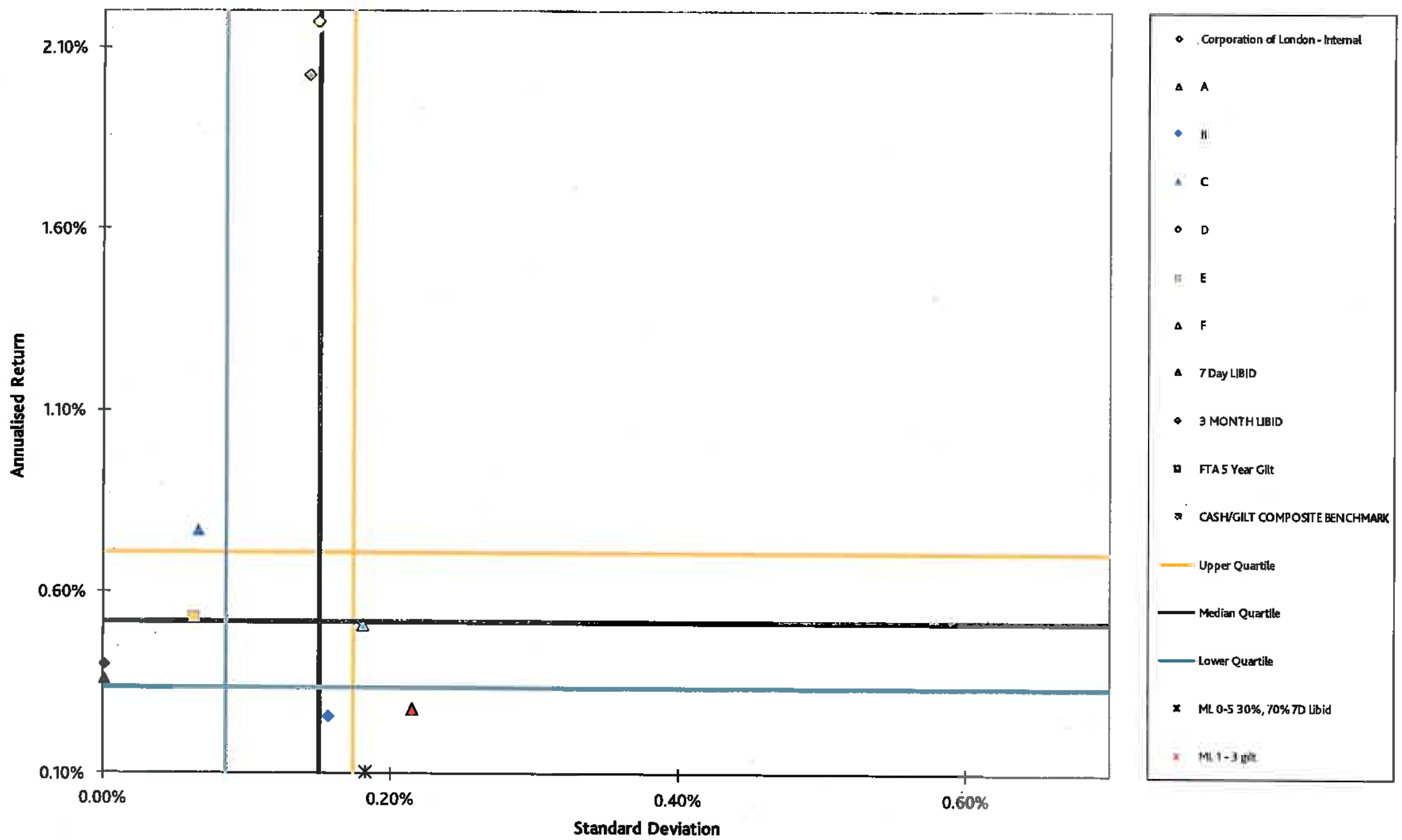
Cumulative performances against benchmark & industry average

			Benchmark* (%)	Industry Average** (%)	Corporation of London - Internal	vs Benchmark (%)	vs Average (%)
2011/12		Mar	0.48	1.40	2.61	2.13	1.22
2012/13	2012/13	Jun	0.11	0.32	0.60	0.49	0.28
2012/13		Sep	0.21	0.67	1.24	1.03	0.57
2012/13		Dec	0.30	0.95	1.87	1.57	0.92
2012/13		Mar	0.39	1.12	2.52	2.13	1.40
2013/14	2013/14	Jun	0.09	-0.07	0.58	0.49	0.65
2013/14		Sep	0.18	0.03	0.90	0.72	0.87

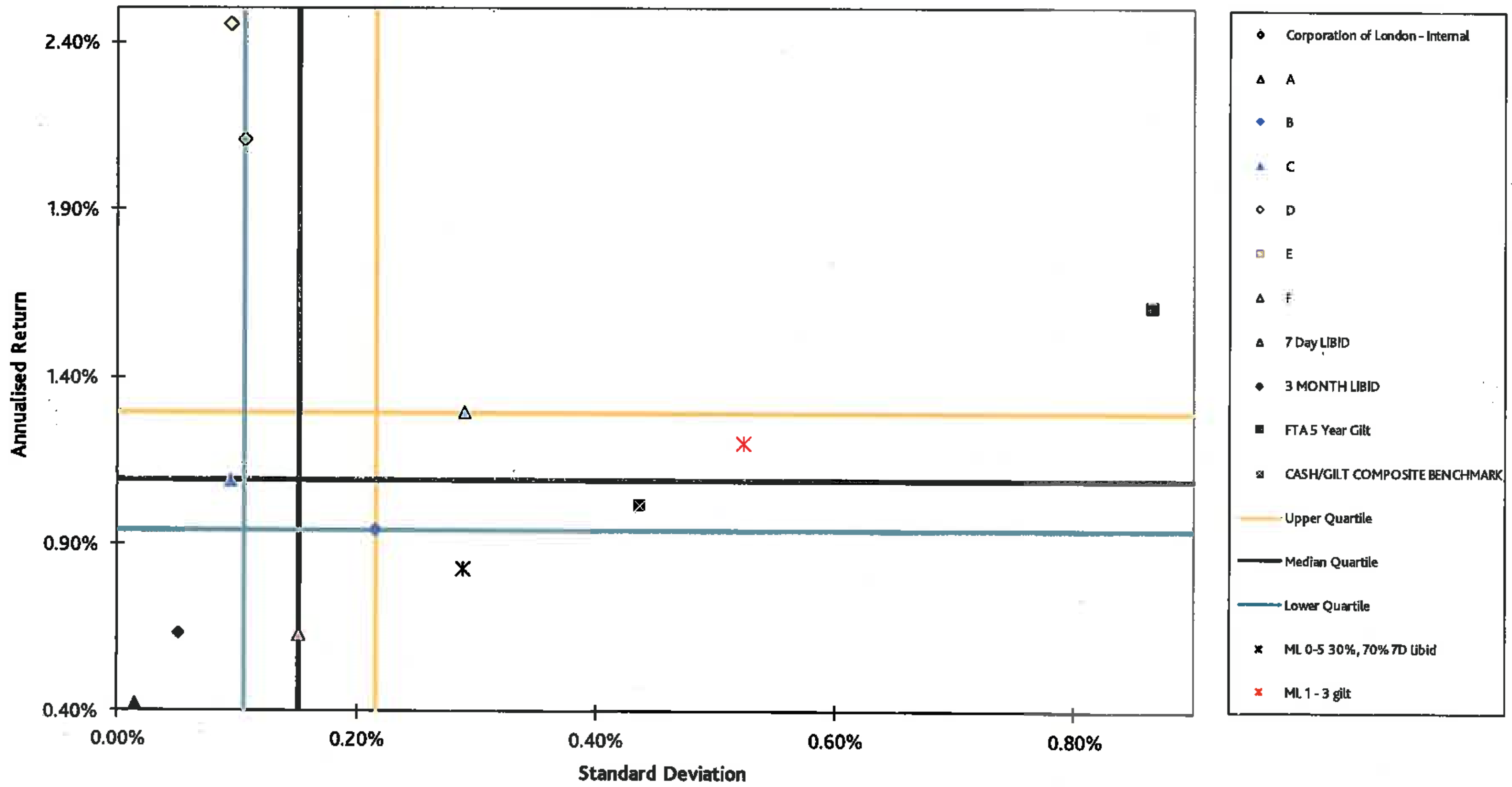
Section 4

Risk / returns scatter graphs

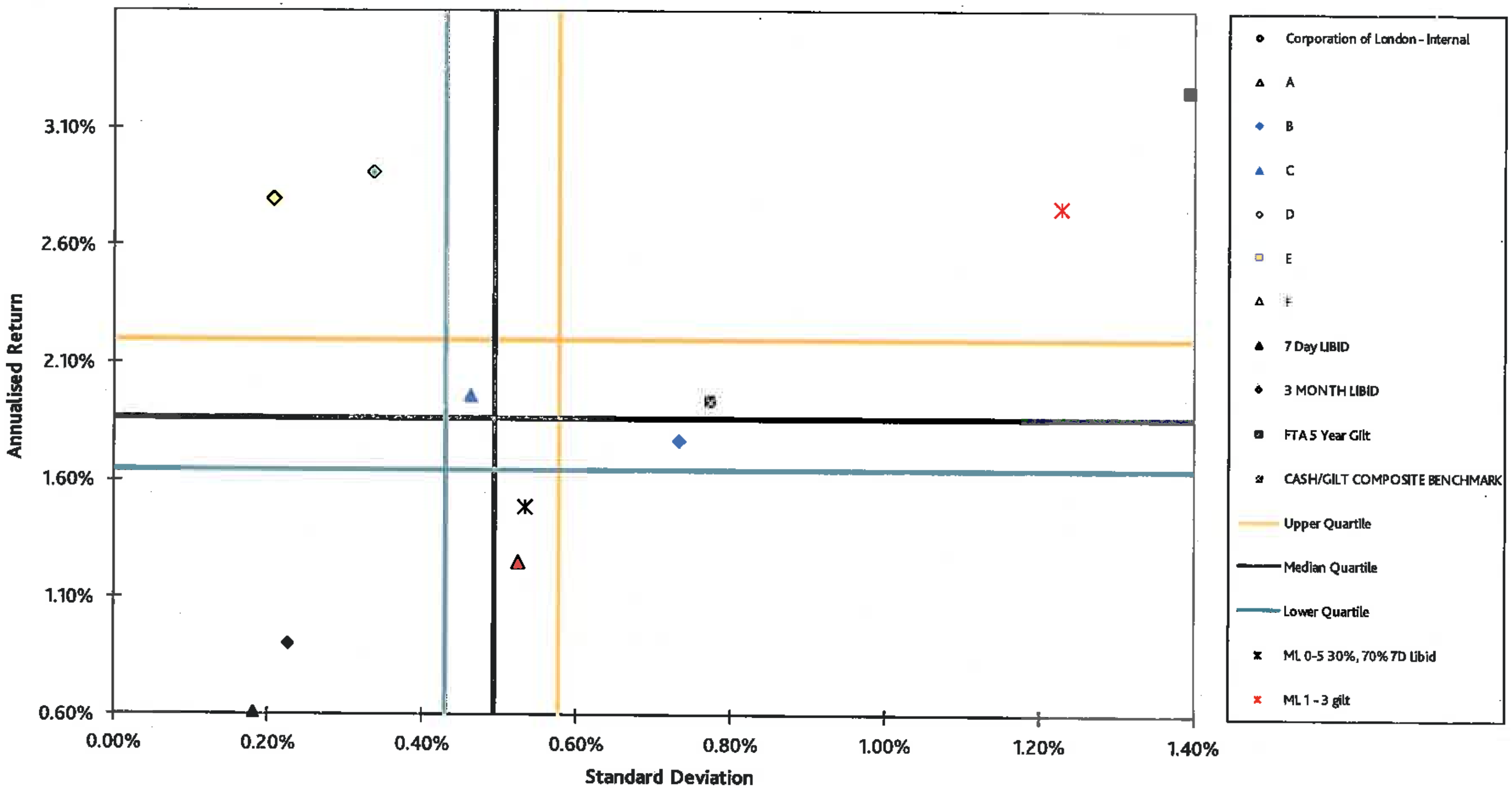
Capita Asset Services : Local Authority Cash/Gilt Fund Managers' Annualised Return 1 Year to 30th September 2013



Capita Asset Services : Local Authority Cash/Gilt Fund Managers' Annualised Return 3 Years to 30th September 2013



Capita Asset Services : Local Authority Cash/Gilt Fund Managers' Annualised Return 5 Years to 30th September 2013



1st July 2013 – 30th September 2013

Section 5

Brief glossary of terms

Duration

A term used to express the average number of years an investor will have to wait to receive the interest and capital cash flows associated with an investment, usually a bond. Duration takes into account the relative value and time value of these cash flows. Therefore, if the discounted cash flow associated with a bond is made up of high proportion of interest payments (i.e. it has a higher coupon) then it will have a shorter Duration. A bond with a lower coupon will have a longer Duration.

The point is that bonds with a longer Duration will be more sensitive to fluctuations in interest rates. Furthermore, Duration is a much more accurate measure of risk exposure than simple term to maturity.

Volatility

This is a measure of a bond's price sensitivity to interest rates. It is typically calculated by dividing a bond's Duration by one plus its yield to maturity (Duration / (1 + yield)). This technique is used more commonly than simple Duration as managers frequently find that it is a more accurate, or a least more appropriate, measure of volatility.

Portfolio

A collection of assets which are managed as a whole.

Median

A median value locates the middle item in an ordered, or ranked, list of data. The median will have 50% of all values above it and 50% below it.

Percentile

A percentile value is a measure of location intuitively similar to the median. The 25th percentile will have 25% of all values above it and 75% below it.

Standard deviation

The most commonly used statistical measure of dispersion. It describes the degree of variation, or volatility, in a set of data about its arithmetic mean. In portfolio measurement in general, a high degree of volatility in a portfolio's returns is assumed to be the result of the acceptance of a correspondingly high degree of risk.

Section 6

Notes

1. Universe

For the quarter ended 30th September 2013 data has been collected in respect of more than 23 funds with an aggregate value of over £600 million. The following fund managers have provided Sector quarterly returns data on all of their local authority's cash funds under management.

Fund Manager	Fund Code
Invesco	INV
Investec	IAM
Scottish Widows Investment Partnership	SWIP
Payden & Rygel	P&R
City Deposit Cash Manager	CDCM
Royal London Asset Management	RLAM

A number of Local Authority internally managed funds have also been included within the relevant Universes.

2. Rates of return charts

The chart represents, in simple graphical form, the return generated by the portfolio during the most recent quarter and the financial year to date, compared with the distribution of returns generated by all portfolios.

3. Annualised returns

These charts illustrate the annualised returns for the last 12-month, 24-month and 36-month period. By annualising returns over two or three years, unusually good (or bad) short term performance is evened out, providing a better illustration of how your manager has performed over the medium-term.

4. Risk / return scatter graphs

These charts express the relationship between risk and return in a format, which makes it possible to compare these results with those of other portfolios.

- The vertical axis plots the annualised rate of return.
- The horizontal axis shows the quarter-on-quarter variability in return, as measured by standard deviation.

The optimum position on the graph, therefore, would be the top left hand corner, which would represent the highest return coupled with the lowest risk; conversely, the bottom right hand corner represents low returns and high risk. The natural tendency is for portfolios to fall in a broad band running from bottom left to top right, demonstrating that returns tend to increase in proportion to the increase in risk.

In portfolio measurement in general, a high degree of volatility in a portfolio's returns is assumed to be the result of the acceptance of a correspondingly high degree of risk

COL TAPAS System

BORROWERS BY INSTITUTION

Printed: 22/11/2013 09:49

Total Current Borrowing: £511,600,000.00

CATEGORIES

Category: BANKS

Borrower	Limit £M	Current £M	£M	% of Total
BARCLAYS BANK PLC	100	35.20		
CITY OF LONDON CORP RESERVE AC	100	0.00		
LLOYDS TSB	150	78.10		
RBOS SETTLEMENTS	100	74.30		
			187.6	36.67 %

Category: BUILDING SOCIETIES

Borrower	Limit £M	Current £M	£M	% of Total
COVENTRY BUILDING SOCIETY	20	19.10		
LEEDS BUILDING SOCIETY	20	20.00		
NATIONWIDE BUILDING SOCIETY	120	99.30		
SKIPTON BUILDING SOCIETY	20	20.00		
YORKSHIRE BUILDING SOCIETY	20	20.00		
			178.4	34.87 %

Category: FOREIGN BANKS

Borrower	Limit £M	Current £M	£M	% of Total
NATIONAL AUSTRALIA BANK LTD	25	25.00		
			25	4.89 %

Category: OTHER INSTITUTIONS

Borrower	Limit £M	Current £M	£M	% of Total
CCLA MANAGEMENT LIMITED	100	10.00		
DEUTSCHEGLOBAL LIQUIDITY FUND	100	0.00		
FEDERATED PRIME RATE	100	18.60		
HENDERSON LIQUIDITY FUND	100	0.00		
IGNIS LIQUIDITY FUND	100	36.10		
INVESCO STERLING LIQUIDITY FUND	100	0.90		
PAYDEN GLOBAL FUNDS PLC	100	55.00		
			120.6	23.57 %

Total Borrowing for Categories 511.60

Month by Month Repayment Profile

Period: 23Nov2013 to 31Mar2015

Month	£000s
On Call	163,700
November 2013	15,200
December 2013	125,100
January 2014	74,800
February 2014	38,500
April 2014	20,000
December 2014	32,200
January 2015	42,100
	511,600

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ANALYSIS OF LOANS BY END DATE

as at: 22/11/2013 09:48

Date	Commitment	£000s	Rate
25/11/2013	NATIONWIDE BUILDING SOCIETY	4,100	0.480000
29/11/2013	LLOYDS TSB	5,000	1.500000
29/11/2013	NATIONWIDE BUILDING SOCIETY	6,100	0.440000
02/12/2013	NATIONWIDE BUILDING SOCIETY	7,000	0.440000
04/12/2013	YORKSHIRE BUILDING SOCIETY	1,400	0.400000
04/12/2013	YORKSHIRE BUILDING SOCIETY	10,000	0.400000
05/12/2013	BARCLAYS BANK PLC	20,000	0.470000
06/12/2013	BARCLAYS BANK PLC	10,200	0.470000
06/12/2013	YORKSHIRE BUILDING SOCIETY	1,600	0.400000
09/12/2013	BARCLAYS BANK PLC	5,000	0.400000
09/12/2013	LLOYDS TSB	5,000	0.750000
09/12/2013	NATIONWIDE BUILDING SOCIETY	5,300	0.440000
10/12/2013	LLOYDS TSB	5,000	0.700000
10/12/2013	NATIONWIDE BUILDING SOCIETY	5,300	0.450000
11/12/2013	NATIONWIDE BUILDING SOCIETY	5,000	0.440000
12/12/2013	COVENTRY BUILDING SOCIETY	3,200	0.450000
13/12/2013	NATIONWIDE BUILDING SOCIETY	6,100	0.450000
13/12/2013	YORKSHIRE BUILDING SOCIETY	4,000	0.400000
16/12/2013	NATIONAL AUSTRALIA BANK LTD	4,800	0.430000
16/12/2013	NATIONWIDE BUILDING SOCIETY	8,000	0.460000
17/12/2013	LLOYDS TSB	5,000	0.700000
17/12/2013	NATIONAL AUSTRALIA BANK LTD	7,000	0.430000
17/12/2013	YORKSHIRE BUILDING SOCIETY	3,000	0.400000
23/12/2013	NATIONWIDE BUILDING SOCIETY	3,200	0.440000
02/01/2014	LLOYDS TSB	5,000	1.100000
03/01/2014	NATIONAL AUSTRALIA BANK LTD	6,500	0.430000
07/01/2014	LLOYDS TSB	5,000	0.700000
07/01/2014	NATIONWIDE BUILDING SOCIETY	5,500	0.450000
08/01/2014	LLOYDS TSB	5,000	0.700000
08/01/2014	NATIONWIDE BUILDING SOCIETY	5,000	0.450000
09/01/2014	LEEDS BUILDING SOCIETY	5,600	0.410000
20/01/2014	NATIONWIDE BUILDING SOCIETY	8,400	0.500000
21/01/2014	NATIONWIDE BUILDING SOCIETY	10,000	0.450000
23/01/2014	NATIONWIDE BUILDING SOCIETY	3,900	0.450000
23/01/2014	NATIONWIDE BUILDING SOCIETY	5,200	0.450000
27/01/2014	COVENTRY BUILDING SOCIETY	5,400	0.450000
28/01/2014	NATIONWIDE BUILDING SOCIETY	1,000	0.450000
30/01/2014	NATIONAL AUSTRALIA BANK LTD	3,300	0.460000
11/02/2014	LEEDS BUILDING SOCIETY	3,200	0.400000
17/02/2014	LEEDS BUILDING SOCIETY	6,800	0.410000
17/02/2014	NATIONWIDE BUILDING SOCIETY	5,000	0.450000
18/02/2014	NATIONWIDE BUILDING SOCIETY	5,200	0.450000
19/02/2014	NATIONAL AUSTRALIA BANK LTD	3,400	0.460000
21/02/2014	COVENTRY BUILDING SOCIETY	10,500	0.450000

ANALYSIS OF LOANS BY END DATE

Date	Commitment	£000s	Rate
21/02/2014	LEEDS BUILDING SOCIETY	4,400	0.420000
22/04/2014	SKIPTON BUILDING SOCIETY	20,000	0.935000
22/12/2014	RBOS SETTLEMENTS	10,000	3.800000
22/12/2014	RBOS SETTLEMENTS	10,000	3.800000
22/12/2014	RBOS SETTLEMENTS	12,200	3.800000
05/01/2014	RBOS SETTLEMENTS	10,000	3.950000
05/01/2014	RBOS SETTLEMENTS	10,000	3.950000
05/01/2014	RBOS SETTLEMENTS	10,000	3.950000
05/01/2014	RBOS SETTLEMENTS	12,100	3.950000
		347,900	
Ongoing	CCLA MANAGEMENT LIMITED	10,000	0.350000
Ongoing	PAYDEN & RYGEL STERLING RESERVE FD	55,000	0.890000
Ongoing	FEDERATED PRIME RATE	18,600	0.420000
Ongoing	IGNIS MONEY MARKET FUND	36,100	0.430000
Ongoing	INVESCO LIQUIDITY FUND	900	0.330000
Ongoing	LLOYDS CALL ACCOUNT	43,100	0.500000
		511,600	