

City Of London Corporation

Monthly Investment Analysis Review

December 2013



City Of London Corporation

Monthly Economic Summary

General Economy

The flurry of positive news continued unabated in December with signs of continuing strength in the UK economy, alongside the eagerly awaited news regarding commencement of policy tapering by the Federal Reserve.

The UK Services and Manufacturing PMI's both remained at elevated levels in November. The Services measure slipped slightly to 60.0 from 62.5 in October, while the Manufacturing index reached its strongest pace in three years at 58.4. With both of these measures comfortably above 50, separating expansion from contraction, they were indicative of the success that the UK economy has enjoyed through the second half of 2013. In addition, the UK 3rd quarter GDP remained unchanged at 0.8%.

December saw a mostly positive Autumn Statement with the Chancellor, including a series of upgraded growth forecasts from the Office for Budget Responsibility (OBR). With regard to economic growth, forecasts for this year were increased from 0.6% to 1.4%, with additional revisions for 2014 from 1.8% to 2.4%. Conversely, there were some downward projections in the years 2015-17 to 2.2%, 2.6% and 2.7% respectively. Moreover, the Budget revealed that within the years 2008-09 UK GDP declined by 7.2% as opposed to the previously reported 6.3%, equalling a value of £112bn. Unemployment, one of the key indicators of late, is now forecasted to fall from 7.6% this year to 7% in 2015, falling further to 5.6% by 2018. There was also positive news on the public finances as the OBR predicted there will be a small cash surplus in 2018-19. In the interim, forecasts for the underlying deficit (excluding financial interventions) were revised down for 2013 and 2014 to 6.8% and 5.6% respectively. Public Sector Net Borrowing is currently expected to come in at £111bn for 2013-14 decreasing in 2014-15 to £69bn. The total Public Sector Net Debt is due to reach 75.5% of GDP this year, £18bn lower than the forecast in March.

December also saw the release of UK industrial production for October, which grew at a rate of 0.4 % month-on-month, marginally higher than the forecast figure of 0.3%. There was also positive data released regarding the UK's unemployment rate, which in the three months to October, fell to a four and a half year low of 7.4%, reinforcing the view that conditions in the labour market are continuing to improve. This was due to a material 250,000 rise in employment in the three months to October. Despite this increase, retail sales volume continued to falter with only a 0.3% increase in November, thereby only partly reversing October's 0.9% fall. On a more positive note, British inflation edged down in November to its lowest level in four years, as consumer prices rose 2.1% on the year as the impact of higher gas and electricity prices had yet to be felt, the Office for National Statistics said.

In the US there was further positive news as the second reading of 3rd quarter GDP came in at 3.6%, a significant uplift from the initial estimate of 2.5%, surpassing even the most optimistic forecasts. This continuation of growth provided a further reason for the Federal Reserve to embark on their long anticipated policy tapering program. This will take the form of an immediate \$10bn monthly reduction in asset purchases, with subsequent monthly reductions dependent on the continuing improvement of economic conditions.

Housing Market

Housing has witnessed a sustained period of encouraging signs, to the point that the mortgage-related element of the Funding for Lending scheme was removed during the. Adding to already promising figures, Halifax reported an increase in prices of 1.1% for November - an increase of 7.7% on the year. Mortgage approvals in the UK rose in November from October and were 39% higher than a year earlier, seasonally adjusted data from the British Bankers' Association showed. Nationwide also reported that UK house prices increased by 1.4% month on month and by 8.4% since December 2012, giving further credence to the view that the UK housing market is gaining traction.

Forecast

Capita Asset Services kept its interest rate forecast the same this month and are expecting the first increase in Bank Rate in Q2 2016. Meanwhile, UBS and Capital Economics have both left their forecasts unchanged, with no expectation of an increase in Bank Rate in the immediate future.

Bank Rate	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Ignis	32,700,000	0.44%		MMF	AAA	0.000%
EMMF IGNIS Short Duration Cash Fund	5,000,000	0.92%		EMMF	AAA	0.000%
MMF Federated Investors (UK)	11,400,000	0.42%		MMF	AAA	0.000%
EMMF Prime Rate Cash Plus Fund	5,000,000	0.60%		EMMF	AAA	0.000%
MMF Invesco	900,000	0.33%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.35%		MMF	AAA	0.000%
EMMF Payden Sterling Reserve Fund	55,000,000	0.89%		EMMF	AAA	0.000%
Lloyds Bank plc	5,000,000	1.10%	02/01/2013	02/01/2014	A	0.000%
National Australia Bank Ltd	6,500,000	0.43%	03/10/2013	03/01/2014	AA-	0.000%
Nationwide Building Society	5,500,000	0.45%	07/10/2013	07/01/2014	A	0.002%
Lloyds Bank plc	5,000,000	0.70%	07/10/2013	07/01/2014	A	0.002%
Nationwide Building Society	5,000,000	0.45%	07/10/2013	08/01/2014	A	0.002%
Lloyds Bank plc	5,000,000	0.70%	08/10/2013	08/01/2014	A	0.002%
Leeds Building Society	5,600,000	0.41%	08/10/2013	09/01/2014	A-	0.002%
Nationwide Building Society	8,400,000	0.50%	18/07/2013	20/01/2014	A	0.005%
Nationwide Building Society	10,000,000	0.45%	21/10/2013	21/01/2014	A	0.005%
Nationwide Building Society	5,200,000	0.45%	23/10/2013	23/01/2014	A	0.006%
Nationwide Building Society	3,900,000	0.45%	23/10/2013	23/01/2014	A	0.006%
Coventry Building Society	5,400,000	0.45%	25/10/2013	27/01/2014	A-	0.007%
Nationwide Building Society	1,000,000	0.45%	25/10/2013	28/01/2014	A	0.007%
National Australia Bank Ltd	3,300,000	0.46%	30/10/2013	30/01/2014	AA-	0.001%
Leeds Building Society	3,200,000	0.40%	11/11/2013	11/02/2014	A-	0.010%
Leeds Building Society	6,800,000	0.41%	08/11/2013	17/02/2014	A-	0.012%
Nationwide Building Society	5,000,000	0.45%	18/11/2013	17/02/2014	A	0.012%
Nationwide Building Society	5,200,000	0.45%	18/11/2013	18/02/2014	A	0.012%
National Australia Bank Ltd	3,400,000	0.46%	18/11/2013	19/02/2014	AA-	0.002%
Leeds Building Society	4,400,000	0.42%	08/11/2013	21/02/2014	A-	0.013%
Coventry Building Society	10,500,000	0.45%	13/11/2013	21/02/2014	A-	0.013%
Nationwide Building Society	4,800,000	0.47%	25/11/2013	25/02/2014	A	0.014%
Coventry Building Society	900,000	0.45%	25/11/2013	25/02/2014	A-	0.014%
Nationwide Building Society	5,600,000	0.46%	29/11/2013	28/02/2014	A	0.014%
Barclays Bank Plc	10,000,000	0.44%	02/12/2013	03/03/2014	A	0.015%
Lloyds Bank plc	5,000,000	0.43%	03/12/2013	03/03/2014	A	0.015%
Nationwide Building Society	10,000,000	0.45%	02/12/2013	04/03/2014	A	0.015%
Yorkshire Building Society	8,000,000	0.40%	04/12/2013	05/03/2014	BBB	0.037%
Yorkshire Building Society	3,400,000	0.40%	04/12/2013	06/03/2014	BBB	0.038%
Barclays Bank Plc	10,700,000	0.44%	06/12/2013	06/03/2014	A	0.016%
Barclays Bank Plc	5,000,000	0.40%	04/12/2013	07/03/2014	A	0.016%

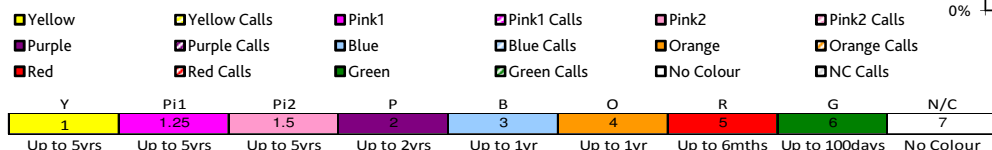
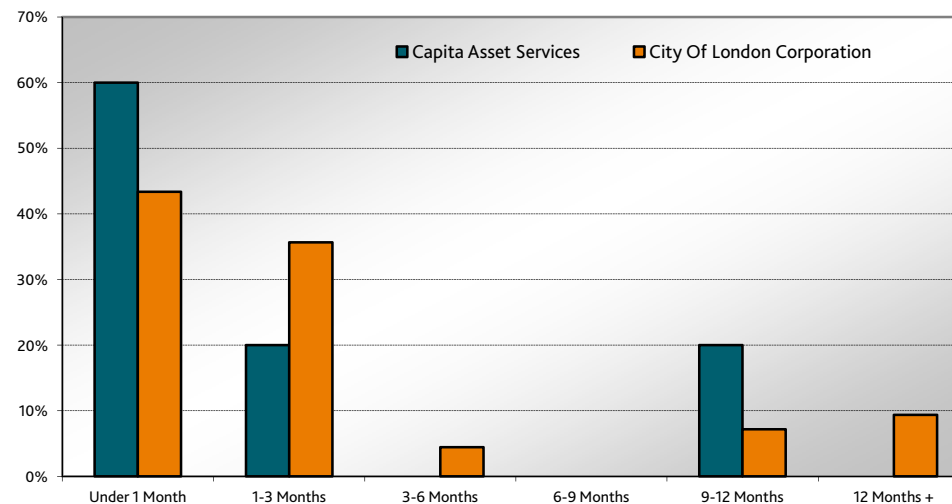
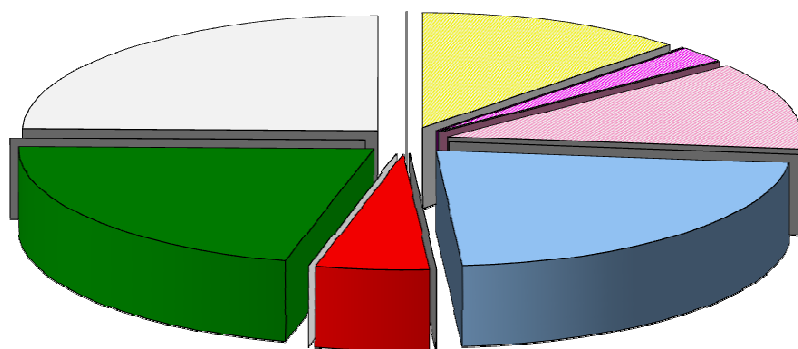
City Of London Corporation

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Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Barclays Bank Plc	10,000,000	0.44%	09/12/2013	10/03/2014	A	0.017%
Nationwide Building Society	5,000,000	0.45%	09/12/2013	11/03/2014	A	0.017%
Nationwide Building Society	6,000,000	0.47%	09/12/2013	12/03/2014	A	0.017%
Nationwide Building Society	5,300,000	0.45%	12/12/2013	13/03/2014	A	0.017%
Nationwide Building Society	7,500,000	0.46%	02/12/2013	14/03/2014	A	0.018%
Lloyds Bank plc	5,000,000	0.70%	17/12/2013	17/03/2014	A	0.018%
National Australia Bank Ltd	7,000,000	0.43%	17/12/2013	17/03/2014	AA-	0.003%
Yorkshire Building Society	3,900,000	0.40%	17/12/2013	18/03/2014	BBB	0.045%
Coventry Building Society	3,200,000	0.45%	23/12/2013	24/03/2014	A-	0.020%
National Australia Bank Ltd	3,000,000	0.41%	23/12/2013	25/03/2014	AA-	0.004%
Nationwide Building Society	2,300,000	0.45%	23/12/2013	26/03/2014	A	0.021%
Skipton Building Society	20,000,000	0.94%	19/04/2013	22/04/2014	BB+	0.268%
The Royal Bank of Scotland plc	10,000,000	3.80%	21/12/2011	22/12/2014	A-	0.086%
The Royal Bank of Scotland plc	12,200,000	3.80%	21/12/2011	22/12/2014	A-	0.086%
The Royal Bank of Scotland plc	10,000,000	3.80%	21/12/2011	22/12/2014	A-	0.086%
The Royal Bank of Scotland plc	10,000,000	3.95%	03/01/2012	05/01/2015	A-	0.091%
The Royal Bank of Scotland plc	10,000,000	3.95%	03/01/2012	05/01/2015	A-	0.091%
The Royal Bank of Scotland plc	10,000,000	3.95%	03/01/2012	05/01/2015	A-	0.091%
The Royal Bank of Scotland plc	12,100,000	3.95%	03/01/2012	05/01/2015	A-	0.091%
Total Investments	£449,200,000	1.11%				0.033%

City Of London Corporation

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



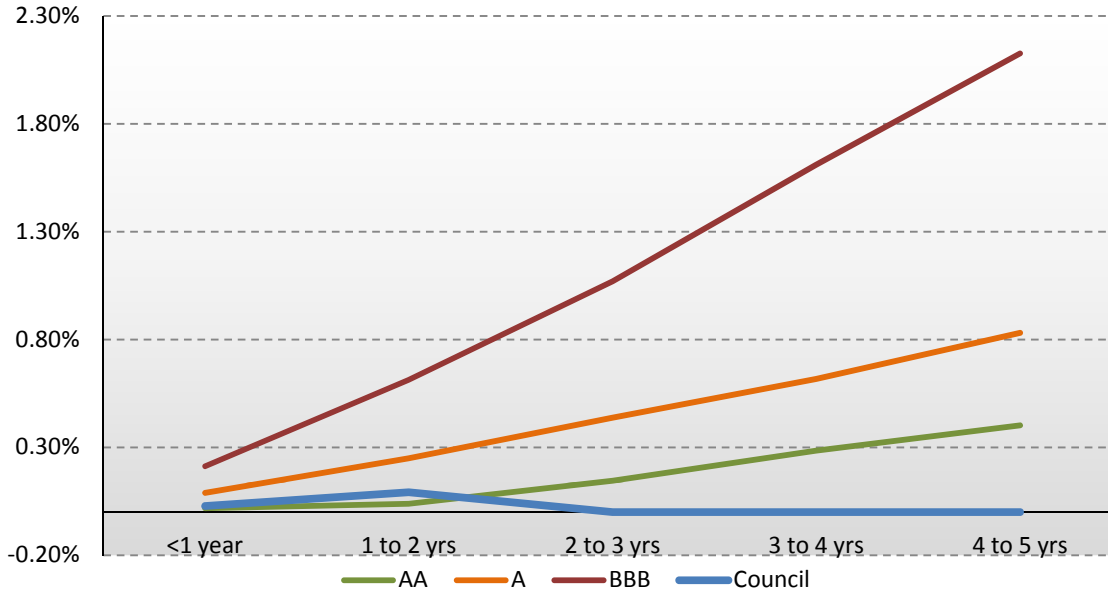
Portfolios weighted average risk number = **4.26**

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	WAM at Execution
Yellow	12.24%	£55,000,000	100.00%	£55,000,000	12.24%	0.42%	0	0	0	0
Pink1	2.23%	£10,000,000	100.00%	£10,000,000	2.23%	0.76%	0	0	0	0
Pink2	12.24%	£55,000,000	100.00%	£55,000,000	12.24%	0.89%	0	92	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	22.11%	£99,300,000	0.00%	£0	0.00%	3.09%	280	858	280	858
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	5.16%	£23,200,000	0.00%	£0	0.00%	0.44%	46	92	46	92
Green	21.30%	£95,700,000	0.00%	£0	0.00%	0.46%	45	101	45	101
No Colour	24.71%	£111,000,000	0.00%	£0	0.00%	0.52%	66	143	66	143
Total	100.00%	£449,200,000	26.71%	£120,000,000	26.71%	1.11%	90	263	152	343

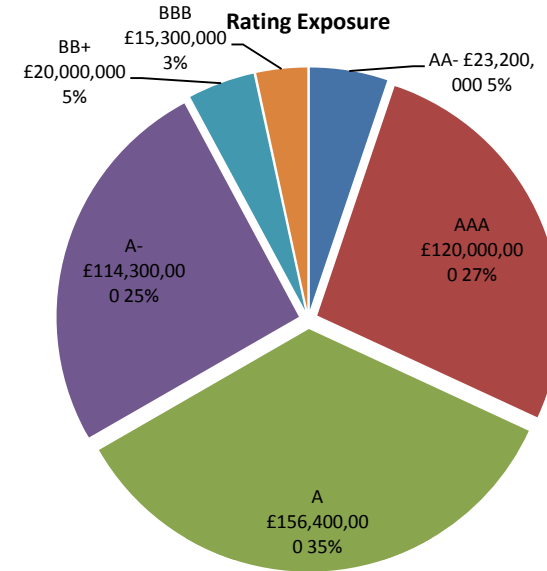
Relative Investment Risk and Rating Exposure

Relative 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	0.017%	0.038%	0.145%	0.284%	0.401%
A	0.089%	0.249%	0.438%	0.616%	0.831%
BBB	0.212%	0.613%	1.070%	1.610%	2.126%
Council	0.027%	0.091%	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 .

City Of London Corporation

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
11/12/2013	1242	Arab National Bank	Saudi Arabia	Long Term Rating Affirmed at 'A', Outlook changed to Stable from Negative; Short Term Rating Affirmed at 'F1', Viability Rating Affirmed at 'a'; Support Rating Affirmed at '1';
20/12/2013	1244	Co-operative Bank Plc	UK	Long Term Rating Affirmed at 'B', removed from Negative Watch and placed on Negative Outlook, Short Term Rating Affirmed at 'B', removed from Negative Watch; Viability Rating Downgraded to 'f' from 'c' then immediately upgraded to 'b'; Support Rating Affirmed at '5';

City Of London Corporation

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
10/12/2013	1241	Danske Bank	Denmark	Long Term Rating Affirmed at 'Baa1', Outlook changed to Positive from Stable; Short Term Rating Affirmed at 'P-2'; Financial Strength Rating Affirmed at 'C-' with Stable Outlook;
19/12/2013	1243	Deutsche Bank AG	Germany	Long Term Rating Affirmed at 'A2', Outlook changed to Negative from Stable; Short Term Rating Affirmed at 'P-1'; Financial Strength Rating Affirmed at 'C-' Outlook changed to Negative from Stable;
27/12/2013	1245	Skipton BS	UK	Long Term Rating Affirmed at 'Ba1', Outlook changed to Stable from Negative; Short Term Rating Affirmed at 'NP'; Financial Strength Rating Affirmed at 'D+' Outlook changed to Stable from Negative;

City Of London Corporation

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
03/12/2013	1240	Bank Nederlandse Gemeenten	Netherlands	Long Term Rating downgraded to 'AA+' from 'AAA', Outlook changed to Stable from Negative; Short Term Rating Affirmed at 'A-1+'
03/12/2013	1240	ING Bank NV	Netherlands	Long Term Rating downgraded to 'A' from 'A+', Outlook changed to Stable from Negative; Short Term Rating Affirmed at 'A-1'