

City Of London Corporation

Monthly Investment Analysis Review

March 2014



City Of London Corporation

Monthly Economic Summary

General Economy

This month geopolitical issues overcast markets as tensions between Russia and Ukraine escalated over developments in Crimea. The vote saw the region cut ties with Ukraine in favour of Russia, raising concerns amongst Western economies of a potential backlash on global financial and commodity markets. However, due to minimal trade ties with the region, there has been little direct impact on the UK aside from the evidence of safe haven flows given the current uncertainties.

Instead, domestic attention focused on the Chancellor's Budget which painted a rosy picture for the UK economic recovery. The Budget saw the Office for Budget Responsibility (OBR) push up their GDP forecasts for the next few years, with 2.7% for 2014 and 2.3% in 2015. On the back of upwardly revised forecasts, the highlight of the Budget came as Chancellor Osborne announced drastic reforms to pensions, with people no longer being required to purchase an annuity upon retirement. In its place individuals are now free to withdraw some or all of their pension "pot" at any time. Given pensioners are known to have a higher propensity to vote, the reform notably came across as a political move by the Chancellor prior to the 2015 General Election.

Turning the attention towards monthly releases, Markit PMI surveys saw British Manufacturing grow faster than expected ticking up to 56.9 from 56.6 in January. The improved figure added to signs that the economic recovery is broadening; further supported by the news that manufacturing is driving the sharpest job creation since mid 2011. However, in contrast the strong pace in construction PMI slipped to 62.6 in February from 64.6 in January. The weakened figure was attributed to heavy rain and floods which affected house-building during the month. Lastly Services PMI, the key contributor to UK GDP, again fell a notch in February to 58.2 from 58.3 January. Although at its lowest level since June, the headline rate remained firmly in 'expansion territory' thus raising no imminent cause for concern. Overall the composite index of all three indicators edged down to 58.6 in February from January's 59.1.

Further compounding sour news, Britain's Balance of Trade in goods deficit unexpectedly widened in January to £9.79bn from £7.66bn in December, as exports fell to their lowest level in more than a year and a half. The data release reaffirmed the need for the UK to break away from a consumer led recovery, further emphasised by the Chancellor's announcement in the Budget that lending to UK exporters would be increased to £3bn. On a positive note domestic inflation, as measured by CPI, continued its downward trajectory with prices rising 1.7% on the year in February. According to the ONS, the new four year low marks the narrowest gap between inflation and average wage growth since April 2010. UK unemployment remained stable at 7.2% in the three months to January, but those claiming unemployment benefits fell 34,600, this compared to forecasts of 25,000 drop. The readings underpin the view that the labour market is in recovery, further supporting the BoE forward guidance policy to look at a broader range of measures of slack in the economy.

On the whole, it was confirmed by the ONS that the UK economy grew by 0.7% q/q in Q4, unchanged from previous estimates. However the estimate for overall growth in 2013 was cut further to 1.7% from a downwardly revised 1.8%. British consumer sentiment continued to play a vital role with the Gfk headline consumer confidence index rising to -5, its highest reading since August 2007.

In the US, Non-Farm Payrolls data rose surprisingly to 175,000 in February compared to 113,000 in January. The stronger figure eased fears of an abrupt slowdown in economic growth which was attributed to unseasonably cold weather disrupting economic activity. However, the unemployment rate rose to 6.7% in February from a five-year low of 6.6%. An additional surprise came this month as Fed Chair Janet Yellen commented that the FOMC could raise rates by spring 2015, much earlier than markets had anticipated. Following the announcement government bond markets saw a significant sell-off, with gilt market seeing 10year yields rise by 7bps.

Elsewhere, in the Eurozone, inflation fell to slightly lower than expected during February, with prices up just 0.7%. The figure underlined deflation concerns within the economy bloc. However, news of stronger than expected growth for the final quarter of 2013 dampened some enthusiasm that the ECB would need to introduce fresh monetary policy support in the near term. Further adding to optimistic

Housing Market

Concerns persist over the strength of momentum being gathered in the housing market. British house prices in the three months to February rose by 2.4%, compared with a 1.1% rise in January, surpassing forecasts of a 0.7% upturn, according to Halifax. The number of mortgages granted to homebuyers fell in February to 47,550 compared with a downwardly revised figure of 49,341 in January, according to

Forecast

Capita Asset Services kept its interest rate forecast unchanged from its updated forecasts following the February Inflation Report. The first Bank Rate increase is set to occur in Q4 2015 with Bank Rate remaining at 0.75% for the first two quarters. Meanwhile Capital Economics expects no Bank Rate hike until the final quarter of 2015 whilst UBS expect the Bank Rate to be kept on hold until Q2 2015.

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%	0.75%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Ignis	27,200,000	0.43%		MMF	AAA	0.000%
EMMF IGNIS Short Duration Cash Fund	5,000,000	0.78%		EMMF	AAA	0.000%
MMF Federated Investors (UK)	11,400,000	0.40%		MMF	AAA	0.000%
EMMF Prime Rate Cash Plus Fund	5,000,000	0.65%		EMMF	AAA	0.000%
MMF Invesco	900,000	0.33%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.33%		MMF	AAA	0.000%
EMMF Payden Sterling Reserve Fund	55,000,000	0.85%		EMMF	AAA	0.000%
Lloyds Bank Plc	7,300,000	0.61%	02/01/2014	02/04/2014	A	0.000%
Nationwide Building Society	2,600,000	0.47%	06/01/2014	07/04/2014	A	0.002%
Yorkshire Building Society	4,200,000	0.40%	07/01/2014	08/04/2014	BBB+	0.005%
Nationwide Building Society	5,000,000	0.47%	07/01/2014	09/04/2014	A	0.002%
Barclays Bank Plc	4,800,000	0.42%	08/01/2014	10/04/2014	A	0.002%
Barclays Bank Plc	8,000,000	0.45%	08/01/2014	11/04/2014	A	0.003%
Nationwide Building Society	4,800,000	0.48%	13/01/2014	14/04/2014	A	0.003%
Nationwide Building Society	4,200,000	0.48%	16/01/2014	16/04/2014	A	0.004%
Leeds Building Society	5,600,000	0.41%	21/01/2014	22/04/2014	A-	0.005%
Skipton Building Society	20,000,000	0.94%	19/04/2013	22/04/2014	BB+	0.053%
Nationwide Building Society	10,000,000	0.48%	21/01/2014	23/04/2014	A	0.006%
Nationwide Building Society	6,600,000	0.48%	21/01/2014	24/04/2014	A	0.006%
Nationwide Building Society	3,700,000	0.47%	30/01/2014	30/04/2014	A	0.007%
Barclays Bank Plc	4,600,000	0.45%	03/02/2014	06/05/2014	A	0.009%
Coventry Building Society	2,300,000	0.45%	06/02/2014	06/05/2014	A-	0.009%
Barclays Bank Plc	3,800,000	0.45%	05/02/2014	07/05/2014	A	0.009%
Coventry Building Society	2,600,000	0.45%	07/02/2014	08/05/2014	A-	0.009%
Nationwide Building Society	3,700,000	0.47%	10/02/2014	12/05/2014	A	0.010%
National Australia Bank Ltd	4,000,000	0.41%	10/02/2014	13/05/2014	AA-	0.002%
Nationwide Building Society	4,000,000	0.47%	17/02/2014	19/05/2014	A	0.012%
Lloyds Bank Plc	10,100,000	0.60%	19/02/2014	19/05/2014	A	0.012%
Nationwide Building Society	7,500,000	0.48%	17/02/2014	20/05/2014	A	0.012%
Nationwide Building Society	4,500,000	0.47%	18/02/2014	21/05/2014	A	0.012%
Nationwide Building Society	1,200,000	0.47%	20/02/2014	22/05/2014	A	0.013%
Nationwide Building Society	4,800,000	0.47%	24/02/2014	27/05/2014	A	0.014%
Coventry Building Society	4,600,000	0.46%	27/02/2014	28/05/2014	A-	0.014%
Nationwide Building Society	5,000,000	0.47%	28/02/2014	30/05/2014	A	0.015%
Leeds Building Society	6,200,000	0.42%	03/03/2014	03/06/2014	A-	0.016%
Nationwide Building Society	11,000,000	0.48%	03/03/2014	04/06/2014	A	0.016%
Nationwide Building Society	4,500,000	0.47%	04/03/2014	05/06/2014	A	0.016%
Coventry Building Society	5,000,000	0.46%	11/03/2014	10/06/2014	A-	0.017%
Lloyds Bank Plc	5,000,000	0.60%	11/03/2014	11/06/2014	A	0.017%

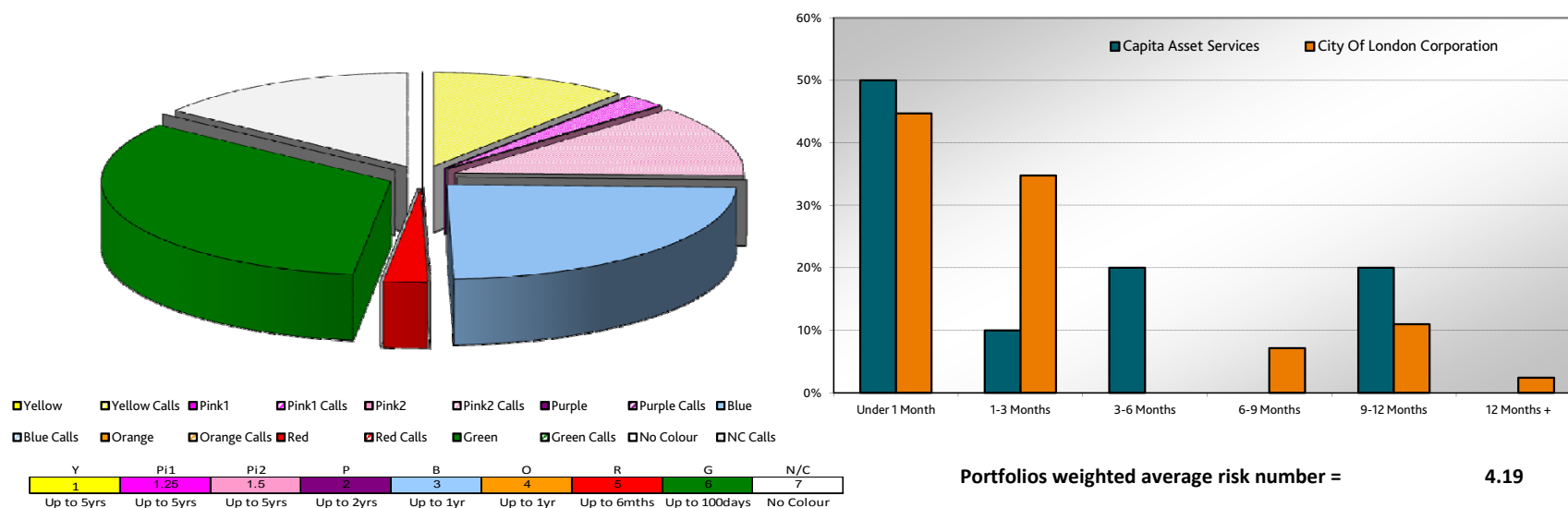
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Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	Yorkshire Building Society	4,000,000	0.40%	12/03/2014	12/06/2014	BBB+	0.042%
	Lloyds Bank Plc	5,000,000	0.60%	17/03/2014	17/06/2014	A	0.019%
	National Australia Bank Ltd	7,000,000	0.41%	17/03/2014	17/06/2014	AA-	0.004%
	Leeds Building Society	6,600,000	0.41%	19/03/2014	20/06/2014	A-	0.020%
	Nationwide Building Society	2,100,000	0.46%	27/03/2014	24/06/2014	A	0.021%
	Nationwide Building Society	4,500,000	0.47%	25/03/2014	25/06/2014	A	0.021%
	Nationwide Building Society	5,100,000	0.47%	26/03/2014	26/06/2014	A	0.021%
	Barclays Bank Plc	15,400,000	0.52%	26/03/2014	27/06/2014	A	0.021%
	Coventry Building Society	5,500,000	0.46%	27/03/2014	30/06/2014	A-	0.022%
	Nationwide Building Society	7,000,000	0.47%	31/03/2014	30/06/2014	A	0.022%
	The Royal Bank of Scotland Plc	10,000,000	3.80%	21/12/2011	22/12/2014	BBB+	0.154%
	The Royal Bank of Scotland Plc	12,200,000	3.80%	21/12/2011	22/12/2014	BBB+	0.154%
	The Royal Bank of Scotland Plc	10,000,000	3.80%	21/12/2011	22/12/2014	BBB+	0.154%
	The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.163%
	The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.163%
	The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.163%
	The Royal Bank of Scotland Plc	12,100,000	3.95%	03/01/2012	05/01/2015	BBB+	0.163%
	Lloyds Bank Plc	5,000,000	0.95%	27/03/2014	27/03/2015	A	0.088%
	Lloyds Bank Plc	2,200,000	0.95%	28/03/2014	30/03/2015	A	0.088%
	Barclays Bank Plc	10,800,000	0.92%	26/03/2014	10/04/2015	A	0.093%
	Total Investments	£450,200,000	1.12%				0.038%

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Portfolio Composition by Capita Asset Services' Suggested Lending Criteria

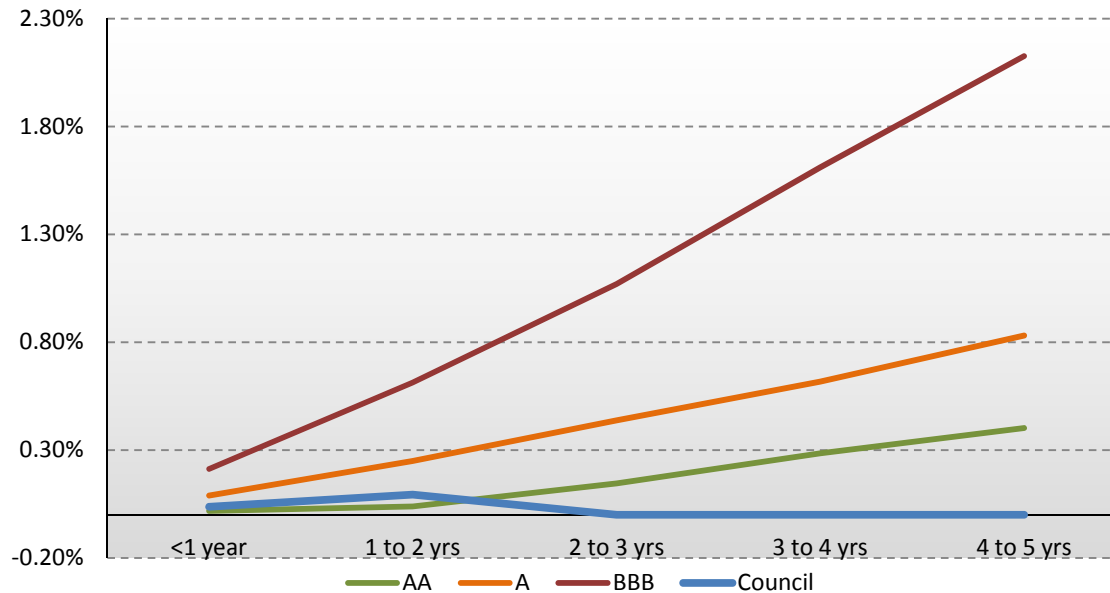


						WARoR = Weighted Average Rate of Return WAM = Weighted Average Time to Maturity				
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	WAM Excluding Calls/MMFs/EMMFs	WAM at Execution Excluding Calls/MMFs/EMMFs
Yellow	11.00%	£49,500,000	100.00%	£49,500,000	11.00%	0.40%	0	0	0	0
Pink1	2.22%	£10,000,000	100.00%	£10,000,000	2.22%	0.72%	0	0	0	0
Pink2	12.22%	£55,000,000	100.00%	£55,000,000	12.22%	0.85%	0	91	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	24.19%	£108,900,000	0.00%	£0	0.00%	2.87%	222	796	222	796
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	2.44%	£11,000,000	0.00%	£0	0.00%	0.41%	65	92	65	92
Green	33.14%	£149,200,000	0.00%	£0	0.00%	0.51%	72	113	72	113
No Colour	14.79%	£66,600,000	0.00%	£0	0.00%	0.58%	47	175	47	175
Total	100.00%	£450,200,000	25.43%	£114,500,000	25.43%	1.12%	86	269	133	346

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Relative Investment Risk and Rating Exposure

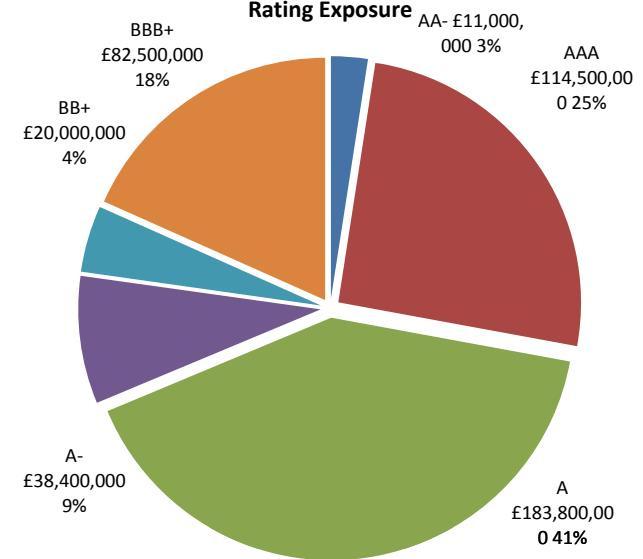
Relative Investment Risk Vs. Rating Categories



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	0.037%	0.093%	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
07/03/2014	1254	Saudi Arabia	Saudi Arabia	Sovereign rating upgraded to 'AA' from 'AA-'. Outlook on the Sovereign Rating changed to Stable from Positive.
21/03/2014	1260	U.S.A	U.S.A	Sovereign rating affirmed at 'AAA'. Rating removed from Negative Watch and placed on Stable Outlook.
27/03/2014	1262	Lloyds Banking Group plc	UK	Long Term Rating affirmed at 'A', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1'. Viability Rating upgraded to 'a-' from 'bbb+'. Support Rating affirmed at '1'.
27/03/2014	1262	Lloyds Bank Plc	UK	Long Term Rating affirmed at 'A', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1'. Viability Rating upgraded to 'a-' from 'bbb+'. Support Rating affirmed at '1'.
27/03/2014	1262	Bank of Scotland Plc	UK	Long Term Rating affirmed at 'A', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1'. New Viability Rating at 'a-'. Support Rating affirmed at '1'.
27/03/2014	1263	Societe Generale	France	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	Deutsche Bank AG	Germany	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	Landesbank Baden Wuttermberg	Germany	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	MBNA Europe Bank	UK	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	The Royal Bank of Scotland Group Plc	UK	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	The Royal Bank of Scotland Plc	UK	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	National Westminster Bank Plc	UK	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	Bank of America, N.A.	U.S.A	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	Citibank N.A.	U.S.A	Viability Rating upgraded to 'a' from 'a-'. All other ratings were affirmed.
28/03/2014	1264	Ulster Bank Ltd	UK	Long Term Rating affirmed at 'A-', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1'. Support Rating affirmed at '1'.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/03/2014	1250	Germany	Germany	Outlook on the Sovereign Rating changed to Stable from Negative. Sovereign Rating was affirmed at 'Aaa'.
03/03/2014	1251	Luxembourg	Luxembourg	Outlook on the Sovereign Rating changed to Stable from Negative. Sovereign Rating was affirmed at 'Aaa'.
04/03/2014	1252	Banque et Caisse d'Epargne de l'Etat	Luxembourg	Outlook on the Long Term Rating changed to Stable from Negative. Long Term Rating affirmed at 'Aa1'.
07/03/2014	1253	Landwirtschaftliche Rentenbank	Germany	Outlook on the Long Term rating changed to Stable from Negative. Long Term Rating affirmed at 'Aaa'.
10/03/2014	1255	Belgium	Belgium	Outlook on the Sovereign Rating changed to Stable from Negative. Sovereign Rating was affirmed at 'Aa3'.
12/03/2014	1256	Bank Nederlandse Gemeenten	Netherlands	Long Term Rating affirmed at 'Aaa', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'. Financial Strength Rating affirmed at 'A'.
12/03/2014	1257	Landesbank Berlin AG	Germany	Outlook on the Long Term and Financial Strength Ratings changed to Negative from Stable. Long Term Rating affirmed at 'A1'. Short Term Rating affirmed at 'P-1'. Financial Strength Rating affirmed at 'D+'.
13/03/2014	1258	Yorkshire Building Society	UK	Long Term rating upgraded to 'Baa1' from 'Baa2'. Short Term Rating affirmed at 'P-2'. Financial Strength Rating affirmed at 'C-'.
14/03/2014	1259	Royal Bank of Scotland Group Plc	UK	Long Term Rating downgraded to 'Baa2' from 'Baa1', removed from Review for Possible Downgrade and placed on Negative Outlook. Short Term Rating affirmed at 'P-2'.
14/03/2014	1259	National Westminster Bank Plc	UK	Long Term Rating downgraded to 'Baa1' from 'A3', removed from Review for Possible Downgrade and placed on Negative Outlook. Short Term Rating affirmed at 'P-2'. Financial Strength Rating affirmed at 'D+', removed from Review for Possible Downgrade and placed on Negative Outlook.
14/03/2014	1259	The Royal Bank of Scotland Plc	UK	Long Term Rating downgraded to 'Baa1' from 'A3', removed from Review for Possible Downgrade and placed on Negative Outlook. Short Term Rating affirmed at 'P-2'. Financial Strength Rating affirmed at 'D+', removed from Review for Possible Downgrade and placed on Negative Outlook.
14/03/2014	1259	Ulster Bank Ltd	UK	Long Term Rating downgraded to 'Baa3' from 'Baa2', Negative Outlook. Short Term rating downgraded to 'P-3' from 'P-2'. Financial Strength Rating downgraded to 'E+' from 'D-', Outlook changed to Stable from Negative.
24/03/2014	1261	UniCredit Bank AG	Germany	Long Term Rating downgraded to 'Baa1' from 'A3', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-2'. Financial Strength Rating downgraded to 'D+' from 'C-', Outlook changed to Stable from Negative.

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Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action