

City Of London Corporation  
Monthly Investment Analysis Review

December 2014



# City Of London Corporation

## Monthly Economic Summary

### General Economy

Although December 2014 was a busy month, it was oil prices plummeting to a 5 year low, putting stress on energy exporting nations, that was most influential. The end of November saw shoppers rushing to the high street and online to make the most of the US styled Black Friday and Cyber Monday sales, pushing retail sales growth to a 10 year high. In addition, The Prudential Regulatory Authority (PRA) released the results of its stress tests of eight UK banks, with only the Co-operative Bank failing.

Growth in Manufacturing output fell to 0.7%, its biggest monthly decline since May. This was hit by a 4.5% fall in computer, electronic and optical products. Manufacturing Purchasing Managers' Index (PMI) rose marginally to 53.5 from 53.3 in October due to growth in new orders helping to push employment in the sector up to a four month high. The Construction PMI fell to 59.4 from 61.4, the weakest reading since October 2013. However, Britain's services sector expanded faster than expected last month, suggesting the economy may be slowing less than previously thought. The Services PMI rose to 58.6 after falling sharply to 56.2 in October, beating all market expectations. This rise in the index was the biggest in over a year and it has exceeded the 50 level that represents growth for nearly two years. The data showed that falling oil prices, which hit a five-year low, were helping firms to offset the effect of staff costs as hiring increased at its fastest rate since July.

Inflation fell for a third consecutive month to 1% in December, the lowest level seen in 12 years. This is partly due to the strength of sterling, which has helped by cutting the price of imports, as well as downward pressure from food and oil prices.

In the Autumn Statement, Chancellor George Osborne abolished the residential slab system so in future the stamp duty rates will only apply to the part of the property price that falls within their respective bands. As a result, stamp duty will be cut for the 98% of homebuyers who pay it. Multinational firms and banks will be taxed 25% on profits generated from economic activity in the UK which gets shifted out of the country.

The PRA tested the balance sheets of eight major UK Banks to see how they would fair against another economic down turn. The results of the test came as no surprise with the Co-operative Bank being the only bank to fail to meet the required capital ratio. The part-nationalised banks Lloyds and RBS only narrowly managed to pass but they are still too vulnerable for comfort. The European Banking Association also released stress test results in December with all four UK banks passing.

UK GDP in year on year terms was revised down to 2.6% for the third quarter, down from 3.0% in a previous estimate. However, the economy is showing positive signs with supermarket competition and cheap fuel prices, encouraging consumer spending. This is also supported by unemployment remaining stable at 6% and wages outstripping inflation, showing that Britain's economy still looks on course to expand at a strong pace in 2015.

Britain's goods trade deficit narrowed in October to its lowest level in seven months. The overall trade deficit narrowed to £2.02bn in October, down nearly £800m and hitting its lowest level since March. This was due to lower fuel imports and a slight rise in exports.

The UK saw US styled "Black Friday" discounts causing record sales growth as retail sales grew at their fastest annual rate in more than a decade in November. Retail sales grew 6.4% on the year which is the fastest annual growth since May 2004. This is due to downward pressure from falling food and oil prices and rising wages, which has resulted in consumers having more money to spend. The GfK consumer confidence index, however, edged down in December to its lowest level since March, as optimism about the economy hit a 17-month low.

The US economy grew to 5.0% annually, revised up from an original estimate of 3.9%, the fastest pace of growth since the third quarter of 2003. With a rapidly strengthening labour market and lower oil prices, there should be enough momentum to keep the Federal Reserve on course to start raising interest rates by the middle of 2015. Furthermore US employers added the largest number of workers in nearly three years with Nonfarm Payrolls rising by 321,000 last month. The unemployment rate remained at a six-year low, at 5.8%. This confirms that the economy is coping well despite slowdowns in China, the Eurozone and a recession in Japan.

### Housing Market

Mortgage lender Nationwide reported that British house prices eased for a fourth consecutive month in December, slowing to 0.2% from 0.3%. Year on year house prices rose by 7.2% in December.

### Forecast

Capita Asset Services kept its Bank Rate forecast unchanged this month, expecting the first increase in Q2 2015. Capital Economics did not alter their forecast this month

Bank Rate	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

# 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	44,900,000	0.48%		MMF	AAA	0.000%
EMMF IGNIS Short Duration Cash Fund	5,000,000	0.92%		EMMF	AAA	0.000%
MMF Federated Investors (UK)	40,000,000	0.44%		MMF	AAA	0.000%
EMMF Prime Rate Cash Plus Fund	5,000,000	0.67%		EMMF	AAA	0.000%
MMF Invesco	900,000	0.38%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.36%		MMF	AAA	0.000%
EMMF Payden Sterling Reserve Fund	55,000,000	1.01%		EMMF	AAA	0.000%
Lloyds Bank Plc	20,500,000	0.50%		Call	A	0.000%
Leeds Building Society	5,000,000	0.49%	16/09/2014	02/01/2015	A-	0.000%
The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.003%
The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.003%
The Royal Bank of Scotland Plc	10,000,000	3.95%	03/01/2012	05/01/2015	BBB+	0.003%
The Royal Bank of Scotland Plc	12,100,000	3.95%	03/01/2012	05/01/2015	BBB+	0.003%
Nationwide Building Society	8,500,000	0.49%	26/09/2014	05/01/2015	A	0.001%
Lloyds Bank Plc	10,000,000	0.57%	01/10/2014	05/01/2015	A	0.001%
Coventry Building Society	8,000,000	0.49%	30/09/2014	06/01/2015	A-	0.001%
National Australia Bank Ltd	5,000,000	0.43%	01/10/2014	06/01/2015	AA-	0.000%
Lloyds Bank Plc	2,200,000	0.57%	07/10/2014	07/01/2015	A	0.002%
Nationwide Building Society	5,000,000	0.51%	01/10/2014	07/01/2015	A	0.002%
Lloyds Bank Plc	2,300,000	0.57%	09/10/2014	09/01/2015	A	0.002%
The Royal Bank of Scotland Plc	2,500,000	0.57%	13/10/2014	13/01/2015	BBB+	0.007%
Nationwide Building Society	8,500,000	0.50%	15/10/2014	15/01/2015	A	0.004%
Yorkshire Building Society	3,100,000	0.50%	27/10/2014	27/01/2015	BBB+	0.015%
Yorkshire Building Society	2,800,000	0.50%	28/10/2014	28/01/2015	BBB+	0.015%
The Royal Bank of Scotland Plc	25,000,000	0.50%	15/10/2014	30/01/2015	BBB+	0.016%
Nationwide Building Society	5,200,000	0.50%	27/10/2014	30/01/2015	A	0.007%
Yorkshire Building Society	6,700,000	0.50%	03/11/2014	03/02/2015	BBB+	0.019%
Nationwide Building Society	6,200,000	0.50%	03/11/2014	04/02/2015	A	0.008%
Nationwide Building Society	4,400,000	0.50%	10/11/2014	10/02/2015	A	0.010%
Lloyds Bank Plc	3,000,000	0.57%	10/11/2014	10/02/2015	A	0.010%
Lloyds Bank Plc	2,700,000	0.57%	13/11/2014	13/02/2015	A	0.010%
Lloyds Bank Plc	1,200,000	0.57%	20/11/2014	20/02/2015	A	0.012%
Nationwide Building Society	10,000,000	0.51%	25/11/2014	24/02/2015	A	0.013%
Coventry Building Society	2,300,000	0.45%	25/11/2014	25/02/2015	A-	0.013%
Nationwide Building Society	5,000,000	0.50%	25/11/2014	26/02/2015	A	0.014%
Yorkshire Building Society	2,800,000	0.50%	26/11/2014	27/02/2015	BBB+	0.032%
Nationwide Building Society	3,800,000	0.50%	28/11/2014	02/03/2015	A	0.014%
Svenska Handelsbanken AB	5,000,000	0.49%	01/12/2014	03/03/2015	AA-	0.003%
Nationwide Building Society	6,600,000	0.51%	03/12/2014	03/03/2015	A	0.015%

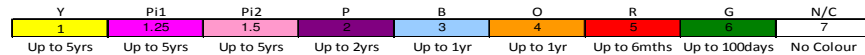
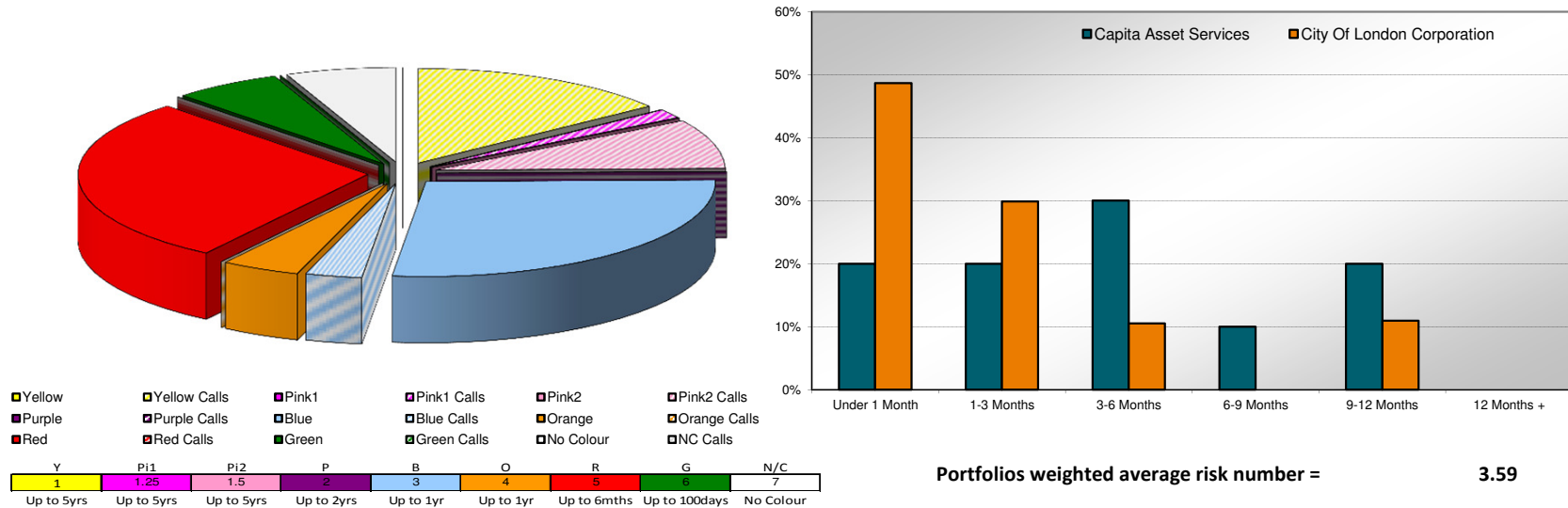
## City Of London Corporation

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Nationwide Building Society	10,000,000	0.51%	01/12/2014	04/03/2015	A	0.015%
Yorkshire Building Society	2,200,000	0.47%	04/12/2014	04/03/2015	BBB+	0.035%
Nationwide Building Society	13,000,000	0.51%	01/12/2014	05/03/2015	A	0.015%
Lloyds Bank Plc	10,000,000	0.57%	01/12/2014	06/03/2015	A	0.015%
Coventry Building Society	5,000,000	0.46%	10/12/2014	10/03/2015	A-	0.016%
Lloyds Bank Plc	5,000,000	0.57%	11/12/2014	11/03/2015	A	0.017%
Nationwide Building Society	5,400,000	0.50%	15/12/2014	16/03/2015	A	0.018%
Yorkshire Building Society	2,400,000	0.47%	16/12/2014	16/03/2015	BBB+	0.041%
Nationwide Building Society	2,900,000	0.50%	16/12/2014	17/03/2015	A	0.018%
National Australia Bank Ltd	7,000,000	0.43%	17/12/2014	17/03/2015	AA-	0.003%
Nationwide Building Society	5,000,000	0.50%	17/12/2014	17/03/2015	A	0.018%
Leeds Building Society	4,200,000	0.47%	08/12/2014	18/03/2015	A-	0.018%
Leeds Building Society	10,000,000	0.48%	08/12/2014	19/03/2015	A-	0.019%
Nationwide Building Society	6,400,000	0.50%	23/12/2014	23/03/2015	A	0.019%
Lloyds Bank Plc	5,000,000	0.95%	27/03/2014	27/03/2015	A	0.020%
Lloyds Bank Plc	2,200,000	0.95%	28/03/2014	30/03/2015	A	0.021%
Coventry Building Society	4,700,000	0.45%	29/12/2014	30/03/2015	A-	0.021%
Nationwide Building Society	5,200,000	0.50%	29/12/2014	30/03/2015	A	0.021%
Nationwide Building Society	8,900,000	0.51%	31/12/2014	31/03/2015	A	0.021%
Lloyds Bank Plc	10,000,000	0.95%	01/04/2014	01/04/2015	A	0.022%
Barclays Bank Plc	10,000,000	0.90%	01/04/2014	02/04/2015	A	0.022%
Barclays Bank Plc	5,000,000	0.85%	07/04/2014	07/04/2015	A	0.023%
Barclays Bank Plc	10,800,000	0.92%	26/03/2014	10/04/2015	A	0.024%
National Australia Bank Ltd	11,500,000	0.45%	30/12/2014	13/04/2015	AA-	0.005%
Skipton Building Society	20,000,000	0.95%	22/04/2014	22/04/2015	BBB-	0.062%
Lloyds Bank Plc	5,000,000	0.95%	07/05/2014	07/05/2015	A	0.030%
Lloyds Bank Plc	16,000,000	0.93%	07/05/2014	07/05/2015	A	0.030%
Barclays Bank Plc	39,000,000	1.00%	27/11/2014	27/11/2015	A	0.079%
Lloyds Bank Plc	32,200,000	1.00%	22/12/2014	22/12/2015	A	0.085%
<b>Total Investments</b>	<b>£650,200,000</b>	<b>0.87%</b>				<b>0.019%</b>

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## Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



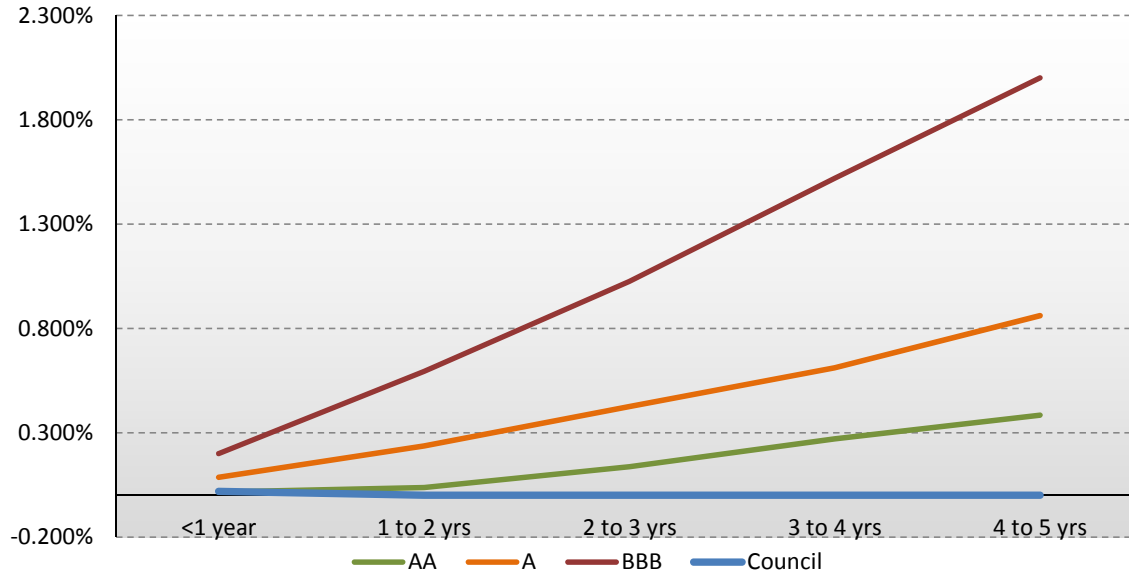
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour		% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs	
			in Calls	Amount of Colour in Calls					WAM	WAM at Execution
Yellow	14.73%	£95,800,000	100.00%	£95,800,000	14.73%	0.45%	0	0	0	0
Pink1	1.54%	£10,000,000	100.00%	£10,000,000	1.54%	0.80%	0	0	0	0
Pink2	8.46%	£55,000,000	100.00%	£55,000,000	8.46%	1.01%	0	108	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	30.28%	£196,900,000	10.41%	£20,500,000	3.15%	1.42%	92	397	102	444
Orange	4.38%	£28,500,000	0.00%	£0	0.00%	0.45%	72	97	72	97
Red	28.42%	£184,800,000	0.00%	£0	0.00%	0.66%	118	189	118	189
Green	6.03%	£39,200,000	0.00%	£0	0.00%	0.47%	52	98	52	98
No Colour	6.15%	£40,000,000	0.00%	£0	0.00%	0.72%	78	228	78	228
<b>Total</b>	<b>100.00%</b>	<b>£650,200,000</b>	<b>27.88%</b>	<b>£181,300,000</b>	<b>27.88%</b>	<b>0.87%</b>	<b>73</b>	<b>207</b>	<b>103</b>	<b>275</b>

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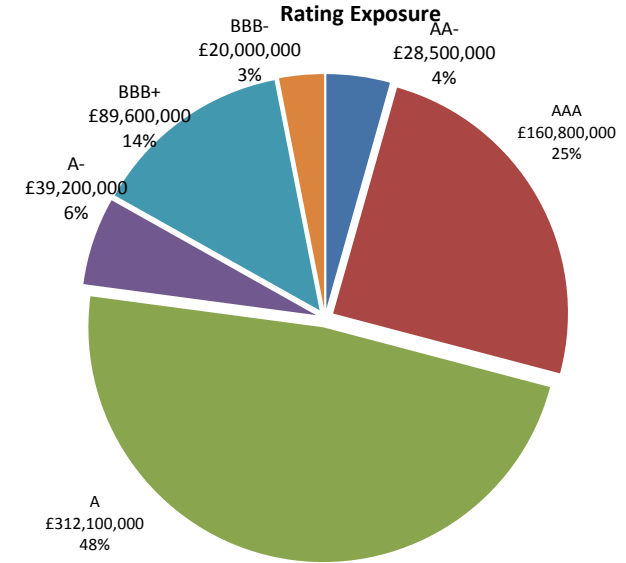
## Investment Risk and Rating Exposure

### 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	0.017%	0.038%	0.137%	0.271%	0.384%
A	0.087%	0.237%	0.425%	0.610%	0.861%
BBB	0.201%	0.595%	1.025%	1.519%	2.000%
Council	0.019%	0.000%	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
15/12/2014	1316	France Sovereign Rating	France	Downgraded to 'AA' from 'AA+', removed from 'Negative Watch' and placed on a 'Stable' Outlook.

## City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/12/2014	1313	Sumitomo Mitsui Banking Corporation Europe Ltd	UK	Moody's downgraded the Long Term Rating to 'A1' from 'Aa3', placed on a Stable Outlook. Affirmed Short Term Rating at 'P-1'. The Financial Strength Rating remained at 'C' with a Stable Outlook.
19/12/2014	1318	HSBC Bank USA, N.A.	U.S.A	Affirmed Long Term Rating at 'A1', 'Stable' Outlook. Affirmed Short Term Rating at 'P-1'. Affirmed Financial Strength Rating at 'C-', Outlook changed to 'Stable' from 'Negative'.
19/12/2014	1319	ING Bank NV	Netherlands	Affirmed Long Term Rating at 'A2', 'Negative' Outlook. Affirmed Short Term Rating at 'P-1'. Affirmed Financial Strength Rating at 'C-', Outlook changed to 'Stable' from 'Negative'.



## City Of London Corporation

### Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
02/12/2014	1314	Bank of America, N.A.	U.S.A	Affirmed the Long Term Rating at 'A', Outlook changed to 'Stable' from 'Negative'. Affirmed the Short Term Rating at 'A-1'.
02/12/2014	1314	Merrill Lynch International	UK	Affirmed the Long Term Rating at 'A', Outlook changed to 'Stable' from 'Negative'. Affirmed the Short Term Rating at 'A-1'.
05/12/2014	1315	Saudi Arabia Sovereign Rating	Saudi Arabia	Affirmed at 'AA-', Outlook changed to 'Stable' from 'Positive'.
17/12/2014	1317	Arab National Bank	Saudi Arabia	Affirmed at 'A', Outlook changed to 'Stable' from 'Positive', Short Term Rating Affirmed at 'A-1'.