

City Of London Corporation

Monthly Investment Analysis Review

April 2015



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Monthly Economic Summary

General Economy

Throughout April, speculation and uncertainty over the general election outcome caused markets to remain cautious. Surprisingly poor US employment data now points to a Fed rate hike in September as opposed to June. Meanwhile, the UK narrowly avoided slipping into deflation territory and held the headline inflation rate steady at 0%.

The month kicked off with positive news from PMI activity surveys. The services sector hit an eight month high of 58.9, beating economists' forecasts of a much more modest rise to 57.0. Whilst growth at the moment remains largely reliant on domestic demand, there were signs that investment demand and export orders had picked up which are much needed to put economic growth on a more solid footing. The construction industry sloped back in March as companies delayed spending ahead of the general election in May. However, manufacturing hit its fastest rate for eight months, rising from 54.0 to 54.4.

The Monetary Policy Committee (MPC) remained unanimous on no rate hike this month and the minutes later revealed that policymakers at the Bank of England have become more upbeat about the outlook for the Eurozone and believe that inflation could recover strongly next year.

British inflation held steady in March at the record-low level of 0%, however this is unlikely to trigger a policy change from the MPC as the sharp fall seen in inflation has been driven by a one off slump in oil prices and by falls in food and gas prices. Economists still forecast inflation to dip into negative territory in the coming months, although this is seen as being positive in the run up to the General Election as households benefit from the extra disposable income.

The strong pound weighed on trade deficit figures which were announced for February, showing that the value of exports fell to £23.16bn, the lowest level since September 2010. Unfortunately, this news will do little to ease concerns that the economy is still too dependent upon consumer spending. However, public finance data proved to be much more positive, as the public sector net borrowing figure in March was £7.4bn, down 5.6% from a year earlier. This means that the Chancellor George Osborne was comfortably below his target for reducing the country's deficit in the 2014/15 financial year with a total deficit for the year of £87.3bn.

Retail sales fell by 0.5% in March, hit by the biggest slump in fuel sales in nearly three years. Many believed that this was pointing to a slowdown in economic growth for Q1 2015, and they were proven correct. The first estimate for Q1 growth in the UK came in at 0.3%, compared with 0.6% last quarter, a slower pace than economists' expectations. Whilst there was growth in the services industry, this was offset by a 1.6% fall in construction. This slowdown is seen as temporary and strong growth throughout 2015 is still expected.

Consumer confidence in the UK held steady in April, according to the GfK measure, remaining at +4. The public took a slightly brighter view on the outlook of the economy and their personal finances but the index didn't gain any momentum over the last month. That said, this measure currently stands at the highest level in more than twelve years.

In the Eurozone, the European Central Bank (ECB) announced that they would keep interest rates unchanged at the record low of 0.05% while it focuses on the bond-buying programme to help boost the economy. Almost six weeks into this programme, the ECB are already claiming some improvement as the economy picks up and lending recovers. Four months of deflation ended in April with consumer prices unchanged from a year ago, which will be welcome news for the ECB especially as economists are now predicting that inflation will turn positive in the second half of the year.

In the US, the beginning of April saw an unexpectedly weak employment report with a well below consensus announcement of only a 126,000 increase in non-farm payrolls. This was due to poor weather, a strong dollar and weakness in the energy sector, although a recent run of strong employment data suggests that this may just be a temporary blip. GDP figures released later in the month were also disappointing as Q1 growth slowed to 0.2% from 2.2% in Q4 2014, following poor consumer spending and a strong dollar. The Fed noted the slower economy in their statement for the April meeting and said that business investment had also softened and exports had declined. They removed all calendar references and timetables, suggesting that any rate hike decision will be wholly data dependent.

Housing Market

Mortgage lender Halifax reported house price growth of 0.4% in March, from a decline of 0.4% in February. Prices also increased by 8.1% in the first quarter of 2015, a slight fall from the three months to February figure of 8.3%. Nationwide stated that house prices rose at the fastest monthly pace since June 2014 in April, to show growth of 1.0%, from 0.1% in March. This came as a sign that the housing market may be starting to gain momentum once again. Helped by healthy labour market conditions and continued low mortgage rates, this will help underpin housing demand in the quarters ahead.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the first quarter of 2016. Capital Economics did alter their forecast in April. They now expect the first Bank Rate increase to come in Q2 2016.

Bank Rate	Jun-15	Sep-15	Dec-15	Mar-16	Jun-15
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.75%

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Current Investment List

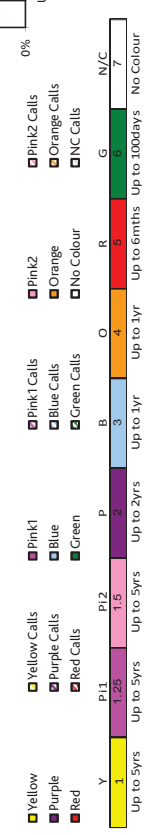
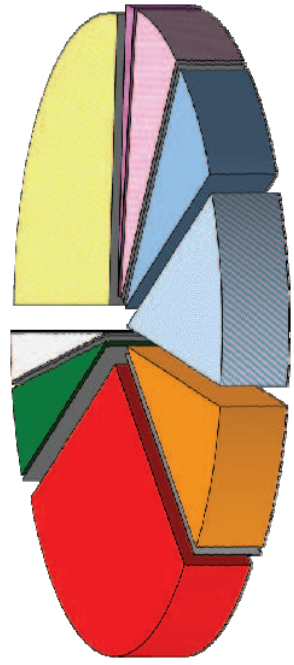
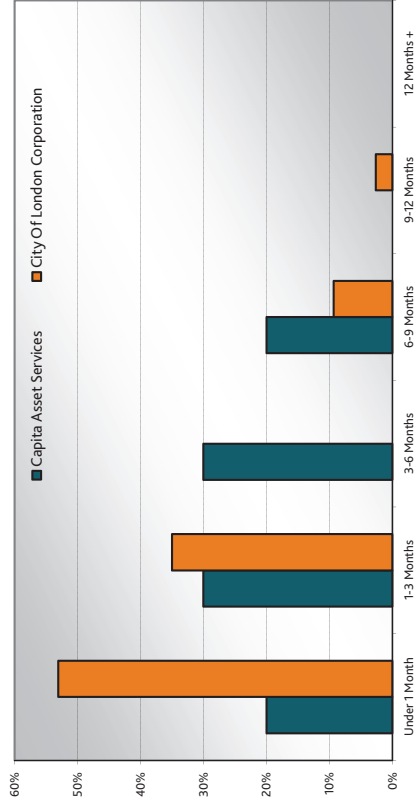
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Ignis	32,300,000	0.47%		MMF	AAA	0.000%
EMMF IGNIS Short Duration Cash Fund	5,000,000	0.62%		EMMF	AAA	0.000%
MMF Federated Investors (UK)	77,000,000	0.46%		MMF	AAA	0.000%
EMMF Prime Rate Cash Plus Fund	5,000,000	0.59%		EMMF	AAA	0.000%
MMF Invesco	82,500,000	0.44%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.41%		MMF	AAA	0.000%
EMMF Payden Sterling Reserve Fund	55,000,000	1.19%		EMMF	AAA	0.000%
Lloyds Bank Plc	83,000,000	0.50%		Call	A	0.000%
Nationwide Building Society	4,400,000	0.50%	04/02/2015	05/05/2015	A	0.001%
Yorkshire Building Society	4,400,000	0.47%	04/02/2015	06/05/2015	BBB+	0.002%
Nationwide Building Society	2,100,000	0.50%	06/02/2015	06/05/2015	A	0.001%
Lloyds Bank Plc	5,000,000	0.95%	07/05/2014	07/05/2015	A	0.001%
Lloyds Bank Plc	16,000,000	0.93%	07/05/2014	07/05/2015	A	0.001%
Yorkshire Building Society	3,000,000	0.47%	05/02/2015	08/05/2015	BBB+	0.003%
Australia and New Zealand Banking Group Ltd	8,100,000	0.40%	09/02/2015	11/05/2015	AA-	0.000%
Nationwide Building Society	4,400,000	0.50%	16/02/2015	18/05/2015	A	0.003%
Australia and New Zealand Banking Group Ltd	4,500,000	0.47%	19/02/2015	19/05/2015	AA-	0.000%
Australia and New Zealand Banking Group Ltd	4,800,000	0.50%	26/02/2015	26/05/2015	AA-	0.000%
Nationwide Building Society	10,500,000	0.50%	04/03/2015	04/06/2015	A	0.006%
Nationwide Building Society	2,700,000	0.50%	04/03/2015	04/06/2015	A	0.006%
Nationwide Building Society	10,000,000	0.50%	04/03/2015	05/06/2015	A	0.006%
Yorkshire Building Society	5,000,000	0.47%	04/03/2015	08/06/2015	BBB+	0.016%
Coventry Building Society	2,300,000	0.45%	04/03/2015	08/06/2015	A-	0.007%
Australia and New Zealand Banking Group Ltd	7,600,000	0.40%	04/03/2015	09/06/2015	AA-	0.001%
Nationwide Building Society	2,400,000	0.50%	09/03/2015	09/06/2015	A	0.007%
Nationwide Building Society	10,500,000	0.51%	05/03/2015	10/06/2015	A	0.007%
Coventry Building Society	5,000,000	0.45%	10/03/2015	10/06/2015	A-	0.007%
Svenska Handelsbanken AB	5,000,000	0.48%	05/03/2015	11/06/2015	AA-	0.001%
Nationwide Building Society	9,400,000	0.52%	05/03/2015	11/06/2015	A	0.007%
Lloyds Bank Plc	5,000,000	0.57%	11/03/2015	11/06/2015	A	0.007%
Nationwide Building Society	6,600,000	0.51%	16/03/2015	15/06/2015	A	0.008%
Yorkshire Building Society	2,400,000	0.47%	16/03/2015	16/06/2015	BBB+	0.019%
National Australia Bank Ltd	7,000,000	0.43%	17/03/2015	17/06/2015	AA-	0.001%
Nationwide Building Society	5,000,000	0.50%	17/03/2015	17/06/2015	A	0.008%
Nationwide Building Society	1,000,000	0.50%	18/03/2015	18/06/2015	A	0.008%
Leeds Building Society	3,900,000	0.48%	18/03/2015	25/06/2015	A-	0.010%
Leeds Building Society	10,300,000	0.49%	20/03/2015	26/06/2015	A-	0.010%
Nationwide Building Society	7,000,000	0.54%	31/03/2015	29/06/2015	A	0.010%
Coventry Building Society	4,500,000	0.45%	30/03/2015	30/06/2015	A-	0.010%

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Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Nationwide Building Society	15,000,000	0.55%	30/03/2015	01/07/2015	A	0.011%
Svenska Handelsbanken AB	20,000,000	0.49%	02/04/2015	02/07/2015	AA-	0.001%
Nationwide Building Society	2,100,000	0.50%	02/04/2015	03/07/2015	A	0.011%
Barclays Bank Plc	35,200,000	0.65%	05/01/2015	06/07/2015	A	0.011%
Nationwide Building Society	8,500,000	0.50%	07/04/2015	07/07/2015	A	0.012%
National Australia Bank Ltd	6,500,000	0.42%	09/04/2015	08/07/2015	AA-	0.001%
Leeds Building Society	5,800,000	0.52%	01/04/2015	09/07/2015	A-	0.012%
Coventry Building Society	7,800,000	0.46%	09/04/2015	10/07/2015	A-	0.012%
Nationwide Building Society	5,400,000	0.50%	16/04/2015	16/07/2015	A	0.013%
Barclays Bank Plc	25,000,000	0.55%	10/04/2015	20/07/2015	A	0.014%
Nationwide Building Society	7,000,000	0.52%	16/04/2015	20/07/2015	A	0.014%
National Australia Bank Ltd	3,400,000	0.42%	22/04/2015	22/07/2015	AA-	0.002%
Yorkshire Building Society	3,200,000	0.47%	22/04/2015	29/07/2015	BBB+	0.037%
Barclays Bank Plc	39,000,000	1.00%	27/11/2014	27/11/2015	A	0.036%
Lloyds Bank Plc	32,200,000	1.00%	22/12/2014	22/12/2015	A	0.040%
Skipton Building Society	20,000,000	1.05%	22/04/2015	22/04/2016	BBB-	0.147%
Total Investments	£765,700,000	0.62%				0.011%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



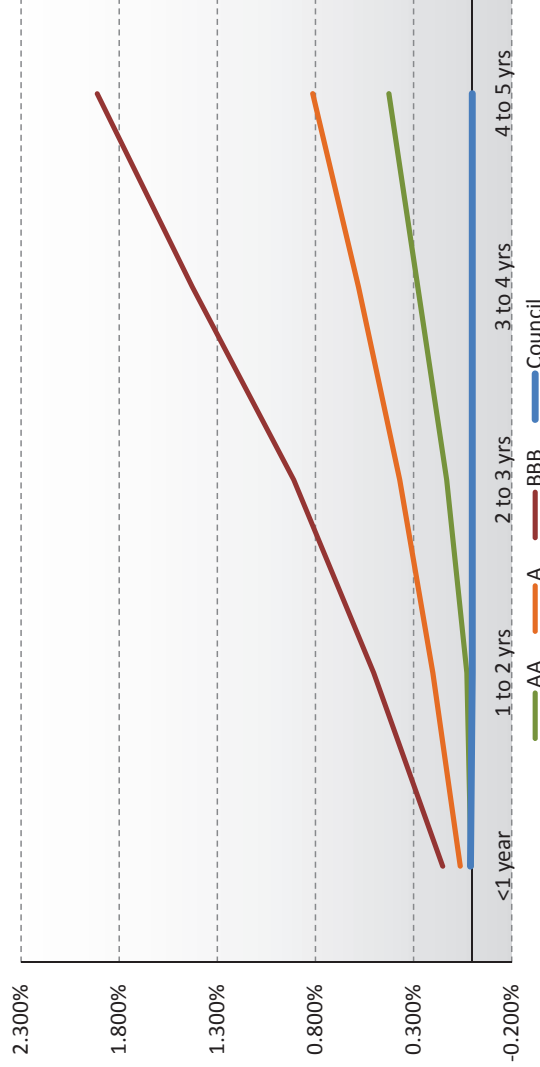
Portfolios weighted average risk number = 3.29

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

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	26.35%	£201,800,000	100.00%	£201,800,000	0.45%	0	0	0	0
Pink1	1.31%	£10,000,000	100.00%	£10,000,000	0.61%	0	0	0	0
Pink2	7.18%	£55,000,000	100.00%	£55,000,000	1.19%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0	0	0	0
Blue	18.44%	£141,200,000	58.78%	£83,000,000	0.68%	56	141	137	342
Orange	8.74%	£66,900,000	0.00%	£0	0.45%	47	92	47	92
Red	30.40%	£232,800,000	0.00%	£0	0.61%	83	153	83	153
Green	4.96%	£38,000,000	0.00%	£0	0.48%	49	96	49	96
No Colour	2.61%	£20,000,000	0.00%	£0	1.05%	358	366	358	366
Total	100.00%	£765,700,000	45.68%	£349,800,000	0.62%	51	95	81	175

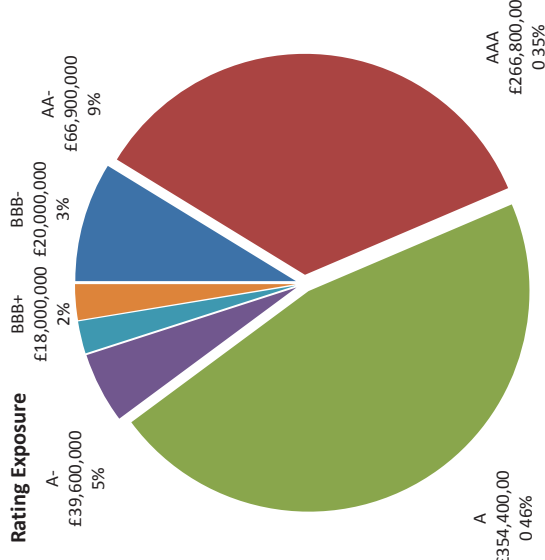
Investment Risk and Rating Exposure

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	0.007%	0.029%	0.130%	0.278%	0.425%
A	0.062%	0.202%	0.370%	0.581%	0.813%
BBB	0.150%	0.502%	0.910%	1.428%	1.912%
Council	0.011%	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.