

City Of London Corporation

Monthly Investment Analysis Review

April 2016



City Of London Corporation

Monthly Economic Summary

General Economy

As we near the EU referendum, concerns and uncertainty amongst markets and investors have risen. Weakening figures from UK data releases indicate that economic growth in the first quarter is likely to be weak. However, with oil prices charging up, confidence has been rising that the oil market could stabilise by the end of the year with supply and demand coming back into balance.

April was kick-started with fairly solid US employment data, revealing non-farm payrolls had increased by 215,000 in March. In spite of this, the unemployment rate rose to 5%, from an eight-year low of 4.9%, however this was primarily due to more Americans continuing to return to the labour force – a sign of confidence in the jobs market. This promising data however was followed by a stall in growth in the first quarter. US GDP rose at a disappointing annual rate of 0.5%, from the previous quarter's staggering 1.4%. Financial turmoil and a dramatic fall in business confidence, meant economists' expectations of a 0.7% expansion were missed.

Amid a moribund economy and reduced levels of consumer spending, the Fed opted not to raise interest rates in the US for another month running. Despite a 9-1 vote in favour of keeping rates unchanged, the committee struck a more optimistic tone about the global economy suggesting that further rises are likely in 2016 after the turmoil in commodity and financial markets earlier this year had put a brake in expectations.

The UK saw some weaker than anticipated Purchasing Managers' Index (PMI) figures. The manufacturing PMI nudged up slightly in March from its 34-month low of 50.8, to 51, yet this tepid number provides evidence that the sector will contribute little to economic growth for the first quarter of 2016. The fragility of Britain's vast services industry was also laid bare. The services PMI scored 53.7 in March, rebounding from a three-year low of 52.7 in February. However, the compiler of the survey, Markit, warned it was still below its long-run average of 55.2, showing this posted growth in the sector will not be enough to translate into confidence about the wider economy. Gloomy news continued for the construction sector, with the industry expanding at its slowest pace since 2013. The survey for construction came in at 54.2 for March, though Markit stated this was sluggish performance compared to previous years.

Amidst the run-up to the EU referendum, domestic and international investors have regained some confidence with equities having slightly recovered, bond yields risen and risk appetite rising. A firming in commodity prices has also contributed to greater business confidence. As we approach the much anticipated UK referendum on EU membership, opinion polls have recently suggested the gap between 'leave' and 'remain' has almost disappeared. Uncertainty surrounding Brexit has taken its toll on Britain, particularly on the labour market, as firms have been reluctant to hire staff ahead of 23rd June and have put long term investment decisions on hold. Data from the ONS revealed that the UK's unemployment rate remained steady at 5.1% in the three months to February. However, this headline figure betrayed some slightly less rosy details hidden beneath, with the number of people out of work jumping by 21,000 and wage growth running at 1.8%, its slowest rate since January 2015.

The poor retail sales figure for last month compounded fears of a slowdown in the UK economy. With sales dropping by 1.3% in March, analysts' forecasts of a 0.1% fall were greatly exceeded. Year-on-year, the pace at which retail sales continued to rise slowed to 2.7% from 3.6% in February.

Britain's trade deficit revealed a miniscule narrowing in February and so contributed little to dispelling concerns regarding a failure to rebalance the economy and increase UK exports. Net exports came in at £4.8bn in February, only slightly shrinking from £5.2bn in January. Nonetheless, with Sterling trading at a 30-month low against a basket of currencies, hopes for an improvement in trade are focused on currency weakness spurring demand for exports and dampening imports.

The headline inflation figure for the UK hit its highest level since December 2014, reaching a peak of 0.5% in March, compared with a year ago. On the month, inflation saw a pick-up of 0.3%. The ONS reported that the main drivers of this were rises in air fares and clothing prices due to the timing of Easter. CPI is expected to be pushed higher over the course of this year due to firmer oil and food prices, increasing wage pressures (reinforced by the National Living Wage), and a weakening currency.

While there was slightly more upbeat news on the public borrowing side, the OBR's full-year forecast of £72.2bn was missed. Public sector borrowing did perform substantially better than the previous March's total of £7.4bn and was lower than what markets had pencilled in, coming in at £4.8bn. Borrowing figures tend to be revised downwards following later estimates, so hope still remains for the Chancellor meeting his intended forecast.

Housing

Nationwide figures revealed that British houses price growth cooled in April following the government's introduction of extra taxes on purchasing properties for rental and second homes. House price acceleration eased to 4.9% y/y from 5.7% in March. On the month, house prices edged up by 0.2%. Halifax reported houses prices rose 2.6% in March, following a 1.6% drop the previous month. On an annual basis, house prices grew 10.1%.

Currency

Sterling opened the month at \$1.419 against the US dollar and closed at \$1.458. Against the Euro, Sterling opened at €1.251 and closed at €1.288.

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 2017. Capital Economics left their forecast unchanged in April. They expect the first Bank Rate increase to come in Q4 2016.

Bank Rate	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

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Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	MMF Aberdeen	25,000,000	0.53%		MMF	AAA	0.000%
	MMF CCLA	10,000,000	0.47%		MMF	AAA	0.000%
	MMF Deutsche	50,000,000	0.52%		MMF	AAA	0.000%
	MMF Federated Investors (UK)	77,700,000	0.53%		MMF	AAA	0.000%
	EMMF Federated Sterling Cash Plus Fund	5,000,000	0.73%		EMMF	AAA	0.000%
	MMF Invesco	73,900,000	0.53%		MMF	AAA	0.000%
	EMMF Payden Sterling Reserve Fund	55,000,000	0.73%		EMMF	AAA	0.000%
	MMF Standard Life	75,600,000	0.50%		MMF	AAA	0.000%
	EMMF Standard Life Short Duration Cash Fund	5,000,000	0.71%		EMMF	AAA	0.000%
	Lloyds Bank Plc	64,100,000	0.50%		Call	A	0.000%
	Nationwide Building Society	3,700,000	0.50%	04/02/2016	04/05/2016	A	0.001%
	Nationwide Building Society	6,600,000	0.51%	05/02/2016	05/05/2016	A	0.001%
	National Australia Bank Ltd	3,700,000	0.40%	08/02/2016	09/05/2016	AA-	0.000%
	Yorkshire Building Society	2,000,000	0.47%	08/02/2016	10/05/2016	A-	0.002%
	Coventry Building Society	2,500,000	0.50%	14/01/2016	12/05/2016	A	0.002%
	Yorkshire Building Society	3,900,000	0.47%	15/02/2016	16/05/2016	A-	0.003%
	Australia and New Zealand Banking Group Ltd	7,000,000	0.52%	29/02/2016	31/05/2016	AA-	0.001%
	Nationwide Building Society	4,000,000	0.50%	29/02/2016	01/06/2016	A	0.005%
	Nationwide Building Society	3,700,000	0.50%	01/03/2016	01/06/2016	A	0.005%
	Leeds Building Society	3,000,000	0.53%	01/03/2016	02/06/2016	A-	0.006%
	Nationwide Building Society	6,100,000	0.50%	03/03/2016	03/06/2016	A	0.006%
	Nationwide Building Society	5,800,000	0.51%	04/03/2016	06/06/2016	A	0.006%
	Nationwide Building Society	7,900,000	0.51%	04/03/2016	07/06/2016	A	0.006%
	Svenska Handelsbanken AB	5,000,000	0.53%	15/03/2016	15/06/2016	AA-	0.001%
	Lloyds Bank Plc	2,000,000	0.57%	17/03/2016	17/06/2016	A	0.008%
	Leeds Building Society	5,000,000	0.53%	17/03/2016	20/06/2016	A-	0.009%
	Australia and New Zealand Banking Group Ltd	5,000,000	0.52%	22/03/2016	22/06/2016	AA-	0.001%
	Nationwide Building Society	5,100,000	0.50%	24/03/2016	24/06/2016	A	0.009%
	Leeds Building Society	8,000,000	0.54%	21/03/2016	27/06/2016	A-	0.010%
	Nationwide Building Society	2,600,000	0.50%	24/03/2016	27/06/2016	A	0.010%
	Barclays Bank Plc	25,000,000	0.69%	20/01/2016	30/06/2016	A-	0.010%
	Nationwide Building Society	7,700,000	0.50%	01/04/2016	01/07/2016	A	0.011%
	Australia and New Zealand Banking Group Ltd	13,000,000	0.52%	04/04/2016	04/07/2016	AA-	0.001%
	Svenska Handelsbanken AB	18,600,000	0.54%	11/04/2016	11/07/2016	AA-	0.001%
	Nationwide Building Society	2,100,000	0.50%	13/04/2016	13/07/2016	A	0.013%
	Nationwide Building Society	12,100,000	0.53%	07/04/2016	19/07/2016	A	0.014%

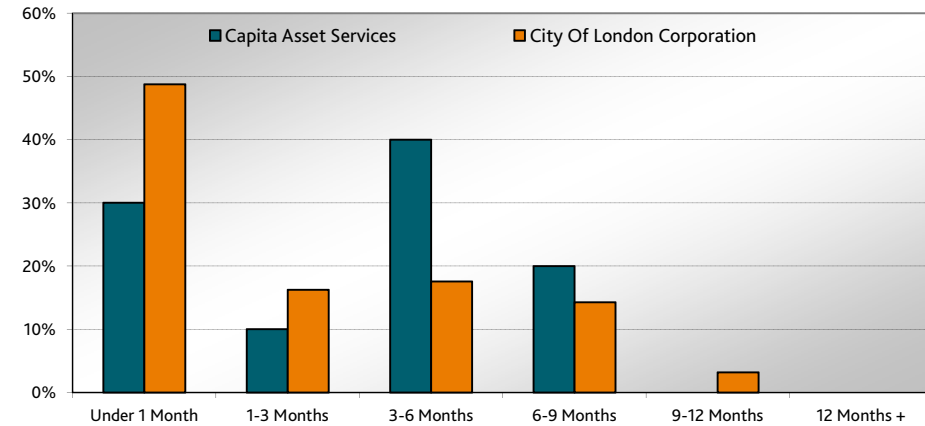
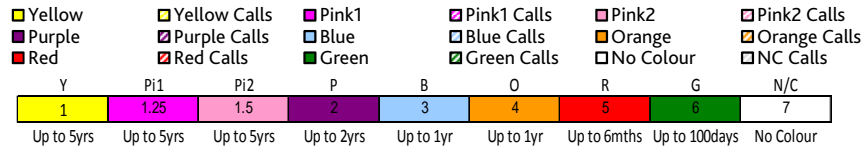
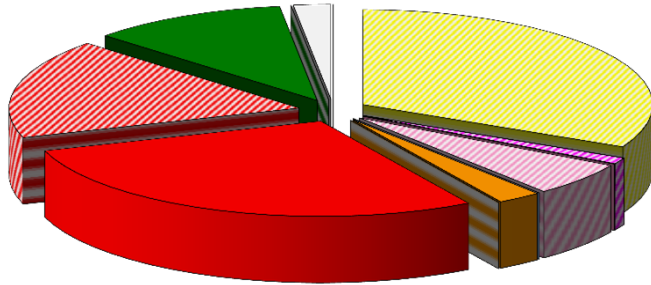
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Nationwide Building Society	9,500,000	0.53%	08/04/2016	19/07/2016	A	0.014%
Nationwide Building Society	2,400,000	0.50%	25/04/2016	29/07/2016	A	0.015%
Nationwide Building Society	3,100,000	0.50%	29/04/2016	29/07/2016	A	0.015%
Lloyds Bank Plc	19,700,000	0.75%	02/02/2016	02/08/2016	A	0.016%
Santander UK Plc	100,000,000	0.90%		Call95	A	0.016%
Coventry Building Society	5,300,000	0.50%	18/04/2016	15/08/2016	A	0.018%
Lloyds Bank Plc	6,700,000	0.75%	07/03/2016	07/09/2016	A	0.022%
Nationwide Building Society	8,700,000	0.72%	16/03/2016	16/09/2016	A	0.024%
Nationwide Building Society	3,000,000	0.71%	18/03/2016	19/09/2016	A	0.024%
National Australia Bank Ltd	14,100,000	0.60%	01/04/2016	03/10/2016	AA-	0.003%
Coventry Building Society	6,800,000	0.61%	01/04/2016	04/10/2016	A	0.027%
Coventry Building Society	5,300,000	0.61%	05/04/2016	05/10/2016	A	0.027%
Barclays Bank Plc	39,000,000	1.00%	27/11/2015	28/11/2016	A-	0.036%
Barclays Bank Plc	36,000,000	1.03%	21/12/2015	21/12/2016	A-	0.040%
Lloyds Bank Plc	27,800,000	1.05%	22/12/2015	22/12/2016	A	0.040%
Lloyds Bank Plc	10,000,000	0.90%	01/04/2016	02/01/2017	A	0.042%
Nationwide Building Society	25,000,000	0.88%	06/04/2016	06/01/2017	A	0.043%
Lloyds Bank Plc	10,600,000	1.50%	01/02/2016	01/02/2017	A	0.047%
Skipton Building Society	20,000,000	1.05%	22/04/2016	24/04/2017	BBB	0.148%
Total Investments	£965,400,000	0.67%				0.013%

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Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.59

WARoR = Weighted Average Rate of Return

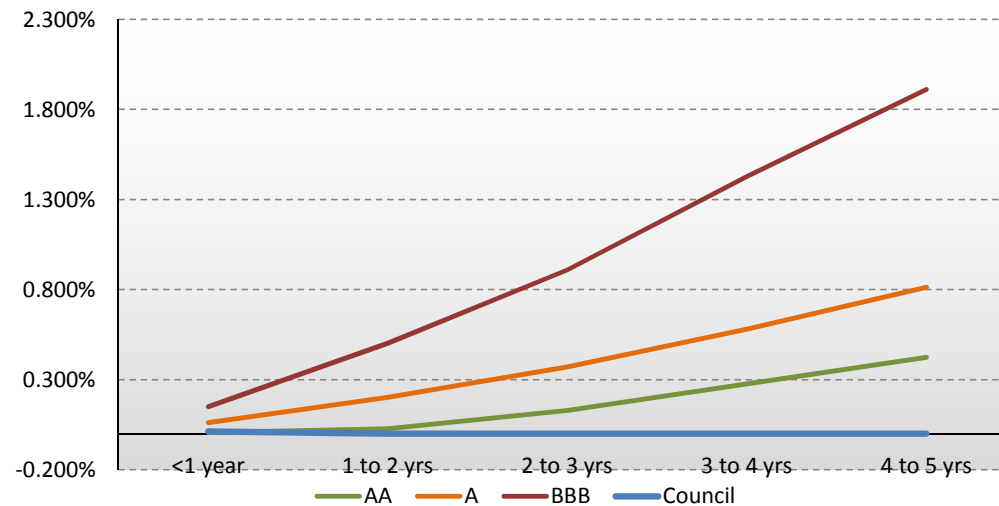
WAM = Weighted Average Time to Maturity

	% 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	32.34%	£312,200,000	100.00%	£312,200,000	32.34%	0.52%	0	0	0	0
Pink1	1.04%	£10,000,000	100.00%	£10,000,000	1.04%	0.72%	0	0	0	0
Pink2	5.70%	£55,000,000	100.00%	£55,000,000	5.70%	0.73%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	2.44%	£23,600,000	0.00%	£0	0.00%	0.54%	66	91	66	91
Red	45.44%	£438,700,000	37.41%	£164,100,000	17.00%	0.71%	99	132	123	177
Green	10.97%	£105,900,000	0.00%	£0	0.00%	0.91%	173	303	173	303
No Colour	2.07%	£20,000,000	0.00%	£0	0.00%	1.05%	359	367	359	367
Total	100.00%	£965,400,000	56.07%	£541,300,000	56.07%	0.67%	73	103	133	213

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Investment Risk and Rating Exposure

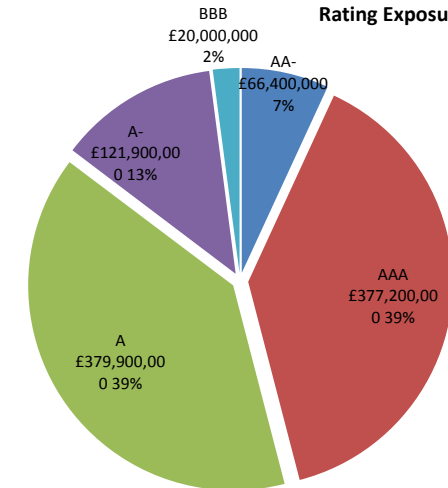
Investment Risk Vs. Rating Categories



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	0.007%	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	0.013%	0.000%	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
15/04/2016	1436	KBC Bank NV	Belgium	Long Term Rating affirmed at 'A-', Outlook changed to 'Positive' from 'Stable'. Short Term Rating affirmed at 'F1'. Viability Rating affirmed at 'a-'. Support Rating affirmed at '5'.
15/04/2016	1437	ABN AMRO Bank N.V.	Netherlands	Long Term Rating upgraded to 'A+' from 'A', with a 'Stable' Outlook. Short Term Rating affirmed at 'F1'. Viability Rating affirmed at 'a'. Support Rating affirmed at '5'.
15/04/2016	1437	ING Bank NV	Netherlands	Long Term Rating upgraded to 'A+' from 'A', with a 'Stable' Outlook. Short Term Rating affirmed at 'F1'. Viability Rating affirmed at 'a'. Support Rating affirmed at '5'.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
14/04/2016	1435	Abbey National Treasury Services plc	UK	Long Term Rating upgraded to 'Aa3' from 'A1' with a 'Stable Outlook'. The Short Term Rating was affirmed at 'P-1'.
14/04/2016	1435	Santander UK plc	UK	Long Term Rating upgraded to 'Aa3' from 'A1' with a 'Stable Outlook'. The Short Term Rating was affirmed at 'P-1'.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
No Changes		No Changes	No Changes	No Changes