

City Of London Corporation  
Monthly Investment Analysis Review

July 2016



## City Of London Corporation

### Monthly Economic Summary

#### General Economy

The UK's decision to leave the European Union dominated the headlines this month as the effects of the result started to manifest itself on various data releases. Brexit also had an impact on the political landscape. The June resignation of David Cameron as Prime Minister was followed by Theresa May being swiftly appointed in his place during July. Subsequently, this resulted in a restructuring of the Cabinet and the target of reaching a fiscal surplus by 2020 was abandoned.

The month began positively with UK manufacturing activity hitting a five month high in June. The UK manufacturing PMI rose to 52.1, from 50.4 in May, exceeding the 49.9 prediction of leading economists. This positive outlook for manufacturing provided some optimism for trade and employment leading in to the second half of the year. Conversely however, the construction industry had its worst contraction since 2009. The index plunged to 46.0 in June, the first time the index had fallen below 50 since April 2013. The Service sector PMI was similarly at its lowest since April 2013, dropping to 52.3 in June. While still in "expansion" territory (ie a reading above 50) this index had dropped back on uncertainty around the EU referendum, which had an adverse effect on consumer confidence and the value of the pound. It must be noted that the majority of all the data used for these indexes was collected before the 23rd June. This means these effects could be reversed (where positive) or amplified (where negative) in the coming months, with the latter more likely due to high levels of uncertainty in the economy after the UK's decision to leave the EU. On a more positive note, despite the weak PMI readings for June, the preliminary measure for Q2 GDP in the UK increased to 0.6% and 2.2% for this time a year ago. This rise was due primarily to the strong performance of the economy in the early stages of the period, before it tailed back in May and June.

UK unemployment also showed signs of improvement, falling to 4.9% in June, which was its lowest level since May 2005. With 31.705 million people now employed, the country will be waiting to see the effects of the referendum result on the labour market. Patriotic football fans flocking to watch the European Championships in France caused a surge in airfares - a major contributor to inflation's 0.5% rise last month. Again however, most of the data was collected before the referendum. The decision to leave is expected to push prices further up towards the Bank of England's 2% target as the impact of the sharp fall in the value of sterling filters through the economy. Elsewhere, the Bank of England surprised many investors by holding off on their first rate cut in seven years. Many expected a cut of 25 basis points after the UK's decision to leave, however the bank resisted these urges as they want to have more time to see and assess actual data releases before deciding on any policy change.

Eurozone jobs statistics showed unemployment continued at 10.1%, in June, its lowest level since 2011. The EU 28 also achieved their lowest levels since March 2009 with an unemployment rate of 8.6%. This fall was heavily influenced through the growth in manufacturing activity, leading to an increase in employment in the sector. Top economists are hoping that this will drive a large rise in consumer spending and thus help to limit the potential effects of 'Brexit'. A week after the Monetary Policy Committee decided to keep interest rates unchanged in the UK the European Central Bank followed suit. It maintained interest rates at a record low with the aim of reviving growth with the support of cheap credit into the economy. Continued support is provided by €80bn per month in asset purchasing to lower market bond yields and boost inflation, which only just returned to positive territory after four months of falling or stable prices. However, the hopes of the central bank were not reflected in growth data. This showed that the currency bloc's GDP grew by 0.3% this quarter, with an annual increase of 1.6%. These figures are lower than Q1's readings of 0.6% quarterly growth and a 1.7% annual rise, with little to suggest that performance will lift off in the near term.

UK retail sales were hit hard this month, falling 1.4% to 4.3%. The poor weather was cited as the main reason for this demise. However, there was little or no impact on overall growth as both April and May had been strong. It is still too early to assess the decision to leave the European Union has had on this sector as yet. Nevertheless, as with other parts of the economy, the outlook is somewhat uncertain, with a bias among expectations to the downside.

US nonfarm payrolls followed other positive employment figures with an increase of 287,000 in June a 4.9% level of unemployment. This was a significant improve on May's weakness. However, it was not enough to convince the Federal Reserve to alter its policy levels. This was maintained at the target range of 0.25%-0.5% in July. The aim of this accommodative monetary stance is to support further improvements in the labour market and help inflation return to the 2% target. The US economy wrapped up their month with weaker than expected GDP data as Q2 registered growth of 1.2% on an annual basis. Although this was a rise from Q1's figure of 0.8%, inventories fell for the first time since 2011 which was counterbalanced by solid consumer spending.

### Housing

Halifax house prices were up 1.3% from May and up 8.4% compared with this time last year, however once again the data was collected before the referendum vote. Nationwide house prices increased by 0.5% from the previous month and 5.2% compared with July last year, the fastest annual pace in four months. However, Nationwide did state that these figures are unlikely to reflect any impact from last month's vote to leave the European Union.

### Forecast

Both Capita Asset Services and Capital Economics altered its forecast this month. Capita Asset Services now expects a rate cut to come in Q3 2016 following UK's decision to leave the European Union. Capital Economics have also lowered their forecast and expect a rate cute in Q3 2016.

Bank Rate	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%

## City Of London Corporation

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen	58,800,000	0.58%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.45%		MMF	AAA	0.000%
MMF Deutsche	50,000,000	0.45%		MMF	AAA	0.000%
MMF Federated Investors (UK)	73,100,000	0.45%		MMF	AAA	0.000%
ECF Federated Sterling Cash Plus Fund	5,000,000	0.84%		ECF	AAA	0.000%
MMF Invesco	81,400,000	0.55%		MMF	AAA	0.000%
ECF Payden Sterling Reserve Fund	55,000,000	0.95%		ECF	AAA	0.000%
MMF Standard Life	42,300,000	0.47%		MMF	AAA	0.000%
ECF Standard Life Short Duration Cash Fund	5,000,000	0.76%		ECF	AAA	0.000%
Lloyds Bank Plc	40,700,000	0.50%		Call	A	0.000%
Lloyds Bank Plc	19,700,000	0.75%	02/02/2016	02/08/2016	A	0.000%
Nationwide Building Society	4,600,000	0.52%	04/05/2016	04/08/2016	A	0.001%
Nationwide Building Society	6,500,000	0.52%	05/05/2016	05/08/2016	A	0.001%
Coventry Building Society	5,300,000	0.50%	18/04/2016	15/08/2016	A	0.003%
Australia and New Zealand Banking Group Ltd	7,000,000	0.52%	31/05/2016	31/08/2016	AA-	0.001%
Nationwide Building Society	4,000,000	0.50%	01/06/2016	02/09/2016	A	0.006%
Nationwide Building Society	6,100,000	0.50%	03/06/2016	05/09/2016	A	0.006%
Nationwide Building Society	5,700,000	0.52%	06/06/2016	06/09/2016	A	0.006%
Lloyds Bank Plc	6,700,000	0.75%	07/03/2016	07/09/2016	A	0.006%
Nationwide Building Society	7,900,000	0.53%	07/06/2016	07/09/2016	A	0.006%
Nationwide Building Society	3,800,000	0.53%	01/06/2016	15/09/2016	A	0.008%
Svenska Handelsbanken AB	1,400,000	0.53%	15/06/2016	15/09/2016	AA-	0.001%
Svenska Handelsbanken AB	5,000,000	0.53%	15/06/2016	15/09/2016	AA-	0.001%
Nationwide Building Society	8,700,000	0.72%	16/03/2016	16/09/2016	A	0.008%
Nationwide Building Society	3,000,000	0.71%	18/03/2016	19/09/2016	A	0.008%
Lloyds Bank Plc	2,000,000	0.65%	17/06/2016	19/09/2016	A	0.008%
Lloyds Bank Plc	5,000,000	0.65%	22/06/2016	22/09/2016	A	0.009%
Coventry Building Society	2,300,000	0.50%	24/05/2016	23/09/2016	A	0.009%
Barclays Bank Plc	25,000,000	0.54%	30/06/2016	30/09/2016	A-	0.010%
National Australia Bank Ltd	14,100,000	0.60%	01/04/2016	03/10/2016	AA-	0.001%
Australia and New Zealand Banking Group Ltd	5,000,000	0.52%	30/06/2016	03/10/2016	AA-	0.001%
Coventry Building Society	6,800,000	0.61%	01/04/2016	04/10/2016	A	0.011%
Coventry Building Society	5,300,000	0.61%	05/04/2016	05/10/2016	A	0.011%
Nationwide Building Society	5,300,000	0.48%	01/07/2016	06/10/2016	A	0.011%
Nationwide Building Society	10,200,000	0.49%	01/07/2016	07/10/2016	A	0.012%
Lloyds Bank Plc	8,400,000	0.65%	07/07/2016	07/10/2016	A	0.012%

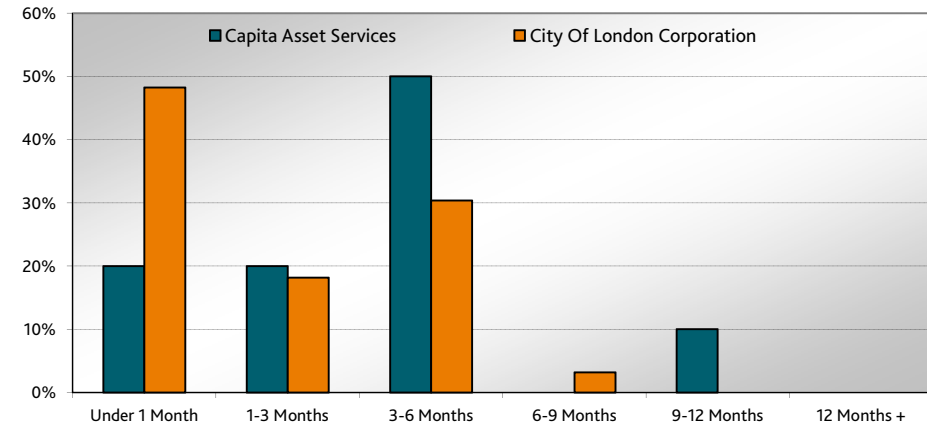
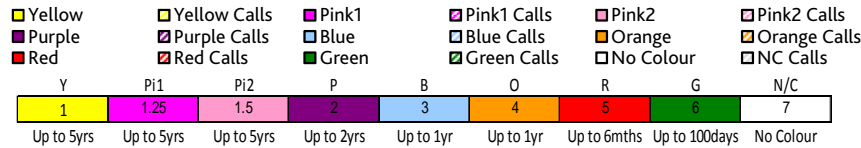
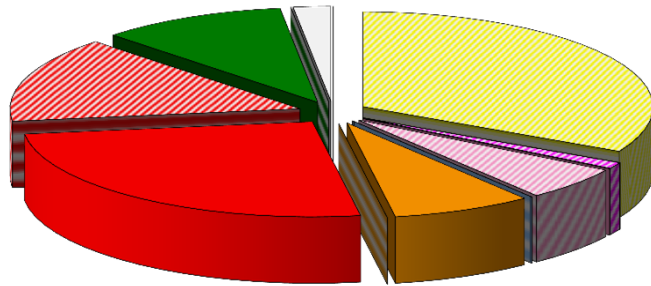
## City Of London Corporation

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Australia and New Zealand Banking Group Ltd	13,000,000	0.52%	04/07/2016	11/10/2016	AA-	0.001%
Svenska Handelsbanken AB	18,600,000	0.47%	11/07/2016	12/10/2016	AA-	0.001%
Lloyds Bank Plc	1,700,000	0.65%	12/07/2016	12/10/2016	A	0.012%
Nationwide Building Society	23,700,000	0.50%	25/07/2016	02/11/2016	A	0.016%
Santander UK Plc	100,000,000	0.90%		Call95	A	0.016%
Barclays Bank Plc	39,000,000	1.00%	27/11/2015	28/11/2016	A-	0.020%
National Australia Bank Ltd	10,900,000	0.58%	09/06/2016	09/12/2016	AA-	0.002%
Barclays Bank Plc	36,000,000	1.03%	21/12/2015	21/12/2016	A-	0.024%
Lloyds Bank Plc	27,800,000	1.05%	22/12/2015	22/12/2016	A	0.024%
Lloyds Bank Plc	10,000,000	0.90%	01/04/2016	02/01/2017	A	0.026%
Leeds Building Society	7,000,000	0.66%	20/06/2016	03/01/2017	A-	0.026%
Leeds Building Society	5,000,000	0.66%	20/06/2016	03/01/2017	A-	0.026%
Nationwide Building Society	25,000,000	0.88%	06/04/2016	06/01/2017	A	0.027%
Leeds Building Society	8,000,000	0.66%	27/06/2016	11/01/2017	A-	0.028%
Lloyds Bank Plc	10,600,000	1.50%	01/02/2016	01/02/2017	A	0.031%
Skipton Building Society	20,000,000	1.05%	22/04/2016	24/04/2017	BBB	0.110%
<b>Total Investments</b>	<b>£962,400,000</b>	<b>0.68%</b>				<b>0.010%</b>

## City Of London Corporation

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



Portfolios weighted average risk number =

**3.52**

WARoR = Weighted Average Rate of Return

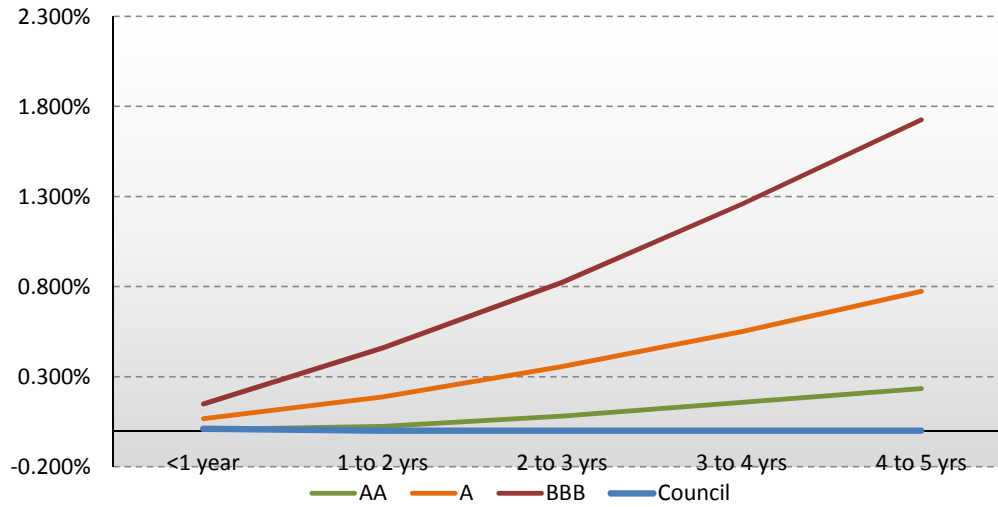
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/ECFs	
									WAM	WAM at Execution
Yellow	32.79%	£315,600,000	100.00%	£315,600,000	32.79%	0.50%	0	0	0	0
Pink1	1.04%	£10,000,000	100.00%	£10,000,000	1.04%	0.80%	0	0	0	0
Pink2	5.71%	£55,000,000	100.00%	£55,000,000	5.71%	0.95%	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	7.79%	£75,000,000	0.00%	£0	0.00%	0.53%	73	124	73	124
Red	40.19%	£386,800,000	36.38%	£140,700,000	14.62%	0.75%	81	146	89	190
Green	10.39%	£100,000,000	0.00%	£0	0.00%	0.90%	114	298	114	298
No Colour	2.08%	£20,000,000	0.00%	£0	0.00%	1.05%	267	367	267	367
<b>Total</b>	<b>100.00%</b>	<b>£962,400,000</b>	<b>54.17%</b>	<b>£521,300,000</b>	<b>54.17%</b>	<b>0.68%</b>	<b>56</b>	<b>107</b>	<b>92</b>	<b>212</b>

# City Of London Corporation

## Investment Risk and Rating Exposure

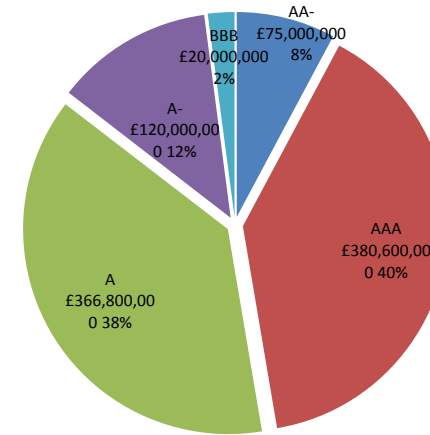
Investment Risk Vs. Rating Categories



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%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.011%	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.

## City Of London Corporation

### Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
12/07/2016	1466	National Bank of Abu Dhabi	Abu Dhabi	Long Term Rating affirmed at 'AA-', 'Stable Outlook'. Short Term Rating affirmed at 'F1+'. Viability Rating 'a-', placed on 'Negative Watch'. Support Rating affirmed at '1'.
20/07/2016	1469	Qatar National Bank	Qatar	Long Term Rating affirmed at 'AA-', 'Stable Outlook'. Short Term Rating affirmed at 'F1+'. Viability Rating downgraded to 'a-' from 'a', removed from 'Negative Watch'. Support Rating affirmed at '1'.



## City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
20/07/2016	1468	Credit Agricole Corporate and Investment Bank	France	Long Term Rating upgraded to 'A1' from 'A2', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'P-1'.
20/07/2016	1468	Credit Agricole SA	France	Long Term Rating upgraded to 'A1' from 'A2', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'P-1'.

## City Of London Corporation

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
07/07/2016	1461	Sovereign Rating Australia	Australia	Sovereign Rating affirmed at 'AAA', Outlook changed to 'Negative' from 'Stable'.
07/07/2016	1462	Australia and New Zealand Banking Group Ltd	Australia	Long Term Rating affirmed at 'AA-', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1+'.
07/07/2016	1462	Commonwealth Bank of Australia	Australia	Long Term Rating affirmed at 'AA-', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1+'.
07/07/2016	1462	National Australia Bank Ltd	Australia	Long Term Rating affirmed at 'AA-', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1+'.
07/07/2016	1462	Westpac Banking Corporation	Australia	Long Term Rating affirmed at 'AA-', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1+'.
07/07/2016	1463	National Westminster Bank Plc	U.K.	Long Term Rating affirmed at 'BBB+', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'A-2'.
07/07/2016	1463	Royal Bank of Scotland Group Plc	U.K.	Long Term Rating affirmed at 'BBB-', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'A-3'.
07/07/2016	1463	The Royal Bank of Scotland Plc	U.K.	Long Term Rating affirmed at 'BBB+', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'A-2'.
07/07/2016	1463	Ulster Bank Ltd	U.K.	Long Term Rating affirmed at 'BBB', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'A-2'.
07/07/2016	1464	Bank of Scotland Plc	U.K.	Long Term Rating affirmed at 'A', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1'.
07/07/2016	1464	Barclays Bank Plc	U.K.	Long Term Rating affirmed at 'A-', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-2'.
07/07/2016	1464	Clydesdale Bank	U.K.	Long Term Rating affirmed at 'BBB+', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-2'.
07/07/2016	1464	HSBC Bank Plc	U.K.	Long Term Rating affirmed at 'AA-', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1+'.
07/07/2016	1464	Lloyds Bank Plc	U.K.	Long Term Rating affirmed at 'A', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1'.
07/07/2016	1464	Santander UK Plc	U.K.	Long Term Rating affirmed at 'A', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1'.

## City Of London Corporation

### Monthly Credit Rating Changes

#### S&P

07/07/2016	1464	Nationwide Building Society	U.K.	Long Term Rating affirmed at 'A', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1'.
11/07/2016	1465	National Bank of Abu Dhabi	Abu Dhabi	Long Term Rating 'AA-', removed from 'Stable Outlook' and placed on 'Negative Watch'. Short Term Rating 'A-1+', placed on 'Negative Watch'.
20/07/2016	1467	Deutsche Bank AG	Germany	Long Term Rating affirmed at 'BBB+', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-2'.