

City Of London Corporation

Monthly Investment Analysis Review

December 2016



## City Of London Corporation

### Monthly Economic Summary

#### General Economy

As announced earlier this month, tax cuts, increased government spending and deregulation are a few economic tools that President-elect, Donald Trump, will look to use in order to boost US economic growth. Therefore, the unanimous decision by the Federal Reserve to raise interest rates for the first time since December 2015, to 0.5% - 0.75% was universally expected. This rate hike was just the second since the onset of the Financial Crisis, which saw the Federal Reserve cut rates to almost zero in order to stabilise the economy. The accompanying economic forecasts from the central bank were altered to reflect a faster pace of tightening in the coming year. These now suggest three rate hikes in 2017, up from two previously anticipated. Fed Chair, Janet Yellen, announced that the rate hike was in response to the “expected labour market conditions and inflation”, as the unemployment rate fell to a 9-year low in November at 4.6% and non-farm payrolls rose 156,000 from the revised figure of 135,000 in October. Moreover, Q3 GDP was finalised at its best rate in two years, at 3.5% annually, as consumer expenditure continued to perform strongly. Both pieces of data supported the decision to increase interest rates. Meanwhile, the potential impact of “Trumponomics” bolstered the view on a more aggressive rate outlook, despite an uncertain global economic outlook.

Moving on to the UK economy, the Purchasing Managers’ Index (PMI) figures released for November all revealed how the slump in Sterling after the Brexit vote has variously affected the Services, Construction and Manufacturing sectors. Unexpectedly, manufacturing activity cooled, with the headline reading falling to 53.4 from 54.2 in October. The survey revealed that higher input prices for factories and a fall in export orders took its toll on the index. In contrast, the construction PMI reading hit an 8-month high of 52.8 from 52.6 in October. The improvement was as a result of stronger productivity in commercial and civil engineering, as well as robust growth in house building. Likewise, the services sector PMI remained upbeat, rising to 55.2 from 54.5 in October, as Britain’s dominant sector grew at its fastest pace since January. Despite this strength in current conditions, the continued rise in inflation forecasted over the coming months is likely to raise input prices, which will be fed through to consumers in the form of higher prices. This saw most respondents to the survey having a negative outlook about the year ahead.

Consumer-level inflation figures hit a 2-year high of 1.2% in November, with rising prices for clothing and technology goods being key components of the increase. At the wholesale level, core prices (which exclude volatile elements such as food, drink and petrol) increased by 2.2% on the year, the highest annual increase since February. Looking ahead, the cost of imports will continue to upwardly impact on prices, with the Bank of England (BoE) forecasting consumer level prices to rise to 2.8% by mid-2018. Nevertheless, Mark Carney has previously stated that the Bank will tolerate some overshoot of its inflation target, hence why the MPC stuck to the status quo in its December meeting. In terms of growth, the final reading of Q3 GDP came in higher than the forecasted 0.5%, at 0.6%, while the annual rate was lowered due to revisions to growth figures in the first half of the year. Overall, while growth may have moderated from the first half of the year, it has not been as negatively affected by Brexit as some had feared.

Elsewhere, figures showed that the number of people in the labour force fell for the first time in more than a year. The drop of 6,000 came despite the unemployment rate falling to 4.8% in the three months to October, from 4.9% previously. Average weekly earnings excluding bonuses rose by 2.5% on an annual basis, from 2.4% in the three months to September. This rise was the joint strongest in more than a year. However, as Britain’s relationship with the EU creates uncertainty, it is widely expected that the unemployment rate will rise over the coming months as companies hold off from hiring until solid foundations about Britain’s future outside the EU have been made.

Discounts on ‘Black Friday’ saw the majority of consumer expenditure occurring in the last week of November, damaging sales for retailers such as clothing stores who did not take part as much as department stores. Higher fuel prices also impacted last month as the annual rate of retail sales fell to 5.9% in November from 7.2% in October. Nevertheless, the October rate was always seen as unsustainable. Furthermore, the BoE has warned that despite retail sales growth being relatively robust even after the Brexit vote, the depreciation in Sterling will increasingly feed through into the economy in the form of higher prices next year, causing growth to slow.

Public Finances seemed to be on track, when compared with the new deficit reduction goals set out by Chancellor Philip Hammond last month. The deficit for November was the lowest for a month since 2007 coming in at £12.6 billion, 4.4% lower than the deficit for the same month in 2015. The Office for Budget Responsibility (OBR) stated that the recent deterioration in public finances is a reflection of weaker tax revenue for this financial year as tax revenue growth for November of 3.6%, was some way below the average 4.4% seen so far in 2016.

Meanwhile, the European Central Bank (ECB) altered its policy during their monthly meeting. While it left the Asset Purchase Programme at its current monthly pace of €80 billion until the end of March 2017, new policy purchases thereafter will be at €60 billion per month until the end of December 2017, or beyond, if necessary. While ECB President Draghi insisted this was not policy tapering, market participants were not convinced, pushing up bond yields across the currency bloc. Elsewhere, data for the Eurozone showed growth had remained steady in the third quarter at 0.3%, with the year-on-year growth figure being revised to 1.7% from 1.6%. The latter figure matched that recorded in the second quarter. The unemployment rate for October was the lowest rate recorded in the Euro area since July 2009, as it fell to 9.8% from 9.9% in September.

Over the coming months the economic outlook for Britain remains unclear as plans for Brexit have yet to be finalised. While the threat of this and higher prices via Sterling depreciation weighed in, the GfK consumer confidence index registered a modest increase in December. In addition to Brexit progress, the spotlight will focus on the inauguration of Donald Trump on the 20th January as the effect of his administration on the US economy and that of its major trading partners in the coming years will become clearer.

## Housing

House price growth sped up in November for the first time since March, according to Halifax. However, looking ahead, it is suggested that price increases may slow. On the month, prices increased by 0.2%, with the three month annual figure increasing by 6.0%, up from the 5.2% growth recorded in the three months to October. Nationwide reported that house prices continued to rise in December with annual house prices growth up 4.5%, from 4.4% in November. However, economic uncertainty is likely to slow the pace of growth in 2017 with Nationwide currently forecasting house prices to rise by just 2% in 2017.

## Forecast

Capita Asset Services (CAS) did not alter their forecasts this month with a rate hike to 0.50% forecast in Q3 2019. Capital Economics now expect the bank rate to remain at 0.25% from Q4 2016 to Q2 2019 when it will increase to 0.50% and then increase again to 0.75% in Q4 2019.

Bank Rate	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
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%

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## Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	ECF Payden Sterling Reserve Fund	55,000,000	1.36%		ECF	AAA	0.000%
	ECF Federated Sterling Cash Plus Fund	5,000,000	0.70%		ECF	AAA	0.000%
	ECF Standard Life Short Duration Cash Fund	5,000,000	0.83%		ECF	AAA	0.000%
	MMF CCLA	10,000,000	0.26%		MMF	AAA	0.000%
	MMF Standard Life	53,900,000	0.28%		MMF	AAA	0.000%
	Lloyds Bank Plc	12,800,000	0.25%		Call	A	0.000%
	MMF Invesco	112,800,000	0.40%		MMF	AAA	0.000%
	MMF Federated Investors (UK)	81,800,000	0.30%		MMF	AAA	0.000%
	MMF Aberdeen	79,700,000	0.32%		MMF	AAA	0.000%
	Lloyds Bank Plc	10,000,000	0.90%	01/04/2016	02/01/2017	A	0.000%
	Australia and New Zealand Banking Group Ltd	5,000,000	0.26%	03/10/2016	03/01/2017	AA-	0.000%
	Leeds Building Society	7,000,000	0.66%	20/06/2016	03/01/2017	A-	0.001%
	Leeds Building Society	5,000,000	0.66%	20/06/2016	03/01/2017	A-	0.001%
	Nationwide Building Society	25,000,000	0.88%	06/04/2016	06/01/2017	A	0.001%
	Lloyds Bank Plc	14,600,000	0.50%	07/10/2016	09/01/2017	A	0.002%
	Leeds Building Society	8,000,000	0.66%	27/06/2016	11/01/2017	A-	0.002%
	Svenska Handelsbanken AB	18,600,000	0.32%	12/10/2016	12/01/2017	AA-	0.000%
	Lloyds Bank Plc	1,800,000	0.50%	13/10/2016	13/01/2017	A	0.002%
	Surrey County Council	20,000,000	0.35%	15/12/2016	16/01/2017	AA	0.000%
	Lloyds Bank Plc	2,700,000	0.50%	20/10/2016	20/01/2017	A	0.004%
	Lloyds Bank Plc	5,700,000	0.50%	26/10/2016	26/01/2017	A	0.005%
	Lloyds Bank Plc	3,200,000	0.50%	27/10/2016	27/01/2017	A	0.005%
	Lloyds Bank Plc	1,200,000	0.50%	28/10/2016	30/01/2017	A	0.006%
	Australia and New Zealand Banking Group Ltd	15,000,000	0.30%	31/10/2016	31/01/2017	AA-	0.001%
	Lloyds Bank Plc	10,600,000	1.50%	01/02/2016	01/02/2017	A	0.006%
	Lloyds Bank Plc	1,100,000	0.50%	02/11/2016	02/02/2017	A	0.006%
	Nationwide Building Society	9,400,000	0.31%	07/11/2016	07/02/2017	A	0.007%
	Lloyds Bank Plc	2,800,000	0.45%	10/11/2016	10/02/2017	A	0.008%
	Coventry Building Society	10,600,000	0.33%	04/10/2016	20/02/2017	A	0.009%
	Coventry Building Society	5,300,000	0.33%	05/10/2016	27/02/2017	A	0.011%
	Nationwide Building Society	6,700,000	0.39%	03/10/2016	03/03/2017	A	0.011%
	Australia and New Zealand Banking Group Ltd	5,000,000	0.28%	05/09/2016	06/03/2017	AA-	0.001%
	Coventry Building Society	4,100,000	0.37%	05/09/2016	06/03/2017	A	0.012%
	Nationwide Building Society	4,300,000	0.42%	06/09/2016	06/03/2017	A	0.012%
	Nationwide Building Society	5,300,000	0.36%	06/10/2016	06/03/2017	A	0.012%
	Lloyds Bank Plc	4,000,000	0.45%	05/12/2016	06/03/2017	A	0.012%
	Nationwide Building Society	19,400,000	0.50%	07/09/2016	07/03/2017	A	0.012%

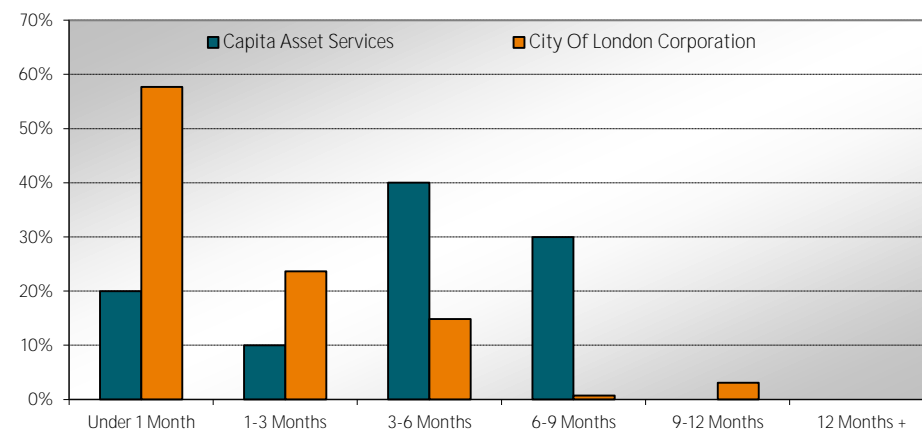
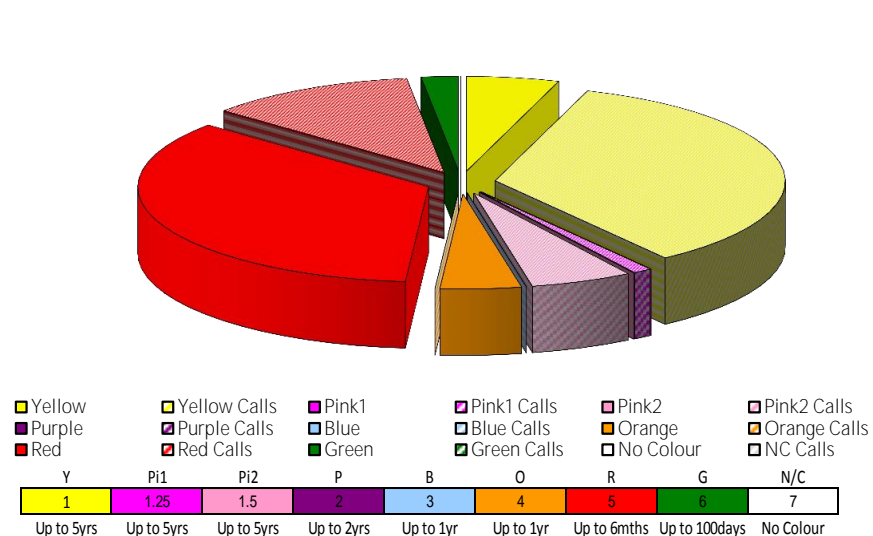
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### Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	Nationwide Building Society	3,800,000	0.43%	15/09/2016	15/03/2017	A	0.014%
	GLOUCESTERSHIRE COUNTY COUNCIL	10,000,000	0.35%	16/12/2016	16/03/2017	AA	0.001%
	Lloyds Bank Plc	27,800,000	0.45%	22/12/2016	22/03/2017	A	0.015%
	Nationwide Building Society	10,200,000	0.44%	07/10/2016	24/03/2017	A	0.015%
	Nationwide Building Society	5,000,000	0.43%	26/09/2016	27/03/2017	A	0.016%
	London Borough of Barking & Dagenham	10,000,000	0.35%	14/12/2016	28/03/2017	AA	0.002%
	Barclays Bank Plc	25,000,000	0.53%	30/09/2016	30/03/2017	A-	0.016%
	Plymouth City Council	10,000,000	0.35%	23/12/2016	30/03/2017	AA	0.002%
	Barclays Bank Plc	39,000,000	0.45%	28/11/2016	31/03/2017	A-	0.017%
	Nationwide Building Society	23,700,000	0.45%	02/11/2016	03/04/2017	A	0.017%
	Santander UK Plc	100,000,000	0.65%		Call95	A	0.017%
	Skipton Building Society	20,000,000	1.05%	22/04/2016	24/04/2017	BBB	0.047%
	Nationwide Building Society	7,200,000	0.65%	30/08/2016	30/08/2017	A	0.044%
	Lloyds Bank Plc	30,000,000	1.00%	03/10/2016	03/10/2017	A	0.051%
	<b>Total Investments</b>	<b>£969,100,000</b>	<b>0.53%</b>				<b>0.008%</b>

## City Of London Corporation

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



Portfolios weighted average risk number =

3.14

WARoR = Weighted Average Rate of Return

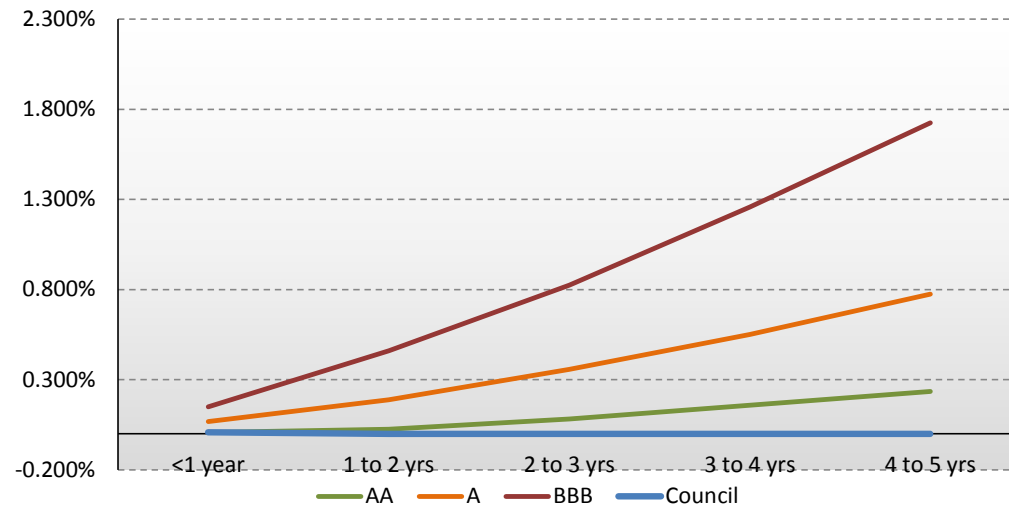
WAM = Weighted Average Time to Maturity

	% 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	40.06%	£388,200,000	87.12%	£338,200,000	34.90%	0.34%	7	9	57	71
Pink1	1.03%	£10,000,000	100.00%	£10,000,000	1.03%	0.77%	0	0	0	0
Pink2	5.68%	£55,000,000	100.00%	£55,000,000	5.68%	1.36%	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	4.50%	£43,600,000	0.00%	£0	0.00%	0.30%	24	102	24	102
Red	46.67%	£452,300,000	24.94%	£112,800,000	11.64%	0.60%	81	161	80	186
Green	2.06%	£20,000,000	0.00%	£0	0.00%	1.05%	114	367	114	367
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£969,100,000</b>	<b>53.25%</b>	<b>£516,000,000</b>	<b>53.25%</b>	<b>0.53%</b>	<b>44</b>	<b>91</b>	<b>73</b>	<b>173</b>

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### Investment Risk and Rating Exposure

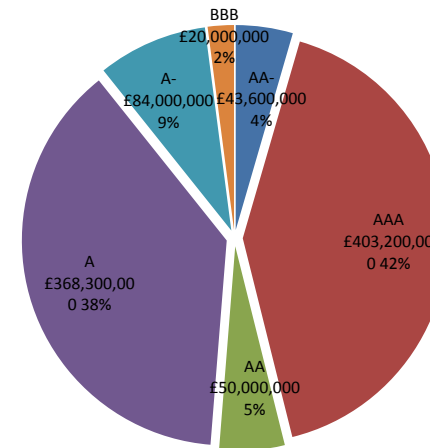
Investment Risk Vs. Rating Categories



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	0.007%	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	0.008%	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
14/12/2016	1491	Goldman Sachs International Bank	U.K	Long Term Rating affirmed at 'A', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'F1'.
28/12/2016	1495	Belgium Sovereign Rating	Belgium	Sovereign Rating downgraded to 'AA-' from 'AA', Outlook changed to Stable from Negative.



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### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
08/12/2016	1489	Italy Sovereign Rating	Italy	Sovereign Rating affirmed at 'Baa2', Outlook changed to Negative from Stable
13/12/2016	1490	Barclays Bank Plc	U.K	Long Term Rating upgraded to 'A1' from 'A2', Negative Outlook. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	DBS Bank Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	Oversea-Chinese Banking Corporation Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	United Overseas Bank Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.

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### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
16/12/2016	1493	Commerzbank AG	Germany	Long Term Rating affirmed at 'BBB+', removed from Stable Outlook and placed on Positive Watch. Short Term affirmed at 'A-2'.
16/12/2016	1493	Deutsche Bank AG	Germany	Long Term Rating affirmed at 'BBB+', removed from Negative Outlook and placed on Positive Watch. Short Term affirmed at 'A-2'.
19/12/2016	1494	Goldman Sachs International Bank	U.K	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.
19/12/2016	1494	Bank of America, N.A.	U.S.A	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.
19/12/2016	1494	Citibank, N.A.	U.S.A	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.