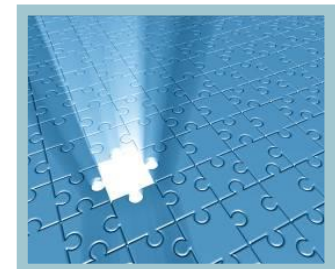


# City Of London Corporation

## Monthly Investment Analysis Review

March 2017



## City Of London Corporation

### Monthly Economic Summary

#### General Economy

The UK's exit from the European Union hogged the headlines in March. Theresa May triggered Article 50 on Wednesday 29<sup>th</sup> March 2017, meaning Britain should officially leave the EU no later than April 2019. This is the start of a long negotiation process which will impact the economic environment of the United Kingdom and, potentially, further afield. The final deal must be approved by a qualified majority of the EU member states and can be vetoed by the European Parliament.

The month began with the release of Purchasing Managers Indices. The first to be released was for the manufacturing sector, which slipped to 54.6 in February from 55.7. This fall was helped by easing inflation pressures, which had been rising at a record pace. A day later the construction sector survey was released, showing that an improvement in activity across civil engineering firms helped edge the index up to 52.5 from 52.2 in January. Services PMI was the last release and, disappointingly, fell to its lowest level since September having dropped to 53.3 in February from 54.5 previously. Despite the improvement in construction, the falls in manufacturing and services PMI's pushed the composite figure down to 53.7 in February, a five month low. Despite the fall, the level was still above 50, which separates expansion from contraction. Overall, the figures provided further evidence that UK economic growth will ease back from the pace seen in previous quarters.

The Bank of England's Monetary Policy Committee (MPC) met in March and continued with the current monetary policy programme. The MPC voted 8-1 in favour of keeping the Bank Rate at 0.25%. While there was one dissenting vote in favour of a rate rise, overall the result showed that the Bank of England are in no immediate hurry to emulate the Federal Reserve, who raised interest rates again this month. The Quantitative Easing programme was also left unchanged at £435bn, as was the corporate bond buying programme.

UK inflation was the surprise of the month as it soared past all forecasts to an annual rate of 2.3% from 1.8% in January. This is the first time inflation has surpassed the Bank of England's 2% inflation target since late 2013. The month-on-month increase was 0.7% an increase from the -0.5% change in January. The fall in the value of the Sterling, due to the Brexit vote has dramatically pushed up import prices, whilst global oil prices have picked up adding to the squeeze on British households. The final estimate for UK Q4 GDP was one of the concluding releases of the month. The quarterly rate remained unchanged at a growth rate of 0.7%, however the annual rate was revised down slightly to 1.9% from 2.0%.

On a more positive note British unemployment rate was at its lowest level in over 40 years, when it dropped to 4.7% in January. There were 1.584 million people out of work in the three months to January as the total amount of people in employment rose to 31.854 million. Unfortunately however, wage growth could not continue the positive trend. The growth in total pay, including bonuses, fell to 2.2% in January from 2.6% in December, adding further pressure onto British households with inflation on the rise. Elsewhere in the UK consumer credit rose by £1.441bn in February, a fall from the £1.609bn increase in January.

Weaker Sterling had a positive effect on exports, helping narrow the trade balance deficit in January. The deficit in the goods balance fell to £10.833bn in January from £10.915bn in December. There was also an improvement in the trade in goods and services balance as this narrowed to £1.966bn, from a downwardly revised £2.026bn in December.

UK Public Finances could not continue the positive trend seen in January as public sector net borrowing recorded a £1.8bn deficit in February, compared with the £9.4bn surplus in January. This was 60.5% lower than the figure recorded in February 2016. Total Public Sector Net Debt stood at £1.669.7 trillion in February.

Retail sales received a positive boost in February as household spending increased. The annual rate rose to 3.7% from 1.0% previously, whilst the monthly rate was recorded at +1.4%, up from -0.5% in January. However, inflation is starting to take its toll on spending. The positive figures this month were not enough to drag up the poor demand seen in the previous few months. Retail sales suffered the largest three monthly drops since 2010 as the growth rate in this period fell to -1.4%, from -0.5% previously. GfK also released their consumer confidence studies, which showed that morale was unchanged at -6 in March. However, this was below the average seen through the second half of 2016.

The European Central Bank also met this month and like the Bank of England maintained the policy status quo. The main refinancing rate and deposit rate remained at 0% and -0.40% respectively. The central bank will also continue to make purchases under its asset programme at the monthly pace of €80bn until the end of March before decreasing the level to €60bn a month until the end of December 2017. Final Q4 GDP growth figures were also released for the Eurozone this month. The quarterly rate remained unchanged from the previous period at 0.4% whilst the annual rate fell slightly to 1.7% in Q4 from 1.8% in Q3. Lithuania recorded the highest quarterly growth rate at 1.4%, whilst at 4.8% Romania had the highest annual growth rate. Elsewhere, unemployment in the Euro Area remained at the lowest level since May 2009, at 9.6% in January. The EU28 had an unemployment rate of 8.1% in January down from 8.2% in the previous month. The Czech Republic had the lowest unemployment rate at 3.4%, whilst Spain had one of the highest at 18.2%.

America under Trump showed positive signs in terms of employment as non-farm payrolls increased by 235,000 with the construction sector recording its largest gain in nearly 10 years. In tandem with this rise the unemployment rate fell to 4.7% from 4.8%. Average hourly earnings increased by 6 cents, but remained at the 0.2% growth rate seen in January. The Federal Reserve met in March, where they decided that the time was right to increase official interest rates again, due to improving labour market conditions and economic activity continuing to expand at a moderate pace. The target rate was increased to 0.75%-1.0%, from the previous range of 0.50%-0.75%. There were positive revisions for US Q4 GDP as the final estimates recorded an annual growth rate of 2.1%, up from previous estimates of 1.9%. However this is still a fall from the 3.5% growth rate recorded in Q3, whilst 2016 as a whole grew at a pace of 1.6%, its worst performance since 2011.

## Housing

On the domestic housing front Halifax annual house price growth cooled to 5.1% in February, its weakest rate since 2013. British Bankers' Association data followed suit as mortgage approvals hit a three month low in February. The number of new mortgage approvals fell to 42,613, from a downwardly revised 44,142 in January. The number of re-mortgages fell to 25,414 in February, from 28,088 previously. Nationwide house prices echoed the previous two releases as they fell for the first time in almost two years. The monthly rate was recorded at -0.3% whilst the annual rate was 3.5%, the weakest increase since 2015.

## Forecast

Neither Capita Asset Services (CAS) nor Capital Economics (CE) altered their forecasts this month. It is forecasted by CAS that a rate hike to 0.50% will occur in Q2 2019 followed by a further hike to 0.75% in Q4 2019. CE expects a rate hike to 0.50% to occur in Q4 2018 with further hikes forecasted in Q2 2019 to 0.75%, Q4 2019 to 1.00% and in Q2 2020 to 1.25%.

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%

# 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	30,500,000	0.25%		MMF	AAA	0.000%
	Australia and New Zealand Banking Group Ltd	5,000,000	0.30%	03/01/2017	03/04/2017	AA-	0.000%
	Australia and New Zealand Banking Group Ltd	15,000,000	0.30%	01/02/2017	02/05/2017	AA-	0.001%
	Australia and New Zealand Banking Group Ltd	5,000,000	0.30%	06/03/2017	06/06/2017	AA-	0.001%
	Barclays Bank Plc	36,000,000	0.74%	04/01/2017	04/10/2017	A-	0.034%
	Barnsley Metropolitan Borough Council	5,000,000	0.45%	23/02/2017	23/08/2017	AA	0.003%
	Cambridgeshire County Council	10,000,000	0.40%	06/03/2017	08/05/2017	AA	0.001%
	Cambridgeshire County Council	10,000,000	0.45%	22/03/2017	22/06/2017	AA	0.002%
	MMF CCLA	10,000,000	0.25%		MMF	AAA	0.000%
	Chorley Council	6,000,000	0.47%	17/03/2017	17/05/2017	Not Rated	
	Cornwall Council	20,000,000	0.35%	10/01/2017	10/04/2017	AA	0.000%
	MMF Federated Investors (UK)	5,000,000	0.63%		MMF	AAA	0.000%
	MMF Federated Investors (UK)	24,500,000	0.27%		MMF	AAA	0.000%
	Flintshire County Council	5,000,000	0.40%	22/03/2017	05/04/2017	AA	0.000%
	Flintshire County Council	5,000,000	0.40%	27/03/2017	02/05/2017	AA	0.001%
	Glasgow City Council	10,000,000	0.40%	13/03/2017	13/06/2017	AA	0.001%
	MMF Invesco	30,200,000	0.28%		MMF	AAA	0.000%
	Lancashire County Council	25,000,000	0.35%	16/01/2017	18/04/2017	AA	0.000%
	Leeds Building Society	8,000,000	0.32%	27/01/2017	24/04/2017	A-	0.004%
	Leeds Building Society	7,000,000	0.36%	03/01/2017	04/07/2017	A-	0.017%
	Leeds Building Society	5,000,000	0.36%	03/01/2017	05/07/2017	A-	0.018%
	Leeds City Council	25,000,000	0.40%	27/02/2017	30/05/2017	AA	0.001%
	Lloyds Bank Plc	2,500,000	0.45%	05/01/2017	05/04/2017	A	0.001%
	Lloyds Bank Plc	1,700,000	0.45%	23/01/2017	24/04/2017	A	0.004%
	Lloyds Bank Plc	9,800,000	0.45%	26/01/2017	26/04/2017	A	0.005%
	Lloyds Bank Plc	3,000,000	0.45%	25/01/2017	28/04/2017	A	0.005%
	Lloyds Bank Plc	6,600,000	0.45%	30/01/2017	28/04/2017	A	0.005%
	Lloyds Bank Plc	13,600,000	0.45%	02/02/2017	03/05/2017	A	0.006%
	Lloyds Bank Plc	1,000,000	0.45%	06/02/2017	05/05/2017	A	0.006%
	Lloyds Bank Plc	30,000,000	1.00%	03/10/2016	03/10/2017	A	0.034%
	Lloyds Bank Plc	14,900,000	0.25%		Call	A	0.000%
	Medway Council	10,000,000	0.43%	07/03/2017	28/04/2017	AA	0.001%
	Mid Suffolk District Council	5,000,000	0.40%	15/03/2017	03/05/2017	AA	0.001%
	Nationwide Building Society	23,700,000	0.45%	02/11/2016	03/04/2017	A	0.001%
	Nationwide Building Society	22,500,000	0.38%	06/01/2017	06/06/2017	A	0.012%
	Nationwide Building Society	7,200,000	0.65%	30/08/2016	30/08/2017	A	0.028%

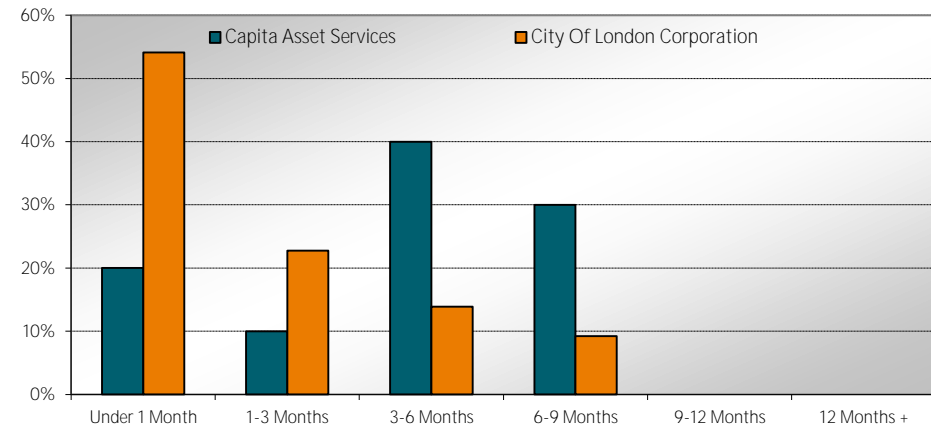
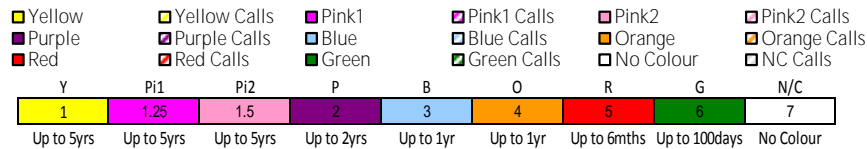
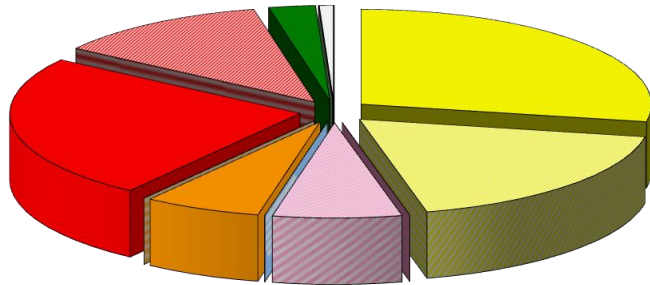
## City Of London Corporation

### Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	Nationwide Building Society	11,900,000	0.32%	07/02/2017	07/06/2017	A	0.012%
	North Lanarkshire Council	5,000,000	0.48%	24/02/2017	27/09/2017	AA	0.003%
	Northamptonshire County Council	10,000,000	0.40%	30/03/2017	30/05/2017	AA	0.001%
	Nottingham City Council	10,000,000	0.40%	27/02/2017	07/04/2017	AA	0.000%
	USDBF Payden Sterling Reserve Fund	55,000,000	1.26%		USDBF	AAA	0.000%
	Powys County Council	5,000,000	0.50%	29/03/2017	05/04/2017	AA	0.000%
	Santander UK Plc	77,700,000	0.65%		Call95	A	0.017%
	Skipton Building Society	20,000,000	1.05%	22/04/2016	24/04/2017	BBB	0.010%
	MMF Standard Life	5,000,000	0.85%		MMF	AAA	0.000%
	MMF Standard Life	35,600,000	0.28%		MMF	AAA	0.000%
	Suffolk County Council	5,000,000	0.48%	06/03/2017	06/10/2017	AA	0.003%
	Surrey County Council	25,000,000	0.46%	31/03/2017	30/06/2017	AA	0.002%
	Svenska Handelsbanken AB	25,000,000	0.28%	12/01/2017	12/04/2017	AA-	0.000%
	Tameside Metropolitan Borough Council	10,000,000	0.40%	15/03/2017	27/04/2017	AA	0.000%
	Torfaen County Borough Council	5,000,000	0.40%	30/03/2017	28/04/2017	AA	0.001%
	Wrexham County Borough Council	10,000,000	0.40%	22/03/2017	05/04/2017	AA	0.000%
	<b>Total Investments</b>	<b>£768,900,000</b>	<b>0.52%</b>				<b>0.007%</b>

## City Of London Corporation

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



Portfolios weighted average risk number =

2.88

WARoR = Weighted Average Rate of Return

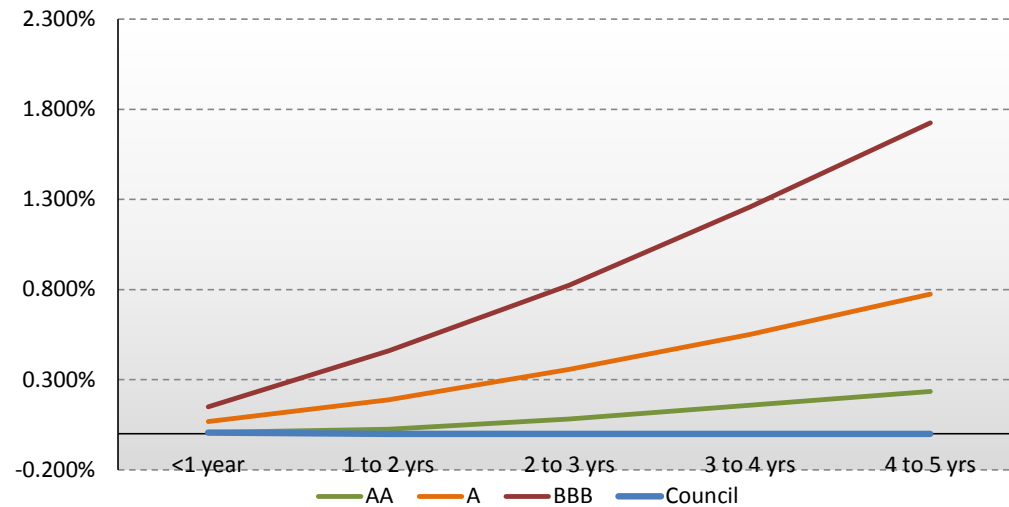
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	46.27%	£355,800,000	39.57%	£140,800,000	18.31%	0.37%	30	48	50	79
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	7.15%	£55,000,000	100.00%	£55,000,000	7.15%	1.26%	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	6.50%	£50,000,000	0.00%	£0	0.00%	0.29%	23	90	23	90
Red	36.69%	£282,100,000	32.83%	£92,600,000	12.04%	0.58%	91	161	96	201
Green	2.60%	£20,000,000	0.00%	£0	0.00%	1.05%	24	367	24	367
No Colour	0.78%	£6,000,000	0.00%	£0	0.00%	0.47%	47	61	47	61
<b>Total</b>	<b>100.00%</b>	<b>£768,900,000</b>	<b>37.51%</b>	<b>£288,400,000</b>	<b>37.51%</b>	<b>0.52%</b>	<b>50</b>	<b>97</b>	<b>64</b>	<b>140</b>

## City Of London Corporation

### Investment Risk and Rating Exposure

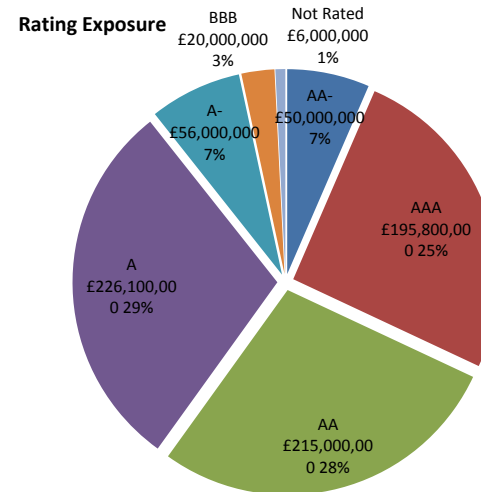
Investment Risk Vs. Rating Categories



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	0.007%	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
06/03/2017	1506	Nordea Bank AB	Sweden	Fitch Ratings downgraded the support rating to '5' from '2'.
06/03/2017	1506	Skandinaviska Enskilda Banken AB	Sweden	Fitch Ratings downgraded the support rating to '5' from '2'.
06/03/2017	1506	Swedbank AB	Sweden	Fitch Ratings downgraded the support rating to '5' from '2'.
06/03/2017	1506	Svenska Handelsbanken AB	Sweden	Fitch Ratings downgraded the support rating to '5' from '2'.
13/03/2017	1509	Deutsche Bank AG	Germany	Affirmed Long Term Rating 'A-' and removed from 'Negative Watch' and placed on 'Negative Outlook'. Short Term Rating affirmed at 'F1' and removed from 'Negative Watch'. Viability Rating affirmed at 'a-' and removed from 'Negative Watch'.
21/03/2017	1511	KBC Bank NV	Belgium	Long Term Rating upgraded to 'A' from 'A-'. Outlook changed to 'Stable' from 'Positive'. Viability Rating upgraded to 'a' from 'a-'. Short Term Rating affirmed at 'F1'.
28/03/2017	1512	Norddeutsche Landesbank Girozentrale	Germany	Outlook changed to 'Negative' from 'Stable'. Viability Rating downgraded to 'bb' from 'bb+'. All other ratings were affirmed.



## City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
20/03/2017	1510	ING Bank NV	Netherlands	Outlook changed to 'Positive' from 'Stable'. All other ratings were affirmed.

## City Of London Corporation

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
06/03/2017	1507	Qatar Sovereign Rating	Qatar	Affirmed the Sovereign Rating at 'AA'. Outlook changed to 'Negative' from 'Stable'
06/03/2017	1508	Qatar National Bank	Qatar	Affirmed the Long Term Rating at 'A+'. Affirmed the Short Term Rating at 'A-1'. Outlook changed to 'Negative' from 'Stable'.
29/03/2017	1513	Commerzbank AG	Germany	Long Term Rating upgraded to 'A-' from 'BBB+', removed from 'Positive Watch' and placed on 'Negative Outlook'. Short Term Rating affirmed at 'A-2' and removed from 'Positive Watch'.
29/03/2017	1513	Deutsche Bank AG	Germany	Long Term Rating upgraded to 'A-' from 'BBB+', removed from 'Positive Watch' and placed on 'Negative Outlook'. Short Term Rating affirmed at 'A-2'.
30/03/2017	1514	Svenska Handelsbanken AB	Sweden	Outlook changed to 'Stable' from 'Negative'. All other ratings were affirmed.