



# City Of London Corporation

## Monthly Investment Analysis Review

March 2018

## Monthly Economic Summary

### General Economy

The first key economic release of the month was the February Manufacturing Purchasing Managers' Index (PMI) survey. This dropped to an eight-month low of 55.2 from 55.3 in January, despite a marked upturn in new orders. The headline figure did, however, beat the average forecast of 55.0. Furthermore, underlying data within the survey showed that factory order growth is the strongest it has been since November and that 56% of manufacturers expect to raise production over the coming year. Meanwhile, construction PMI picked up slightly in February – but uncertainty continues to weigh on order books. The figure rose to 51.4 from 50.2 in January, ahead of even the most optimistic of forecasts. Services PMI also perked up, jumping to a four-month high of 54.5 from 53.0; with new orders rising at their fastest rate since May last year. The combination of the three surveys reinforced market expectations that the Bank of England (BoE) will raise interest rates again in their May meeting.

Elsewhere, trade balance data led to the suggestion that Britain's economy remains on a slow trajectory ahead of Brexit. Britain went from being the fastest-growing G7 economy in 2016 to the weakest last year as the Brexit vote weighed on household spending and corporate investment. Manufacturing output inched up 0.1% in January after a 0.3% rise in December – weaker than a poll forecasting 0.2%. This latest reading left the three month rate at 0.9%, the weakest pace since mid-2017.

Painting a slightly more cheerful picture, British inflation was weaker than expected in February as the impact of the Brexit vote finally faded from the figures, easing some of the squeeze on consumers who have seen their rising pay flag behind rising prices. The annual Consumer Price Index (CPI) rate rose by 2.7% in February, down from 3.0% previously and the weakest increase since July of last year. This provided further evidence that Britain's inflation peaked after hitting its highest level in five years of 3.1% in November 2017. Many of the early 2017 price increases due to the previous depreciation of the pound have started to work through the system, with petrol prices falling on the month and food prices rising more slowly than in February 2017 – all contributing to a lower inflation figure.

Unemployment edged back down to its four-decade low of 4.3% in February having briefly risen to 4.4% in January. The number of people in work grew by 168,000 in the three months to January – double the rise predicted in a poll of economists. Paired with that, British workers overall pay rose at the fastest pace in nearly two-and-a-half years over the three months to January – also increasing chances that the BoE will raise the cost of borrowing in May. Total earnings, including bonuses, rose annually by 2.8% in the three months to January compared with an upwardly revised 2.7% rise in the three months to December. Excluding bonuses, wages rose by 2.6%, a slight pick-up from the 2.5% seen in the three months to December. An expected steady increase in pay growth was a major reason why the BoE said in February that it expected interest rates to rise faster than they thought a few months previously.

Switching to public finance data, Public Sector Net Borrowing (PSNB) excluding public sector banks increased by £2.5bn to £1.3bn in February 2018, compared to February 2017. Public Sector Net Debt (PSND) excluding public sector banks was £1,762.6bn at the end of February 2018, equivalent to 85.1% of gross domestic product (GDP) – an increase of £68.1bn (+0.9%) on February 2017. In summary, PSNB excluding public sector banks is currently tracking below that of the last financial year with the Office for Budget Responsibility's (OBR) revising their official forecast for the current financial year down to £45.2bn from £49.9bn at the spring statement.

The Monetary Policy Committee (MPC) voted to keep interest rates unchanged, however two of its policy makers (Ian McCafferty and Michael Saunders) voted for an immediate rate rise. Minutes from the meeting said that “ongoing tightening” was likely to be needed to return inflation back to target; adding strength to Mark Carney’s comments last month that “rates might need to go up faster than expected”.

Rounding off the month, the final estimate for Q4 GDP was left unrevised at 0.4% on a quarterly basis and 1.4% on an annual basis, matching consensus expectations. Additionally, growth in business investment was revised up to 0.3% from 0%; as a whole, net trade made its first positive contribution to growth since 2012.

In the Eurozone, the final reading of Q4 GDP was left unrevised at 0.6%, slightly lower than Q3’s 0.7%. The expansion was driven mainly by net exports. Annual growth was also confirmed at 2.7% for Q4, with growth for the Eurozone economy for 2017 as a whole increasing by 2.5%. Following their March meeting, the European Central Bank’s (ECB) only change was the removal of their previous pledge to “increase the Asset Purchase Programme (AAP) in terms of size and/or duration” if needed. Eurozone inflation fell to 1.1% in February, down from the 1.3% seen in January with the highest contribution to inflation coming from services, followed by food. Lastly, Eurozone unemployment held steady in January at 8.6%, the lowest rate recorded in the Eurozone since December 2008.

The US saw a significant 313,000 increase in non-farm payrolls in February (the biggest in 18 months) together with a 54,000 positive revision to gains in the preceding two months. Unemployment, however, remained unchanged at 4.1% as an increase in people actually looking for work (the “participation rate”) offset the actual increase in jobs. Boosted by a surge in clothing prices, inflation posted a 0.2% monthly gain for February and a 2.2% annual rise, from 0.5% and 2.1% respectively the month prior. These strong figures paved the way for the Fed’s unanimous decision to raise interest rates by another 25 basis points to 1.50%-1.75%, with comments reiterating the need for “further gradual” hikes. The final estimate for Q4 GDP was revised upwards to a 2.9% annualised rate, from the previously reported 2.5%. The upward revision reflected a lower level of inventory reduction through the quarter.

Sterling opened the month at \$1.377 against the US Dollar and closed the month at \$1.402. Against the Euro, Sterling opened at €1.122 and closed at €1.138.

## Housing

Nationwide revealed house prices unexpectedly fell during March, down 0.2% on the month. Annually, house prices rose 2.1% - weaker than forecasts of 2.6% and slowing from February's 2.2% increase. Elsewhere, Halifax reported that at 1.8%, house prices rose at their slowest pace in nearly five years in the three months to February. This was a drop from the 2.2% recorded the month prior, while in monthly terms, prices rose by 0.4%.

## Forecast

Neither Link Asset Services (LAS) nor Capital Economics (CE) changed their bank rate forecasts during March. LAS suggest that the next interest rate rise will be to 0.75% in Q2 2018, with further rises of 25 basis points in Q4 2018 and again in Q4 2019. Capital Economics' forecasts continue to suggest further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

Bank Rate	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Link Asset Services	0.75%	0.75%	1.00%	1.00%	1.00%
Capital Economics	0.75%	1.00%	1.25%	1.25%	1.50%

# City Of London Corporation

## Current Investment List

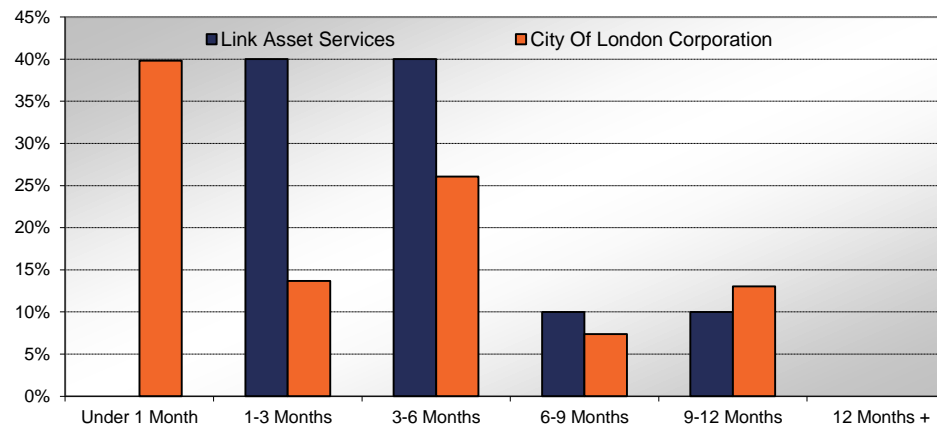
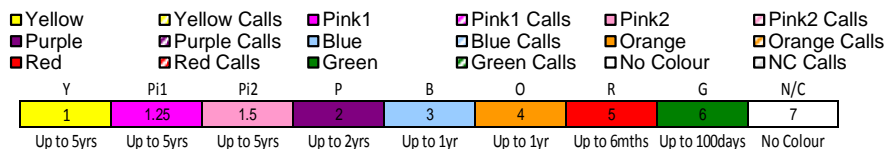
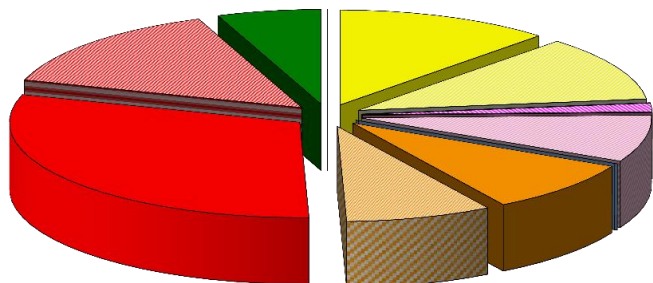
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF CCLA	10,000,000	0.46%		MMF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.41%		USDBF	AAA	0.000%
MMF Federated Investors (UK)	15,000,000	0.46%		MMF	AAA	0.000%
mmf invesco	32,900,000	0.48%		MMF	AAA	0.000%
Lloyds Bank Plc	33,600,000	0.40%		Call	A	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.33%		USDBF	AAA	0.000%
USDBF Standard Life Short Duration Cash Fund	5,000,000	0.55%		USDBF	AAA	0.000%
MMF Standard Life	18,500,000	0.46%		MMF	AAA	0.000%
Leeds Building Society	8,000,000	0.48%	29/06/2017	03/04/2018	A-	0.000%
Lloyds Bank Plc	15,000,000	0.60%	03/11/2017	03/04/2018	A	0.000%
Plymouth City Council	12,000,000	0.32%	25/09/2017	03/04/2018	AA	0.000%
Leeds City Council	25,000,000	0.50%	16/01/2018	13/04/2018	AA	0.001%
Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB+	0.011%
Telford & Wrekin Council	6,000,000	0.35%	27/09/2017	24/04/2018	AA	0.002%
Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A	0.004%
Lloyds Bank Plc	16,100,000	0.65%	02/11/2017	02/05/2018	A	0.005%
Lloyds Bank Plc	22,600,000	0.57%		Call32	A	0.005%
Leeds Building Society	2,000,000	0.37%	16/08/2017	16/05/2018	A-	0.007%
Nationwide Building Society	13,800,000	0.37%	16/08/2017	16/05/2018	A	0.007%
Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.007%
Leeds Building Society	5,000,000	0.37%	05/09/2017	05/06/2018	A-	0.010%
Leeds Building Society	5,000,000	0.37%	07/09/2017	07/06/2018	A-	0.010%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.014%
Santander UK Plc	100,000,000	0.60%		Call95	A	0.015%
Lloyds Bank Plc	15,000,000	0.75%	03/11/2017	03/08/2018	A	0.019%
Barclays Bank Plc	25,000,000	0.76%	29/09/2017	28/09/2018	A	0.028%
Goldman Sachs International Bank	20,000,000	0.95%	26/09/2017	01/10/2018	A	0.028%
Australia and New Zealand Banking Group Ltd	15,000,000	0.60%	03/01/2018	03/10/2018	AA-	0.012%
Barclays Bank Plc	36,000,000	0.77%	04/10/2017	03/10/2018	A	0.029%
Coventry Building Society	20,000,000	0.70%	02/01/2018	02/01/2019	A	0.043%
Goldman Sachs International Bank	20,000,000	0.95%	08/01/2018	08/01/2019	A	0.044%
Northamptonshire County Council	20,000,000	0.73%	31/01/2018	30/01/2019	AA	0.019%
London Borough of Southwark	20,000,000	1.10%	19/03/2018	28/03/2019	AA	0.023%
Goldman Sachs International Bank	10,000,000	1.20%	29/03/2018	29/03/2019	A	0.056%
<b>Borrower - Funds</b>	<b>Principal (£)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>		

## City Of London Corporation

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
L&G UTM CLIENT ACC (UTM)	50,000,000	2.04%				
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	1.29%				
<b>Total Investments</b>	<b>£790,500,000</b>	<b>0.76%</b>				
<b>Total Investments - excluding Funds</b>	<b>£690,500,000</b>	<b>0.63%</b>				0.012%
<b>Total Investments - Funds Only</b>	<b>£100,000,000</b>	<b>1.67%</b>				

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.63**

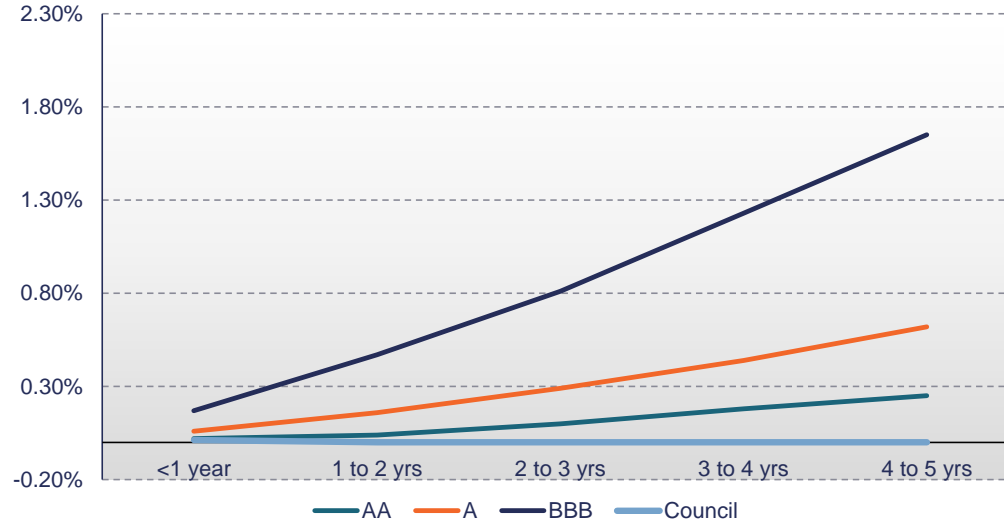
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% 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	23.08%	£159,400,000	47.93%	£76,400,000	11.06%	0.57%	87	128	167	247
Pink1	1.45%	£10,000,000	100.00%	£10,000,000	1.45%	0.48%	0	0	0	0
Pink2	7.97%	£55,000,000	100.00%	£55,000,000	7.97%	0.33%	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	16.99%	£117,300,000	47.91%	£56,200,000	8.14%	0.56%	51	120	86	219
Red	44.72%	£308,800,000	32.38%	£100,000,000	14.48%	0.76%	141	273	163	359
Green	5.79%	£40,000,000	0.00%	£0	0.00%	0.59%	31	320	31	320
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£690,500,000</b>	<b>43.10%</b>	<b>£297,600,000</b>	<b>43.10%</b>	<b>0.63%</b>	<b>93</b>	<b>191</b>	<b>138</b>	<b>309</b>

# City Of London Corporation

## Investment Risk and Rating Exposure

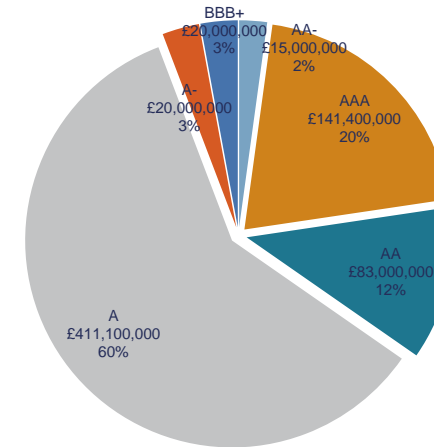
Investment Risk Vs. Rating Categories



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	0.02%	0.04%	0.10%	0.18%	0.25%
A	0.06%	0.16%	0.29%	0.44%	0.62%
BBB	0.17%	0.47%	0.81%	1.23%	1.65%
Council	0.012%	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
01/03/2018	1589	Nationwide Building Society	United Kingdom	Long Term Rating downgraded to 'A' from 'A+', Outlook changed to Stable from Negative. Short Term Rating affirmed.
21/03/2018	1592	Abbey National Treasury Services Plc	United Kingdom	Long Term and Short Term Ratings affirmed, Long Term Rating removed from Positive Watch and placed on Stable Outlook.

## City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
08/03/2018	1590	Goldman Sachs International Bank	United Kingdom	Long Term and Short Term Ratings affirmed, Outlook on Long Term Rating changed to Negative from Stable.
28/03/2018	1593	Cooperatieve Rabobank U.A.	Netherlands	Long Term Rating downgraded to 'Aa3' from 'Aa2', Outlook changed to Stable from Negative. Short Term Rating affirmed.

## City Of London Corporation

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
01/03/2018	1588	Nationwide Building Society	United Kingdom	Long Term Rating affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'A-1'.
19/03/2018	1591	NRW.BANK	Germany	Long Term and Short Term Ratings affirmed, Outlook on Long Term Rating changed to Positive from Stable.

Whilst Link Asset Services makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Link Asset Services should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

Link Asset Services is a trading name of Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service, FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ. For further information, visit [www.linkassetsservices.com/legal-regulatory-status](http://www.linkassetsservices.com/legal-regulatory-status).