

Lincolnshire County Council
Monthly Investment Analysis Review
June 2015



Monthly Economic Summary

General Economy

June has been an eventful month with market volatility ramping up as onshore Chinese equity markets took a tumble of 20% to enter “bear market” territory and concerns over a Greek default peaked. This saw investors opting for safe-havens flows resulting in downward pressures on UK gilt yields in the latter stages of the month. Elsewhere, in the US, strong Non-Farm payrolls for May resulted in a renewed confidence in the economy’s growth placing an increased likelihood of a first rate rise in September 2015.

The Bank of England kept interest rates on hold at a record low of 0.5% in June as it waits to see how quickly Britain’s economy recovers from the slowdown. The Monetary Policy Committee (MPC) agreed that the path for UK monetary policy would depend on which path inflation takes and would not be determined by the actions of other central banks.

UK quarter-on-quarter GDP for the first three months of the year was revised up, to 0.4 percent, from the previous estimate of 0.3 percent. Growth in year-on-year terms was also revised up, to 2.9 percent, from 2.5 percent. These positive revisions were driven mostly by a 4.5 percent increase in household disposable income and a boost in the construction industry. However, the boost in construction is partly due to revised methods of measuring output.

Domestic consumer-level inflation turned positive in May (+0.1% year-on-year) after falling below zero in April, being mostly driven by a recovery in global oil prices. However, forecasters still expect inflation to remain low for the remainder of 2015 as a number of deflationary pressures will continue to weigh on overall prices.

In its latest reading, UK workers’ pay grew more than expected in the three months to April helping to push the sterling to a seven year high trading at \$1.5930. Total weekly average earnings in the three months to April including bonuses rose by 2.7 percent, its fastest rate in almost four years. The Bank of England is keeping a close eye on wage growth as it considers on when to start raising interest rates as sustained strength in this can typically lead to increased consumer demand and a subsequent general rise in prices. In addition to the wage data, the latest employment statistics also showed that the number of people in work rose by 114,000 in the three months to April, whilst the number of people claiming job seekers allowance fell by 6,500 in May.

UK manufacturing PMI activity survey headline rate eased modestly higher in May, expanding from April’s seven month low of 51.8, to 52.0. Despite the improvement, the sector looks set to cause a minor drag on the economy in Q2 due to the combination of a strong pound and weak business investment. In contrast the services PMI suffered a slowdown in May, suffering - its sharpest month-to-month fall in four years. The services PMI slipped back to 56.5 in May down from April’s figures of 59.5. Nevertheless, the headline rate still suggests activity is growing within the sector.

Strong growth from income tax receipts in May helped drive government borrowing down to £10.13bn from last year’s figure of £12.35bn. The boost in income tax was driven by a proportionally higher rate of high rate earners within employment in the UK. This month’s figures show public finances are finally starting to benefit from the past year’s robust economic growth, which, therefore, could potentially pave the way for a less aggressive stance on spending cuts.

Retail Sales in May (on a month-on-month basis) slowed sharply after last month’s strong growth. However retail sales volumes in May still rose by 0.2% and, compared to the same period a year earlier, retail sales were up 4.5%. On the whole, sales are on track to be up by 0.9% on the previous quarter and should make a strong contribution to Q2 GDP growth.

In the US, job growth grew sharply in May. Nonfarm payrolls increased by 280,000, its largest gain since December 2014. On the back of this the unemployment rate rose to 5.5 percent in May coming from April’s near seven low of 5.4 percent. While seemingly at odds, the rise in the unemployment rate was indicative of more people actively looking for jobs, rather than continue to give up trying to find work. Payrolls for March and April were revised to show 32,000 more jobs were created than previously estimated. Couple that with the eight cent gain in average hourly earnings the data supported the view of a possible September rate hike.

The Greek government in June decided to implement capital controls over their banks, limiting account withdrawals to €60 a day. In addition to this, the Greek prime minister made the decision to call a referendum on whether the country should accept the bailout terms being proposed by its creditors. However, this referendum may be invalid as it will not be held until 5th July and Greece’s current bailout expires on Tuesday 30th June. As well as this, their creditor’s proposal for a new deal will also expire on Tuesday 30th therefore meaning Greece will have

Currency

Sterling opened the month at \$1.52 against the US dollar and steadily increased to reach \$1.57. Against the Euro, sterling opened the month at €1.40 and closed at €1.41.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the second quarter of 2016. Capital Economics left their forecast unchanged in June. They expect the first Bank Rate increase to come in Q2 2016.

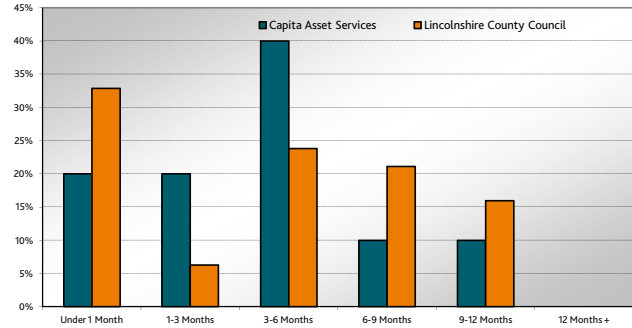
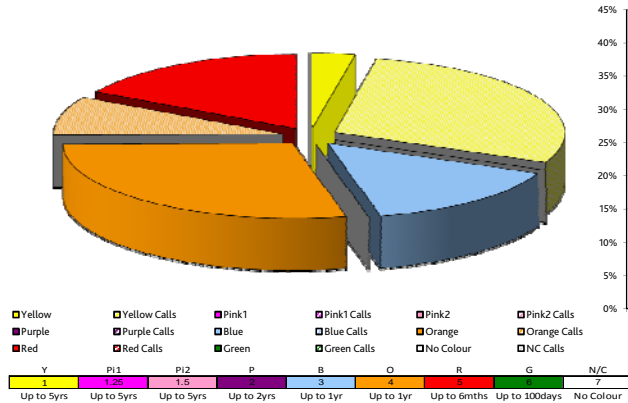
Bank Rate	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.75%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.75%

Lincolnshire County Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	8,925,000	0.41%		MMF	AAA	0.000%
MMF Aberdeen	20,000,000	0.45%		MMF	AAA	0.000%
MMF Standard Life	20,000,000	0.48%		MMF	AAA	0.000%
MMF Insight	19,435,000	0.43%		MMF	AAA	0.000%
HSBC Bank Plc	10,000,000	0.61%		Call30	AA-	0.001%
HSBC Bank Plc	10,000,000	0.67%		Call90	AA-	0.002%
Standard Chartered Bank	5,000,000	0.70%	31/03/2015	30/09/2015	A+	0.016%
United Overseas Bank Ltd	5,135,000	0.58%	10/04/2015	12/10/2015	AA-	0.002%
Bank of Scotland Plc	2,750,000	1.00%	27/10/2014	26/10/2015	A	0.020%
DBS Bank Ltd	5,000,000	0.57%	24/04/2015	26/10/2015	AA-	0.002%
Standard Chartered Bank	5,000,000	0.71%	29/04/2015	29/10/2015	A+	0.021%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	6,000,000	0.61%	30/04/2015	30/10/2015	A+	0.021%
The Royal Bank of Scotland Plc	2,825,000	0.92%	05/11/2014	04/11/2015	BBB+	0.052%
DBS Bank Ltd	5,000,000	0.58%	05/05/2015	05/11/2015	AA-	0.002%
DBS Bank Ltd	5,000,000	0.58%	29/05/2015	30/11/2015	AA-	0.003%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	5,000,000	0.63%	29/05/2015	30/11/2015	A+	0.026%
Standard Chartered Bank	5,000,000	0.71%	12/06/2015	11/12/2015	A+	0.028%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	24/12/2014	23/12/2015	AA+	0.003%
DBS Bank Ltd	5,000,000	0.61%	23/06/2015	23/12/2015	AA-	0.003%
Bank of Scotland Plc	5,000,000	0.80%	09/04/2015	08/01/2016	A	0.033%
Standard Chartered Bank	5,000,000	0.80%	24/04/2015	25/01/2016	A+	0.036%
Bank of Scotland Plc	10,000,000	1.00%	16/02/2015	15/02/2016	A	0.039%
Bank of Scotland Plc	10,000,000	1.00%	02/03/2015	29/02/2016	A	0.041%
Bank of Scotland Plc	7,250,000	1.00%	04/03/2015	02/03/2016	A	0.042%
Skandinaviska Enskilda Banken AB	6,000,000	0.71%	03/06/2015	03/03/2016	A+	0.042%
Doncaster Metropolitan Borough Council	2,000,000	1.10%	13/03/2014	14/03/2016	AA+	0.005%
Bank of Scotland Plc	5,000,000	1.00%	23/03/2015	21/03/2016	A	0.045%
The Royal Bank of Scotland Plc	10,000,000	0.91%	09/04/2015	07/04/2016	BBB+	0.116%
The Royal Bank of Scotland Plc	7,175,000	0.91%	15/04/2015	13/04/2016	BBB+	0.119%
Skandinaviska Enskilda Banken AB	5,825,000	0.80%	27/04/2015	25/04/2016	A+	0.051%
The Royal Bank of Scotland Plc	5,000,000	0.90%	14/05/2015	12/05/2016	BBB+	0.131%
The Royal Bank of Scotland Plc	10,000,000	0.93%	22/06/2015	20/06/2016	BBB+	0.147%
Total Investments	£238,320,000	0.69%				0.030%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



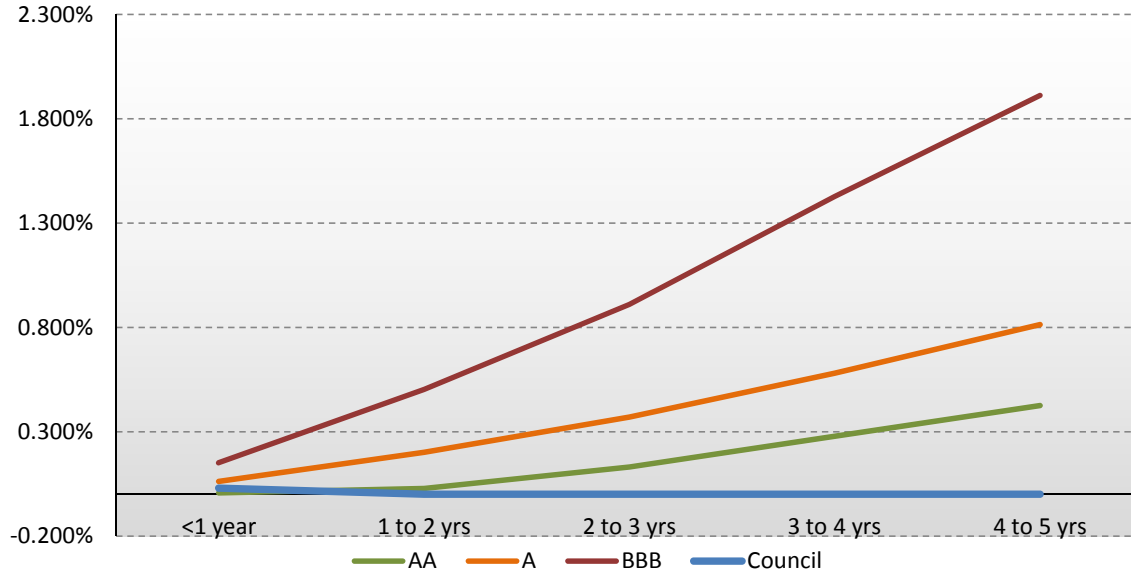
Portfolios weighted average risk number = **3.07**

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	31.62%	£75,360,000	90.71%	£68,360,000	28.68%	0.49%	19	44	199	469
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	14.69%	£35,000,000	0.00%	£0	0.00%	0.92%	297	364	297	364
Orange	36.91%	£87,960,000	22.74%	£20,000,000	8.39%	0.66%	139	179	163	214
Red	16.78%	£40,000,000	0.00%	£0	0.00%	0.98%	228	353	228	353
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£238,320,000	37.08%	£88,360,000	37.08%	0.69%	139	192	213	298

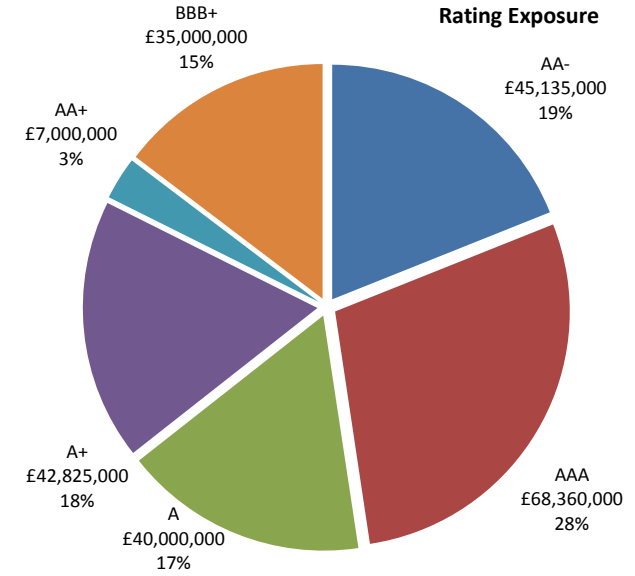
Investment Risk and Rating Exposure

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	0.030%	0.000%	0.000%	0.000%	0.000%



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.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
04/06/2015	1357	Skipton Building Society	UK	Long Term Rating upgraded to 'BBB+' from 'BBB', Outlook changed to Stable from Positive. Short Term Rating Affirmed at 'F2', Viability Rating upgraded to 'bbb+' from 'bbb', Support Rating Affirmed at '5'
09/06/2015	1363	Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	Netherlands	Long Term Rating Affirmed at 'AA-', Outlook changed to Stable from Negative. Short Term Rating Affirmed at 'F1+'
23/06/2015	1370	Credit Industriel et Commercial	France	Long Term Rating Affirmed at 'A+', Stable Outlook. Short Term Rating Affirmed at 'F1'. Viability Rating Affirmed at 'a+'. Support Rating Downgraded to '5' from '1'
23/06/2015	1371	Credit Agricole Corporate and Investment Bank	France	Long Term Rating Affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating Affirmed at 'F1'
23/06/2015	1371	Credit Agricole SA	France	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'

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
04/06/2015	1356	Ulster Bank Ltd	UK	Long Term Rating upgraded to 'A3' from 'Baa3', removed from Positive Watch and placed on Stable Outlook. Short Term Rating upgraded to 'P-2' from 'P-3', removed from Positive Watch
05/06/2015	1358	Abbey National Treasury Services Plc	UK	Long Term Rating upgraded to 'A1' from 'A2', Positive Watch. Short Term Rating affirmed at 'P-1'
05/06/2015	1358	Bank Of Scotland Plc	UK	Long Term Rating affirmed at 'A1', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
05/06/2015	1358	Clydesdale Bank	UK	Long Term Rating upgraded to 'Baa1' from 'Baa2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-2'
05/06/2015	1358	Lloyds Bank Plc	UK	Long Term Rating affirmed at 'A1', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
05/06/2015	1358	Lloyds Banking Group Plc	UK	Long Term Rating downgraded to 'Baa1' from 'A2', removed from Negative Watch and placed on Positive Outlook
05/06/2015	1358	Santander UK Plc	UK	Long Term Rating upgraded to 'A1' from 'A2', Positive Watch. Short Term Rating affirmed at 'P-1'
05/06/2015	1359	Coventry Building Society	UK	Long Term Rating upgraded to 'A2' from 'A3', removed from Positive Watch and placed on Positive Outlook. Short Term Rating upgraded to 'P-1' from 'P-2' removed from Positive Watch
05/06/2015	1359	Leeds Building Society	UK	Long Term Rating upgraded to 'A2' from 'A3', removed from Positive Watch and placed on Stable Outlook. Short Term Rating upgraded to 'P-1' from 'P-2' removed from Positive Watch
05/06/2015	1359	Nationwide Building Society	UK	Long Term Rating upgraded to 'A1' from 'A2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
05/06/2015	1359	Nottingham Building Society	UK	Long Term Rating upgraded to 'Baa1' from 'Baa2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-2'
05/06/2015	1359	Skipton Building Society	UK	Long Term Rating upgraded to 'Baa2' from 'Baa3', Positive Watch. Short Term Rating upgraded to 'P-2' from 'P-3', removed from Positive Watch
05/06/2015	1359	West Bromwich Building Society	UK	Long Term Rating upgraded to 'B1' from 'B2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'NP'
05/06/2015	1359	Yorkshire Building Society	UK	Long Term Rating upgraded to 'A3' from 'Baa1', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'P-2'
05/06/2015	1360	BNP Paribas Fortis	Belgium	Long Term Rating upgraded to 'A1' from 'A2', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
05/06/2015	1360	KBC Bank NV	Belgium	Long Term Rating affirmed at 'A2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
08/06/2015	1361	Finland Sovereign Rating	Finland	Sovereign Rating affirmed at 'AAA', Outlook changed to Negative from Stable
17/06/2015	1368	Danske Bank	Danmark	Long Term Rating upgraded to 'A2' from 'A3', removed from Positive Watch and placed on Stable Outlook. Short Term Rating upgraded to 'P-1' from 'P-2', removed from Positive Watch
17/06/2015	1368	Nordea Bank Finland Plc	Finland	Long Term Rating affirmed at 'Aa3', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
17/06/2015	1368	DnB Bank	Norway	Long Term Rating upgraded to 'Aa2' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
17/06/2015	1368	Nordea Bank AB	Sweden	Long Term Rating affirmed at 'Aa3', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
17/06/2015	1368	Skandinaviska Enskilda Banken AB	Sweden	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
17/06/2015	1368	Swedbank AB	Sweden	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
17/06/2015	1368	Svenska Handelsbanken AB	Sweden	Long Term Rating upgraded to 'Aa2' from 'Aa3', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	BayernLB	Germany	Long Term Rating affirmed at 'A3', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'P-2'
22/06/2015	1369	DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	Germany	Long Term Rating upgraded to 'Aa2' from 'A1', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	Landesbank Baden Wuerttemberg	Germany	Long Term Rating upgraded to 'A1' from 'A2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	LandesBank Berlin AG	Germany	Long Term Rating affirmed at 'A1', removed from Negative Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	Landesbank Hessen-Thueringen Girozentrale (Helaba)	Germany	Long Term Rating upgraded to 'A1' from 'A2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-1'
22/06/2015	1369	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating affirmed at 'A3', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'P-2'
22/06/2015	1369	UniCredit Bank AG	Germany	Long Term Rating upgraded to 'A2' from 'Baa1', removed from Positive Watch and placed on Positive Outlook. Short Term Rating upgraded to 'P-1' from 'P-2', removed from Positive Watch
25/06/2015	1372	Banque et Caisse d'Eprgne de l'Etat	Luxembourg	Long Term Rating downgraded to 'Aa2' from 'Aa1', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
08/06/2015	1362	ING Bank NV	Netherlands	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
09/06/2015	1364	Commerzbank AG	Germany	Long Term Rating downgraded to 'BBB+' from 'A-', removed from Negative Watch and placed on Negative Outlook. Short Term Rating affirmed at 'A-2'
09/06/2015	1364	Deutsche Bank AG	Germany	Long Term Rating downgraded to 'BBB+' from 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating downgraded to 'A-2' from 'A-1', removed from Negative Watch
09/06/2015	1364	UniCredit Bank AG	Germany	Long Term Rating downgraded to 'BBB' from 'A-', removed from Negative Watch and placed on Negative Outlook. Short Term Rating affirmed at 'A-2', removed from Negative Watch
09/06/2015	1365	Bank of Scotland Plc	UK	Long Term Rating affirmed at 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch
09/06/2015	1365	Barclays Bank plc	UK	Long Term Rating downgraded to 'A-' from 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating downgraded to 'A-2' from 'A-1', removed from Negative Watch
09/06/2015	1365	HSBC Bank plc	UK	Long Term Rating affirmed at 'AA-', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1+', removed from Negative Watch
09/06/2015	1365	Lloyds Bank Plc	UK	Long Term Rating affirmed at 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch
09/06/2015	1365	Lloyds Banking Group plc	UK	Long Term Rating upgraded to 'BBB+' from 'BBB', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'A-2'
09/06/2015	1365	Santander UK plc	UK	Long Term Rating affirmed at 'A', removed from Negative Watch and placed on Negative Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch
09/06/2015	1365	Standard Chartered Bank	UK	Long Term Rating affirmed at 'A+', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'
09/06/2015	1365	National Westminster Bank Plc	UK	Long Term Rating downgraded to 'BBB+' from 'A-', removed from Negative Watch and placed on Stable Outlook. Short Term Rating 'A-2'
09/06/2015	1365	The Royal Bank of Scotland Plc	UK	Long Term Rating downgraded to 'BBB+' from 'A-', removed from Negative Watch and placed on Stable Outlook. Short Term Rating 'A-2'
09/06/2015	1365	Ulster Bank Ltd	UK	Long Term Rating downgraded to 'BBB' from 'BBB+', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-2', removed from Negative Watch
09/06/2015	1365	Nationwide Building Society	UK	Long Term Rating affirmed at 'A', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1', removed from Negative Watch
09/06/2015	1365	HSBC Bank USA, N.A.	USA	Long Term Rating affirmed at 'AA-', removed from Negative Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1+', removed from Negative Watch
09/06/2015	1365	RBS Citizens, NA	USA	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative, Short Term Rating affirmed at 'A-2'
09/06/2015	1366	Credit Suisse AG	Switzerland	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
09/06/2015	1366	UBS AG	Switzerland	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
09/06/2015	1366	Credit Suisse International	UK	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'

Monthly Credit Rating Changes

S&P

09/06/2015	1366	UBS Ltd	UK	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
12/06/2015	1367	UK Sovereign Rating	UK	Sovereign Rating affirmed at 'AAA', Outlook changed to Negative from Stable
25/06/2015	1373	Swedbank AB	Sweden	Long Term Rating affirmed at 'A+', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1'
25/06/2015	1374	DnB Bank	Norway	Long Term Rating affirmed at 'A+', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'A-1'