

Lincolnshire County Council

Monthly Investment Analysis Review

December 2015



General Economy

December was dominated by anticipation regarding the outcome of the Federal Reserve meeting. In a watershed moment for the global economy, the first hike in nearly a decade was reported, pushing several months of uncertainty to one side.

The UK services PMI grew for a second month running, reaching 55.9 last month, the fastest pace of expansion since July. This rise from October's 54.9 is set to point towards stronger economic growth in the upcoming months.

For the first time since July, UK CPI returned to positive territory, rising 0.1% annually in November. The ONS numbers reflected rises in transport costs and alcohol and tobacco prices which exerted upside price pressures; however this was slightly offset by a dip in clothing prices, leaving the month-on-month CPI figure standing at 0% for November. With the Brent Crude oil benchmark hovering around \$37 a barrel, analysts warn that this positive inflation figure is unlikely to be permanent.

Unemployment within the UK fell to its lowest since the three months to January 2006, with the unemployment rate dwindling to 5.2% in October, confounding forecasts of 5.3%. Nonetheless, in the month alone, regular wages rose by 1.7%, the slowest increase since January. Despite this, with inflation hovering around the zero-mark, rising earnings are expected to translate into notable increases in living standards.

Across "The Pond", US non-farm payrolls increased solidly in November, by 211,000, with the unemployment rate remaining at 5%, the lowest figure for seven-and-a-half years. Data from September and October was revised to show an additional 35,000 more jobs created than previously reported.

Following the robust non-farm data, markets stood prepared and priced in their outlook of a December rate hike, resulting in stocks rising sharply prior to the Fed meeting. The outcome of the much-anticipated meeting was in line with expectations, with the target Federal Funds rates finally increased, by a unanimous vote in favour, for the first time since 2006, by 25bps to 0.25%-0.50%. The subsequent statement revealed the opinion that the economy had expanded "at a moderate pace", alongside considerable improvements in the US labour market this year. Immediately following the announcement of the hike, the US Dollar appreciated further against Sterling, with the rate falling back below the \$1.50 level. Many of the European stock markets welcomed the rate rise, including the FTSE 100 index, which rose by 1.1% following the news.

The third and final estimate of UK GDP for Q3 revealed that economic growth was slower than previously thought, mainly weighed down by a worse-than-expected performance in the dominant services sector, which accounts for well over 70% of UK economic activity. The ONS revised the Q3 GDP figure from 0.5% to 0.4%, alongside a slowdown of the annual growth, from the previous estimate of 2.3% to 2.1%, the weakest it has been since Q3 2013. Despite the UK being the fastest growing economy in the G7 last year, it is evident that risks to the economy still remain.

UK retail sales outperformed forecasts in November, mainly driven by the sales on Black Friday. Alongside a 1.7% m/m increase from October, sales grew 5% compared with the same time last year, offering evidence that strong consumer confidence, alongside higher employment and rising real wage growth, has contributed to robust retail sales figures. Despite this, data from GfK has disclosed that although confidence amongst consumers in the UK has edged up from a 6-month low, households are more concerned about the economy than they were in December 2014.

The disappointing figures for November's public finances lead analysts to believe that George Osborne will find difficulty in meeting the OBR's public borrowing forecast for the fiscal year. With public sector net borrowing (excluding public sector banks) reaching a total of £14.2bn, expectations of £11.9bn were greatly exceeded, as was last year's November total of £12.9bn, it seems almost impossible now for the Chancellor to meet the forecasts set.

Currency

Sterling opened the month at \$1.506 against the US dollar and closed at \$1.483. Against the Euro, Sterling opened at €1.424 and closed at €1.359.

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 December. They expect the first Bank Rate increase to come in Q2 2016.

Bank Rate	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services	0.50%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.50%	0.75%	0.75%	1.00%	1.00%

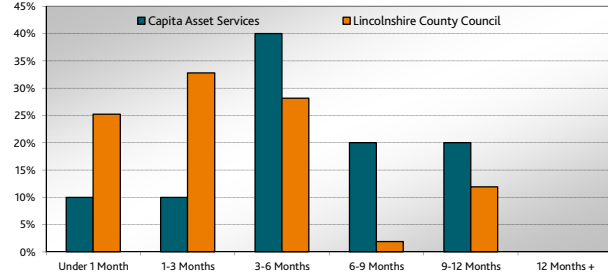
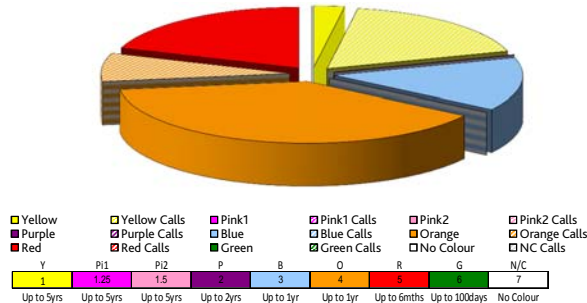
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	14,730,000	0.47%		MMF	AAA	0.000%
MMF Aberdeen	18,320,000	0.48%		MMF	AAA	0.000%
MMF Standard Life	14,209,000	0.49%		MMF	AAA	0.000%
Bank of Scotland Plc	5,000,000	0.80%	09/04/2015	08/01/2016	A	0.001%
Standard Chartered Bank	5,000,000	0.80%	24/04/2015	25/01/2016	A+	0.004%
HSBC Bank plc	10,000,000	0.61%		Call30	AA-	0.001%
DZ Bank AG (Deutsche Zentral-Genosse	5,000,000	0.66%	07/08/2015	08/02/2016	AA-	0.001%
Cooperatieve Centrale Raiffeisen Boere	5,000,000	0.66%	07/08/2015	08/02/2016	A+	0.007%
Bank of Scotland Plc	10,000,000	1.00%	16/02/2015	15/02/2016	A	0.008%
Bank of Scotland Plc	10,000,000	1.00%	02/03/2015	29/02/2016	A	0.010%
Bank of Scotland Plc	7,250,000	1.00%	04/03/2015	02/03/2016	A	0.011%
Skandinaviska Enskilda Banken AB	6,000,000	0.71%	03/06/2015	03/03/2016	A+	0.011%
DZ Bank AG (Deutsche Zentral-Genosse	4,000,000	0.69%	03/09/2015	03/03/2016	AA-	0.001%
Commonwealth Bank of Australia	5,000,000	0.65%	11/09/2015	11/03/2016	AA-	0.001%
Doncaster Metropolitan Borough Council	2,000,000	1.10%	13/03/2014	14/03/2016	AA+	0.001%
Bank of Scotland Plc	5,000,000	1.00%	23/03/2015	21/03/2016	A	0.014%
Skandinaviska Enskilda Banken AB	8,175,000	0.74%	03/07/2015	23/03/2016	A+	0.014%
HSBC Bank plc	10,000,000	0.68%		Call90	AA-	0.002%
United Overseas Bank Ltd	4,850,000	0.62%	12/10/2015	31/03/2016	AA-	0.002%
Standard Chartered Bank	5,000,000	0.72%	19/11/2015	01/04/2016	A+	0.016%
The Royal Bank of Scotland Plc	10,000,000	0.91%	09/04/2015	07/04/2016	BBB+	0.040%
The Royal Bank of Scotland Plc	7,175,000	0.91%	15/04/2015	13/04/2016	BBB+	0.043%
Skandinaviska Enskilda Banken AB	5,825,000	0.80%	27/04/2015	25/04/2016	A+	0.020%
DZ Bank AG (Deutsche Zentral-Genosse	6,000,000	0.64%	04/11/2015	04/05/2016	AA-	0.002%
DBS Bank Ltd	5,000,000	0.63%	05/11/2015	05/05/2016	AA-	0.002%
Standard Chartered Bank	5,000,000	0.74%	06/11/2015	06/05/2016	A+	0.022%
The Royal Bank of Scotland Plc	5,000,000	0.90%	14/05/2015	12/05/2016	BBB+	0.055%
Svenska Handelsbanken AB	6,050,000	0.99%	17/07/2015	26/05/2016	AA-	0.003%
DBS Bank Ltd	5,000,000	0.60%	30/11/2015	31/05/2016	AA-	0.003%
The Royal Bank of Scotland Plc	10,000,000	0.93%	22/06/2015	20/06/2016	BBB+	0.071%
DBS Bank Ltd	5,000,000	0.75%	23/12/2015	23/06/2016	AA-	0.003%
The Royal Bank of Scotland Plc	5,000,000	0.95%	03/07/2015	01/07/2016	BBB+	0.075%
DBS Bank Ltd	5,000,000	0.68%	26/10/2015	26/07/2016	AA-	0.004%

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Toronto Dominion Bank	5,000,000	0.80%	16/10/2015	14/10/2016	AA-	0.005%
Toronto Dominion Bank	5,000,000	0.81%	16/10/2015	14/10/2016	AA-	0.005%
Toronto Dominion Bank	8,500,000	0.90%	29/10/2015	27/10/2016	AA-	0.005%
United Overseas Bank Ltd	6,775,000	0.80%	04/11/2015	02/11/2016	AA-	0.006%
Toronto Dominion Bank	1,500,000	0.89%	06/11/2015	04/11/2016	AA-	0.006%
North Tyneside Metropolitan Borough C	5,000,000	0.75%	23/12/2015	21/12/2016	AA+	0.007%
Total Investments	£266,359,000	0.75%				0.012%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.45

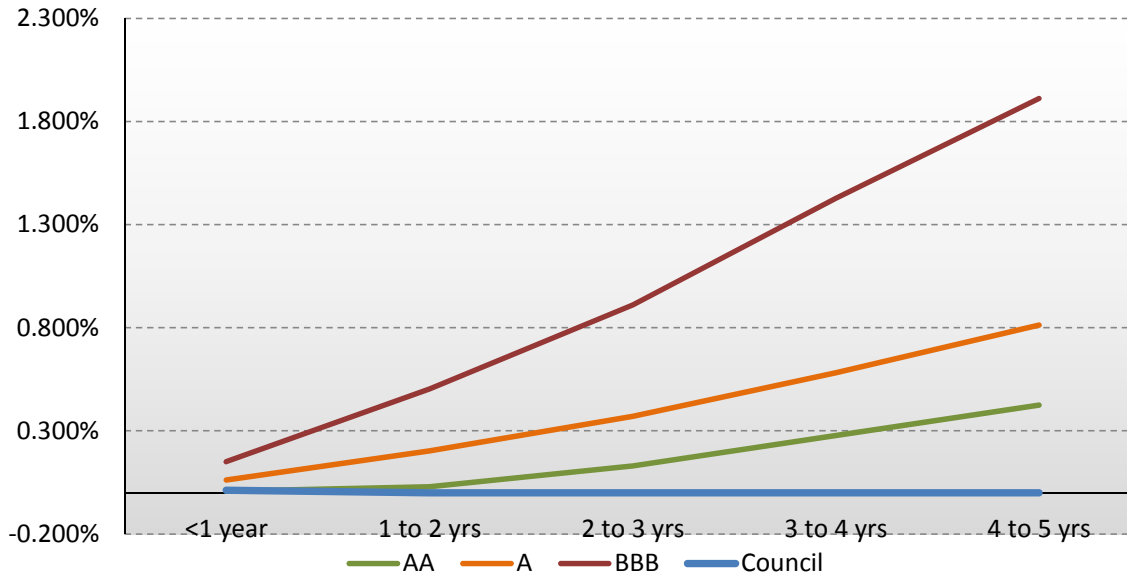
WARoR = Weighted Average Rate of Return

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	20.37%	£54,259,000	87.10%	£47,259,000	17.74%	0.53%	36	61	275	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	13.96%	£37,175,000	0.00%	£0	0.00%	0.92%	135	364	135	364
Orange	46.06%	£122,675,000	16.30%	£20,000,000	7.51%	0.73%	141	231	157	264
Red	19.62%	£52,250,000	0.00%	£0	0.00%	0.91%	61	308	61	308
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%	£266,359,000	25.25%	£67,259,000	25.25%	0.75%	103	230	132	301

Investment Risk and Rating Exposure

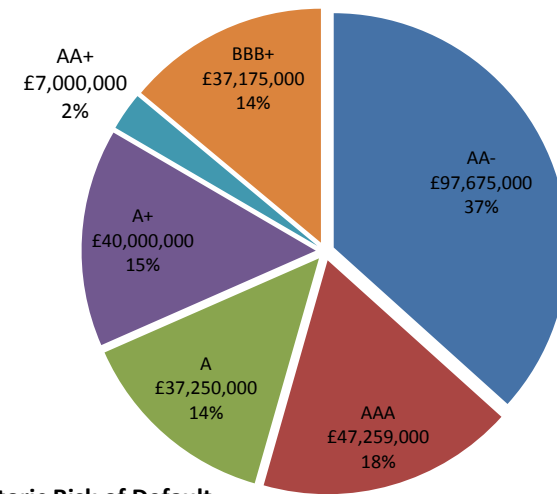
Investment Risk Vs. Rating Categories



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	0.012%	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.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
09/12/2015	1404	UBS Ltd, UBS AG	UK, Switzerland	The Outlook on both bank Long Term rating was changed from 'Stable' to 'Positive'.
09/12/2015	1405	Deutsche Bank AG	Germany	The Long Term Rating on Deutsche Bank was downgraded from 'A' to 'A-'. The Viability Rating was downgraded from 'a' to 'a-'. The Short Term Rating was affirmed at 'F1'. The Outlook on its Long Term rating was changed from 'Negative' to 'Stable'.

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
15/12/2015	1407	The Royal Bank of Scotland plc, National Westminster Bank Plc, The Royal Bank of Scotland Plc	UK	Outlook on the banks' long term rating was changed from 'Stable' to 'Positive'.

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
03/12/2015	1402	Skandinaviska Enskilda Banken AB, Swedbank AB	Sweden	Swedbank AB: Long term and short term ratings raised to 'AA-/A-1+' from 'A+/A-1'. Skandinaviska Enskilda Banken AB: Long term and short term ratings have been affirmed at 'A+/A-1'
03/12/2015	1403	BNP Paribas Fortis, BNP Paribas, Credit Agricole Corporate and Investment Bank, Credit Agricole SA, Societe Generale, ABN AMRO Bank N.V., Rabobank, UBS AG, UBS Ltd	Belgium, France, Netherlands, Switzerland	Multiple outlook changes but no colour changes
11/12/2015	1406	Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank, National Bank of Canada	Canada	Outlooks revised on Canadian banks that is viewed as having either 'high' or 'moderate' systematic importance to stable from negative. The credit ratings on the banks remain unchanged.