

Lincolnshire County Council
Monthly Investment Analysis Review

June 2016



General Economy

During some of the most dramatic days in UK politics of post-war history, the shock of Britain's vote to leave the European Union, followed by the Prime Minister's announcement that he will step down by October, saw financial markets experience material levels of volatility. Bond yields tumbled to record lows in major markets, while equity prices whipsawed and the value of sterling tumbled.

In the lead-up to the much-anticipated EU referendum, markets were firstly seeing the bias in voting polls shift to the "Leave" campaign in the early stages of the month, before the "Remain" vote made a late surge in the days leading up to the vote itself. Such mood swings ensured that, data aside, markets were already skittish for much of the month.

On the data front, the month kicked off with some disappointing Purchasing Managers' Index (PMI) figures. Commencing with manufacturing, activity appeared fairly stagnant in May, only slightly rising to 50.1 last month from April's upwardly revised 49.4, itself the lowest reading since early 2013. Gloomy news continued through the construction sector, with orders falling for the first time in over three years, following concerns regarding the EU referendum. Financial data company, Markit, said construction's PMI dropped to 51.2, from April's 52. More encouraging was news that activity in the dominant service sector picked up last month to 53.5, from 52.3 the previous month. However, details of the report indicated that respondents were still weighed down by the build up to the EU vote.

UK inflation remained wedged near record lows in May as cheaper clothes, food and entertainment offset the effects of rising fuel costs. Consumer Price Inflation (CPI) elevated 0.3% over the year, unchanged from April's figure. Core inflation, which strips out the most volatile goods, was also steady at 1.2% in May. Following Britain's vote to leave the European Union, pressure was immediately heaped on the value of Sterling, causing it to plummet. While beneficial to our exporters, analysts suggested that this is likely to cause inflation to increase over the coming months faster than originally anticipated as our cost of goods increases.

Slightly more buoyant data followed for the UK, by way of the unemployment rate falling to its lowest level in 11 years, as EU referendum fears and the introduction of the National Minimum Wage failed to hold back UK firms. Reaching a low of 5% in the three months to April, this marked the lowest the unemployment rate has stood at since the autumn of 2005, and is now in line with the Bank of England's estimates of full employment. In contrast to inflation running around the 0.3% mark, real wage growth came in at around 1.7%, one of the strongest levels since the onset of the financial crisis.

Further afield, US non-farm payrolls crumbled in May, with the economy adding just 38,000 positions through the month, the lowest figure in six years, and far below market expectations of 160,000. When adjusted for the striking Verizon workers, payrolls still only stood at 73,000, suggesting any speculation of a near-term hike should be put to bed. The unemployment rate did drop to a nine-year low of 4.7%; however this was mainly a result of people leaving the workforce. This feeble news and its implications for rate prospects caused the Dollar to plummet 1.25% against the Euro. On a slightly more upbeat note, GDP in the US economy was revised up on the back of strong exports and investment numbers. The rate was pushed up to 1.1% on an annualised basis in the first quarter of the year, up from the previous reading of 0.8% reported last month. In normal circumstances, higher growth would have put the spotlight back on the Federal Reserve over the timing of the next rate hike; however following the weak payrolls data print and the UK's vote to leave the EU, markets have almost discounted any expectation of interest rates being

In a further effort to calm market concerns, Bank of England's Mark Carney spoke out on the last day of the month. He reaffirmed that the Bank would do all that was necessary to support the economy in this uncertain time, hinting at the likelihood of an interest rate cut and an increase in quantitative easing. The prospect of rates being cut from their historic low of 0.5% sent the Pound tumbling once more; however stock markets in

Housing

Nationwide figures revealed that British house price growth was unchanged in June, rising at 0.2% on the month. However, house price acceleration on an annual basis sped up to 5.1% from 4.7% in May. Halifax reported houses prices rose 0.6% in May, following a 0.8% dip the previous month. On an annual basis, house prices grew 9.2%.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the first quarter of 2017. Capital Economics left their forecast unchanged in May. They expect the first

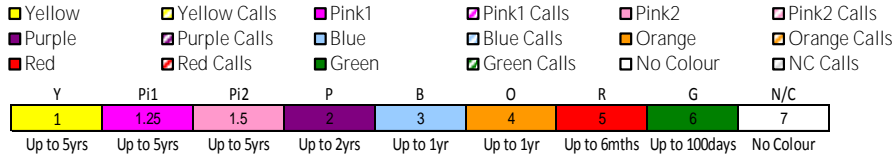
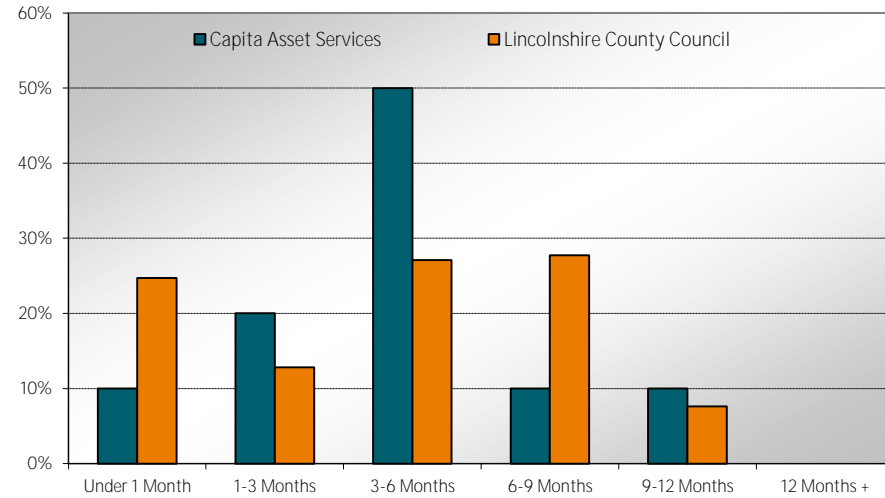
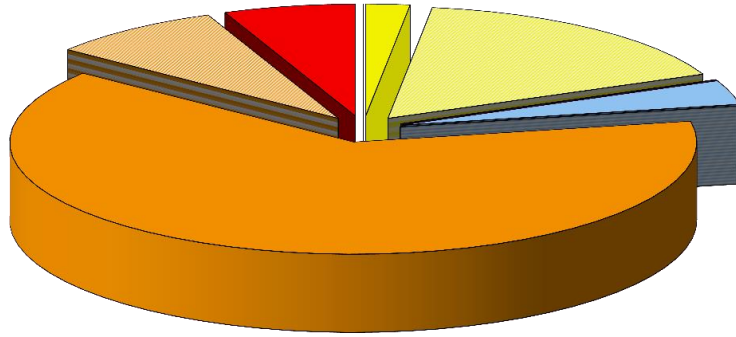
Bank Rate	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%
Capital Economics	0.50%	0.75%	0.75%	1.00%	1.00%

Lincolnshire County Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	879,000	0.48%		MMF	AAA	0.000%
MMF Aberdeen	19,000,000	0.51%		MMF	AAA	0.000%
MMF Standard Life	20,000,000	0.53%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc	5,000,000	0.95%	03/07/2015	01/07/2016	BBB+	0.000%
DBS Bank Ltd	5,000,000	0.68%	26/10/2015	26/07/2016	AA-	0.000%
HSBC Bank Plc	10,000,000	0.61%		Call30	AA-	0.001%
Cooperatieve Rabobank U.A.	6,075,000	0.69%	08/02/2016	08/08/2016	A+	0.007%
DZ Bank AG (Deutsche Zentral-Genossenscha	5,000,000	0.64%	12/02/2016	12/08/2016	AA-	0.001%
Cooperatieve Rabobank U.A.	10,000,000	0.75%	15/02/2016	16/09/2016	A+	0.013%
HSBC Bank Plc	10,000,000	0.69%		Call90	AA-	0.002%
Landesbank Hessen-Thuringen Girozentrale	6,725,000	0.76%	13/04/2016	13/10/2016	A	0.018%
Toronto Dominion Bank	5,000,000	0.80%	16/10/2015	14/10/2016	AA-	0.002%
Toronto Dominion Bank	5,000,000	0.81%	16/10/2015	14/10/2016	AA-	0.002%
Credit Industriel et Commercial	8,950,000	0.75%	18/04/2016	18/10/2016	A	0.019%
Toronto Dominion Bank	8,500,000	0.90%	29/10/2015	27/10/2016	AA-	0.002%
United Overseas Bank Ltd	6,775,000	0.80%	04/11/2015	02/11/2016	AA-	0.002%
Toronto Dominion Bank	1,500,000	0.89%	06/11/2015	04/11/2016	AA-	0.002%
DZ Bank AG (Deutsche Zentral-Genossenscha	7,079,000	0.63%	19/05/2016	21/11/2016	AA-	0.003%
DBS Bank Ltd	5,000,000	0.63%	31/05/2016	30/11/2016	AA-	0.003%
Credit Industriel et Commercial	6,050,000	0.70%	03/06/2016	05/12/2016	A	0.027%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	23/12/2015	21/12/2016	AA	0.003%
Commonwealth Bank of Australia	5,000,000	0.85%	07/01/2016	05/01/2017	AA-	0.003%
Bank of Montreal	5,000,000	0.85%	19/01/2016	17/01/2017	A+	0.034%
Landesbank Hessen-Thuringen Girozentrale	8,400,000	0.90%	22/04/2016	23/01/2017	A	0.035%
Landesbank Hessen-Thuringen Girozentrale	4,800,000	0.93%	25/04/2016	25/01/2017	A	0.036%
National Australia Bank Ltd	5,450,000	0.80%	03/02/2016	01/02/2017	AA-	0.004%
Nordea Bank AB	5,000,000	0.68%	08/06/2016	08/02/2017	AA-	0.004%
Bank of Montreal	10,000,000	0.80%	12/02/2016	10/02/2017	A+	0.038%
Commonwealth Bank of Australia	10,000,000	0.90%	11/03/2016	10/03/2017	AA-	0.005%
United Overseas Bank Ltd	8,550,000	0.75%	11/05/2016	13/03/2017	AA-	0.005%
Commonwealth Bank of Australia	5,000,000	0.97%	31/03/2016	30/03/2017	AA-	0.005%
The Royal Bank of Scotland Plc	3,446,000	0.97%	19/05/2016	17/05/2017	BBB+	0.132%
Bank of Montreal	5,000,000	0.80%	27/05/2016	26/05/2017	A+	0.056%
DBS Bank Ltd	5,000,000	0.77%	27/05/2016	26/05/2017	AA-	0.006%
DBS Bank Ltd	5,000,000	0.80%	23/06/2016	22/06/2017	AA-	0.007%
Total Investments	£242,179,000	0.74%				0.011%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria

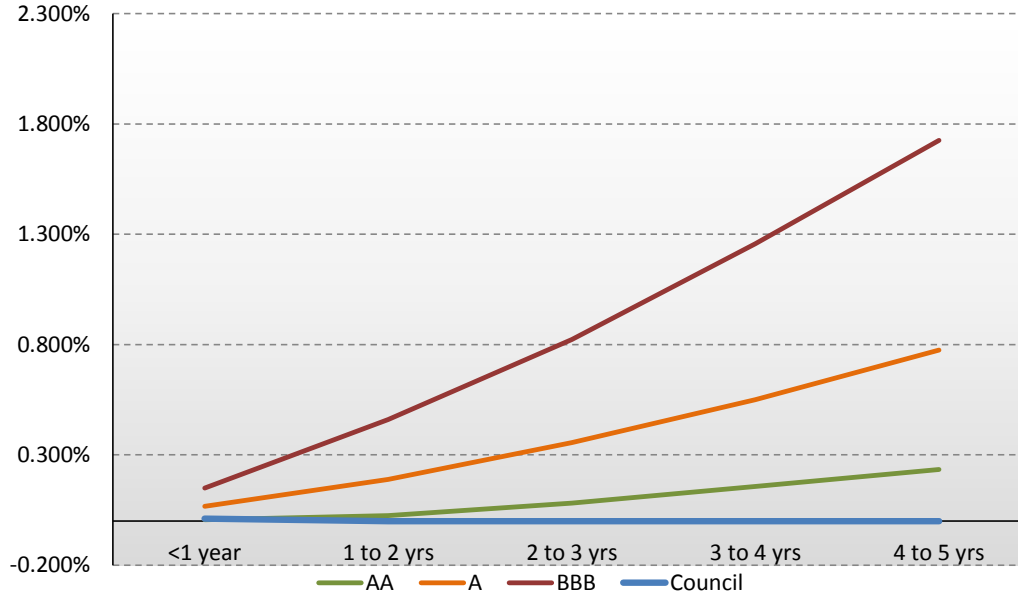


Portfolios weighted average risk number = **3.47**

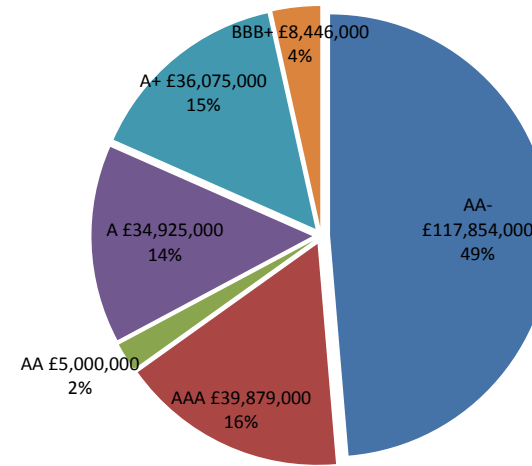
WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity
 Excluding Calls/MMFs/EMMFs

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	I at Exec	WAM	WAM at Execution
Yellow	18.53%	£44,879,000	88.86%	£39,879,000	16.47%	0.54%	19	41	174	364
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	3.49%	£8,446,000	0.00%	£0	0.00%	0.96%	132	364	132	364
Orange	71.79%	£173,854,000	11.50%	£20,000,000	8.26%	0.78%	164	274	178	302
Red	6.19%	£15,000,000	0.00%	£0	0.00%	0.73%	129	184	129	184
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%	£242,179,000	24.73%	£59,879,000	24.73%	0.74%	134	228	172	296

Investment Risk Vs. Rating Categories



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.

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	0.011%	0.000%	0.000%	0.000%	0.000%

Lincolnshire County Council

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
15/06/2016	1454	UBS AG	Switzerland	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'F1'.
15/06/2016	1454	UBS Ltd	Switzerland	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'F1'.
28/06/2016	1456	UK Sovereign Rating	UK	Sovereign Rating downgraded to 'AA' from 'AA+', Outlook changed to 'Negative' from 'Stable'

Lincolnshire County Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/06/2016	1449	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating affirmed at 'A2', removed from 'Negative Outlook' and placed on 'Negative Watch' . Short Term rating affirmed at 'P-1' placed on 'Negative Watch'
06/06/2016	1450	Finland Sovereign Rating	Finland	Sovereign Rating was downgraded to 'Aa1' from 'Aaa', Outlook changed from 'Stable' to 'Negative'
27/06/2016	1455	UK Sovereign Rating	UK	Sovereign Rating was affirmed at 'Aa1', Outlook changed to 'Negative' from 'Stable'
29/06/2016	1459	Coventry Building Society	UK	Long Term Rating affirmed at 'A2', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'
29/06/2016	1459	Leeds Building Society	UK	Long Term Rating affirmed at 'A2', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'
29/06/2016	1459	Nationwide Building Society	UK	Long Term Rating affirmed at 'Aa3', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'
29/06/2016	1459	Nottingham Building Society	UK	Long Term Rating affirmed at 'Baa1', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-2'
29/06/2016	1459	Principality Building Society	UK	Long Term Rating affirmed at 'Baa3', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'P-3'.
29/06/2016	1458	Abbey National Treasury Services Plc	UK	Long Term Rating affirmed at 'Aa3', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'
29/06/2016	1458	Bank of Scotland Plc	UK	Long Term Rating affirmed at 'A1', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'P-1'
29/06/2016	1458	Barclays Bank Plc	UK	Long Term Rating affirmed at 'A2', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'
29/06/2016	1458	HSBC Bank plc	UK	Long Term Rating affirmed at 'A2', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'
29/06/2016	1458	Lloyds Bank plc	UK	Long Term Rating affirmed at 'A1', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'P-1'
29/06/2016	1458	Santander UK Plc	UK	Long Term Rating affirmed at 'Aa3', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'

Lincolnshire County Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
07/06/2016	1451	Royal Bank of Canada	Canada	Long Term Rating affirmed at 'AA-', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'A-1+'
07/06/2016	1452	UBS AG	Switzerland	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'A-1'
07/06/2016	1452	UBS Ltd	Switzerland	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to 'Stable' from 'Positive'. Short Term Rating affirmed at 'A-1'
28/06/2016	1457	UK Sovereign Rating	UK	Sovereign Rating downgraded to 'AA' from 'AAA', 'Negative Outlook'

This page is intentionally left blank