

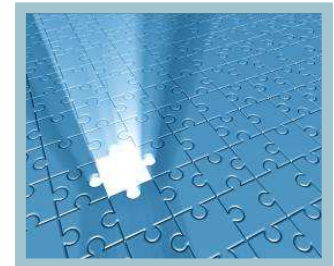
SECTOR

Appendix A

Shropshire Council

Monthly Investment Analysis Review

September 2012



Shropshire Council

Monthly Economic Summary

General Economy

A sustained recovery seemed as elusive as ever this month as the economy continued to struggle to emerge from recession. GDP was revised for the third time late this month from -0.5% to -0.4% q/q, keeping the annual rate of decline to -0.5%. The weak economic backdrop hurt both sides of the public finance statistics as continual cyclical spending increased government borrowing while corporation tax receipts were also hit by the tepid economy. The budget deficit, excluding financial sector interventions, came in at £14.41bn, the biggest on record for any August. This compared to just £0.6bn in the previous month. Some forecasters had expected a better return, given that receipts should have been boosted by Olympic ticket sales, yet this failed to materialise. This data adds to speculation over whether the Chancellor will be forced to abandon some of his fiscal targets as the deficit is beyond the government's own forecasts. Retail sales also proved somewhat disappointing by dipping 0.2% on the month. On an annual basis, a rise of 2.7% seems more encouraging, yet most forecasters still believe that retail activity will remain muted for some time to come. The Office for National Statistics stated that figures were lower as consumers chose to watch the Olympics rather than shop. However, in essence, the principal reason behind the fall is likely to be consumers reducing expenditure on non-essential items as their incomes suffer due to consumer-level inflation running ahead of earning increases. On this front, consumer price inflation (CPI) did fall from 2.6% to 2.5% in August, despite a rise in oil and fuel costs. The Bank of England forecasts that this trend will continue and inflation will ease towards and perhaps below its 2% target in the coming months. Lower inflation figures indicate more leeway for the Monetary Policy Committee to undertake further quantitative easing. Following its meeting this month, the Committee made no change to either the official Bank Rate or its current plan to buy £50bn of British government bonds, which will take its total purchases to £375bn by November. Although this result was expected, many economists are speculating that the Bank will begin a fresh programme of asset purchases in November. Elsewhere, employment data provided another positive surprise with a 15,000 fall in the number claiming unemployment benefit last month. In addition, according to the International Labour Organisation (ILO), unemployment fell by 7,000 in the three months through to July to 2.59 million. Despite this, continual cuts in public sector staff, as well as the euro crisis imply this trend may not continue. On the activity front, PMI for the service sector jumped to 53.7 in August from 51.0 in July, beating the most optimistic economist's forecast. Headline PMI manufacturing activity also beat market expectations and climbed to 49.5 from 45.2 in June – the highest since April. Unfortunately, the same was not seen for construction PMI which dropped below expectations to 49.0 in August from 50.9 as new orders slumped at the fastest pace since the height of the financial crisis. Easing inflation and falling unemployment should soften the squeeze on incomes and induce consumer confidence. However, lacklustre demand, weak investment spending, continuing austerity and economic problems elsewhere, imply a sustained recovery remains a distant prospect.

Housing Market

Mortgage lender Halifax reported that house prices declined by 0.4% in August, compared to a 0.1% decline in July. Halifax acclaim a gradual upward trend in spending power, aided by lower inflation, should help to support housing demand in the coming months. Nevertheless, the housing market is expected to remain broadly steady for the remainder of 2012. The number of mortgages granted to homebuyers rose to 30,533 in August, up from 28,750 in July, according to the British Bankers' Association group.

Forecast

Sector has kept its interest rate forecast unchanged, as we are expecting a first increase in Q4 2014. UBS and Capital Economics kept their bank rate forecasts unchanged, still expecting a decrease by 0.25% in the December quarter 2012.

Bank Rate	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Sector	0.50%	0.50%	0.50%	0.50%	0.50%
UBS	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%

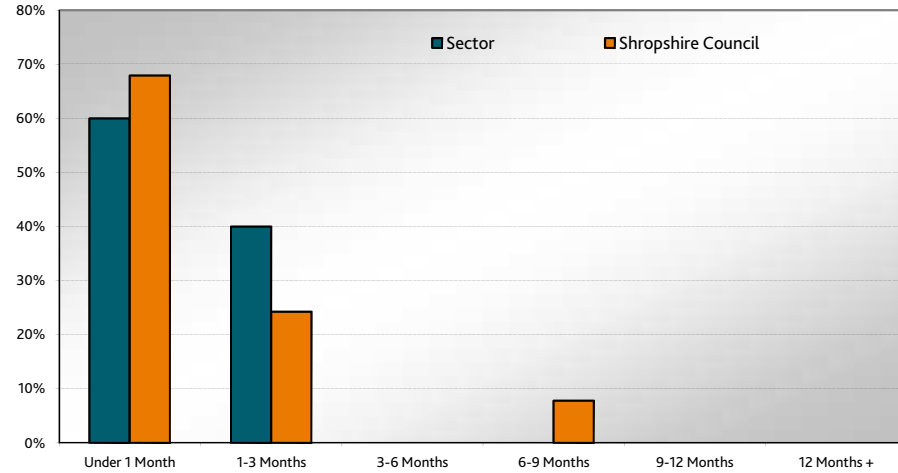
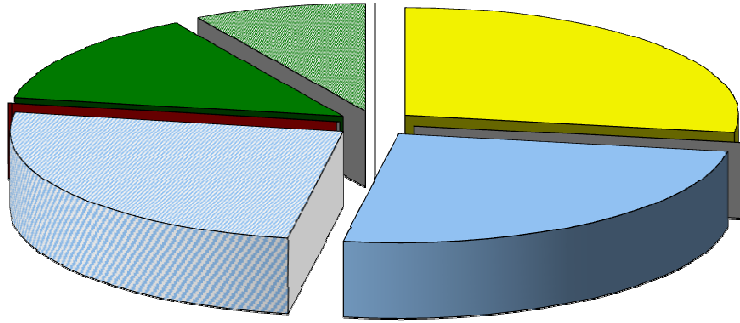
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Long Term Rating	Historic Risk of Default
National Westminster Bank Plc	30,000,000	1.00%		Call	A-	0.000%
HSBC Bank Plc	10,000,000	0.80%		Call	AA-	0.000%
Leeds City Council	4,580,000	0.27%	24/09/2012	02/10/2012	AAA	0.000%
Lloyds TSB Bank Plc	3,260,000	1.40%	03/07/2012	03/10/2012	A	0.001%
DMO	2,380,000	0.25%	25/09/2012	05/10/2012	AAA	0.000%
Lloyds TSB Bank Plc	5,900,000	1.35%	20/07/2012	19/10/2012	A	0.005%
Salford City Council	3,600,000	0.29%	03/09/2012	19/10/2012	AAA	0.000%
Birmingham City Council	5,000,000	0.28%	26/09/2012	26/10/2012	AAA	0.000%
Barclays Bank Plc	3,220,000	0.47%	03/09/2012	29/10/2012	A	0.007%
Nationwide Building Society	6,590,000	0.58%	31/07/2012	30/10/2012	A	0.008%
Tameside Metropolitan Borough Council	3,260,000	0.28%	27/09/2012	31/10/2012	AAA	0.000%
Barclays Bank Plc	3,290,000	0.42%	28/09/2012	31/10/2012	A	0.008%
Lloyds TSB Bank Plc	1,520,000	1.35%	13/08/2012	13/11/2012	A	0.011%
Nationwide Building Society	3,410,000	0.56%	17/08/2012	16/11/2012	A	0.012%
Peterborough City Council	4,000,000	0.30%	28/09/2012	19/11/2012	AAA	0.000%
Greater London Authority	10,000,000	0.35%	31/08/2012	30/11/2012	AAA	0.000%
Lloyds TSB Bank Plc	5,000,000	1.35%	31/08/2012	30/11/2012	A	0.016%
Lloyds TSB Bank Plc	5,000,000	1.40%	13/09/2012	19/12/2012	A	0.021%
Lloyds TSB Bank Plc	5,000,000	3.00%	03/05/2012	11/04/2013	A	0.050%
Lloyds TSB Bank Plc	4,320,000	3.00%	03/05/2012	11/04/2013	A	0.050%
Total Investments	£119,330,000	0.95%				0.007%

Shropshire Council

Portfolio Composition by Sector's Suggested Lending Criteria



■ Yellow ■ Yellow Calls ■ Purple ■ Purple Calls ■ Blue ■ Blue Calls ■ Orange
■ Orange Calls ■ Red ■ Red Calls ■ Green ■ Green Calls ■ No Colour ■ NC Calls

1 2 3 4 5 6 7
 Y P B O R G N/C
 Up to 5yrs Up to 2yrs Up to 1yr Up to 1yr Up to 6mths Up to 3mths No Colour

Portfolios weighted average risk number = **3.1**

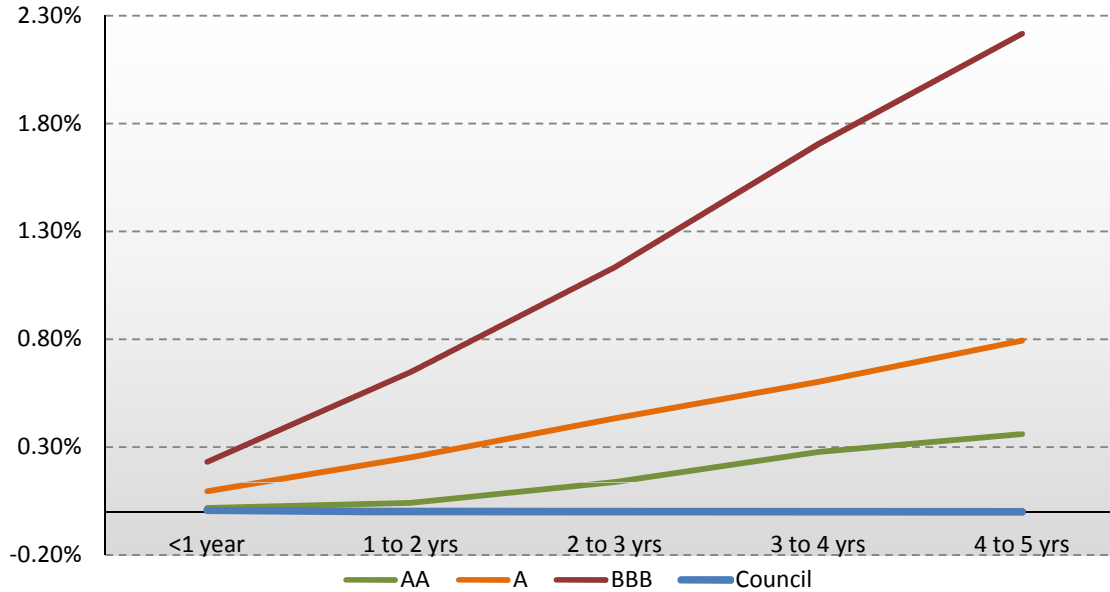
WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs	
									WAM	WAM at Execution
Yellow	27.50%	£32,820,000	0.00%	£0	0.00%	0.30%	34	49	34	49
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	50.28%	£60,000,000	50.00%	£30,000,000	25.14%	1.44%	45	85	90	170
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	22.22%	£26,510,000	37.72%	£10,000,000	8.38%	0.63%	21	45	34	73
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£119,330,000	33.52%	£40,000,000	33.52%	0.95%	37	66	55	100

Shropshire Council

Relative Investment Risk and Rating Exposure

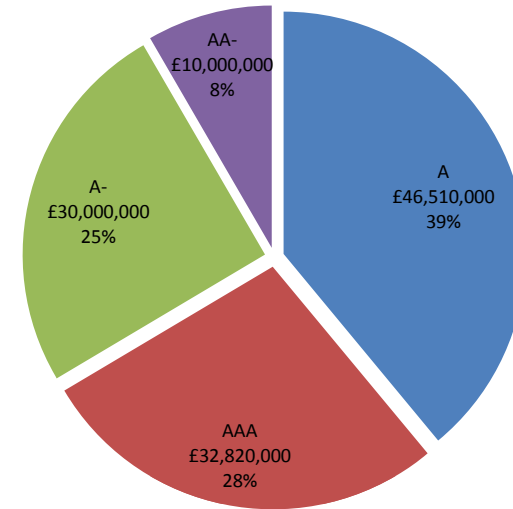
Relative Investment Risk Vs. Rating Categories



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	0.017%	0.041%	0.137%	0.277%	0.360%
A	0.094%	0.252%	0.433%	0.602%	0.793%
BBB	0.231%	0.647%	1.133%	1.705%	2.216%
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 .

Shropshire Council

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
No rating changes have occurred in September by Fitch.				

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
No rating changes have occurred in September by Moody's				

Shropshire Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
No rating changes have occurred in September by Standard & Poors				