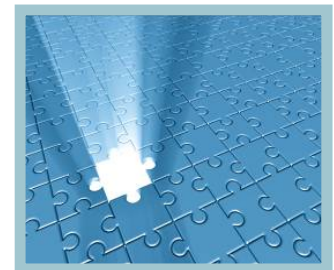


Shropshire Council

Monthly Investment Analysis Review

March 2014



Monthly Economic Summary

General Economy

This month geopolitical issues overcast markets as tensions between Russia and Ukraine escalated over developments in Crimea. The vote saw the region cut ties with Ukraine in favour of Russia, raising concerns amongst Western economies of a potential backlash on global financial and commodity markets. However, due to minimal trade ties with the region, there has been little direct impact on the UK aside from the evidence of safe haven flows given the current uncertainties.

Instead, domestic attention focused on the Chancellor's Budget which painted a rosy picture for the UK economic recovery. The Budget saw the Office for Budget Responsibility (OBR) push up their GDP forecasts for the next few years, with 2.7% for 2014 and 2.3% in 2015. On the back of upwardly revised forecasts, the highlight of the Budget came as Chancellor Osborne announced drastic reforms to pensions, with people no longer being required to purchase an annuity upon retirement. In its place individuals are now free to withdraw some or all of their pension "pot" at any time. Given pensioners are known to have a higher propensity to vote, the reform notably came across as a political move by the Chancellor prior to the 2015 General Election.

Turning the attention towards monthly releases, Markit PMI surveys saw British Manufacturing grow faster than expected ticking up to 56.9 from 56.6 in January. The improved figure added to signs that the economic recovery is broadening; further supported by the news that manufacturing is driving the sharpest job creation since mid 2011. However, in contrast the strong pace in construction PMI slipped to 62.6 in February from 64.6 in January. The weakened figure was attributed to heavy rain and floods which affected house-building during the month. Lastly Services PMI, the key contributor to UK GDP, again fell a notch in February to 58.2 from 58.3 January. Although at its lowest level since June, the headline rate remained firmly in 'expansion territory' thus raising no imminent cause for concern. Overall the composite index of all three indicators edged down to 58.6 in February from January's 59.1.

Further compounding sour news, Britain's Balance of Trade in goods deficit unexpectedly widened in January to £9.79bn from £7.66bn in December, as exports fell to their lowest level in more than a year and a half. The data release reaffirmed the need for the UK to break away from a consumer led recovery, further emphasised by the Chancellor's announcement in the Budget that lending to UK exporters would be increased to £3bn. On a positive note domestic inflation, as measured by CPI, continued its downward trajectory with prices rising 1.7% on the year in February. According to the ONS, the new four year low marks the narrowest gap between inflation and average wage growth since April 2010. UK unemployment remained stable at 7.2% in the three months to January, but those claiming unemployment benefits fell 34,600, this compared to forecasts of 25,000 drop. The readings underpin the view that the labour market is in recovery, further supporting the BoE forward guidance policy to look at a broader range of measures of slack in the economy.

On the whole, it was confirmed by the ONS that the UK economy grew by 0.7% q/q in Q4, unchanged from previous estimates. However the estimate for overall growth in 2013 was cut further to 1.7% from a downwardly revised 1.8%. British consumer sentiment continued to play a vital role with the Gfk headline consumer confidence index rising to -5, its highest reading since August 2007.

In the US, Non-Farm Payrolls data rose surprisingly to 175,000 in February compared to 113,000 in January. The stronger figure eased fears of an abrupt slowdown in economic growth which was attributed to unseasonably cold weather disrupting economic activity. However, the unemployment rate rose to 6.7% in February from a five-year low of 6.6%. An additional surprise came this month as Fed Chair Janet Yellen commented that the FOMC could raise rates by spring 2015, much earlier than markets had anticipated. Following the announcement government bond markets saw a significant sell-off, with gilt market seeing 10year yields rise by 7bps.

Elsewhere, in the Eurozone, inflation fell to slightly lower than expected during February, with prices up just 0.7%. The figure underlined deflation concerns within the economy bloc. However, news of stronger than expected growth for the final quarter of 2013 dampened some enthusiasm that the ECB would need to introduce fresh monetary policy support in the near term. Further adding to optimistic

Housing Market

Concerns persist over the strength of momentum being gathered in the housing market. British house prices in the three months to February rose by 2.4%, compared with a 1.1% rise in January, surpassing forecasts of a 0.7% upturn, according to Halifax. The number of mortgages granted to homebuyers fell in February to 47,550 compared with a downwardly revised figure of 49,341 in January, according to

Forecast

Capita Asset Services kept its interest rate forecast unchanged from its updated forecasts following the February Inflation Report. The first Bank Rate increase is set to occur in Q4 2015 with Bank Rate remaining at 0.75% for the first two quarters. Meanwhile Capital Economics expects no Bank Rate hike until the final quarter of 2015 whilst UBS expect the Bank Rate to be kept on hold until Q2 2015.

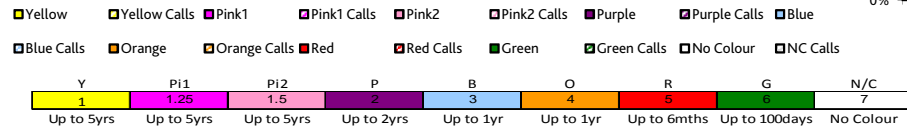
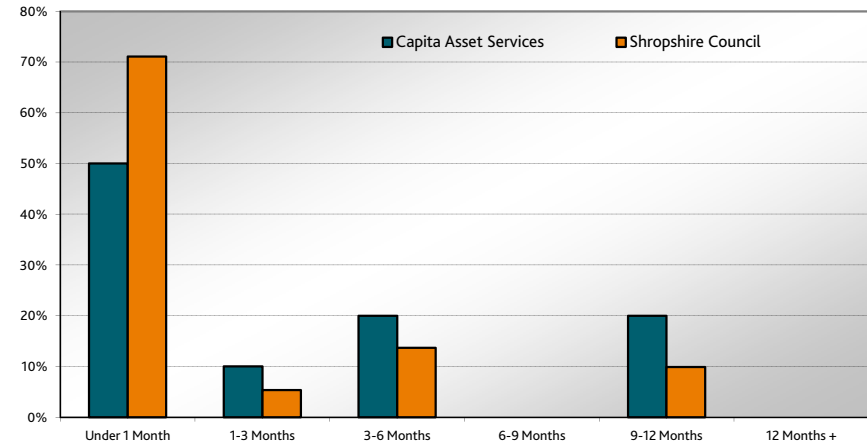
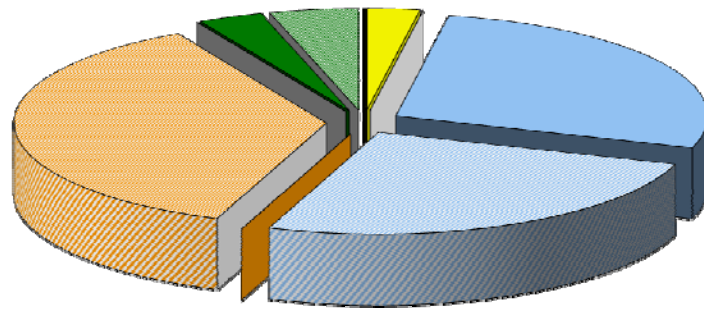
Bank Rate	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%
UBS	0.50%	0.50%	0.50%	0.50%	0.75%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

Shropshire Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
HSBC Bank Plc	20,000,000	0.80%		Call	AA-	0.000%
Svenska Handelsbanken AB	20,000,000	0.70%		Call	AA-	0.000%
National Westminster Bank Plc	13,070,000	0.50%		Call	BBB+	0.001%
Lloyds Bank Plc	3,260,000	1.10%	04/04/2013	02/04/2014	A	0.000%
Lloyds Bank Plc	5,000,000	0.65%	06/01/2014	04/04/2014	A	0.001%
Surrey County Council	3,000,000	0.35%	05/03/2014	04/04/2014	AA+	0.000%
Lloyds Bank Plc	5,000,000	1.10%	11/04/2013	09/04/2014	A	0.002%
Lloyds Bank Plc	5,000,000	1.10%	19/04/2013	17/04/2014	A	0.004%
Nationwide Building Society	3,650,000	0.40%	31/03/2014	30/04/2014	A	0.007%
Barclays Bank Plc	5,000,000	0.53%		Call35	A	0.009%
Lloyds Bank Plc	900,000	0.60%	05/02/2014	06/05/2014	A	0.009%
National Westminster Bank Plc	15,000,000	0.60%		Call95	BBB+	0.055%
Lloyds Bank Plc	4,320,000	0.95%	09/01/2014	08/01/2015	A	0.069%
Lloyds Bank Plc	1,520,000	0.95%	13/02/2014	12/02/2015	A	0.077%
Lloyds Bank Plc	5,000,000	0.95%	07/03/2014	06/03/2015	A	0.083%
Total Investments	£109,720,000	0.72%				0.016%

Portfolio Breakdown by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.55**

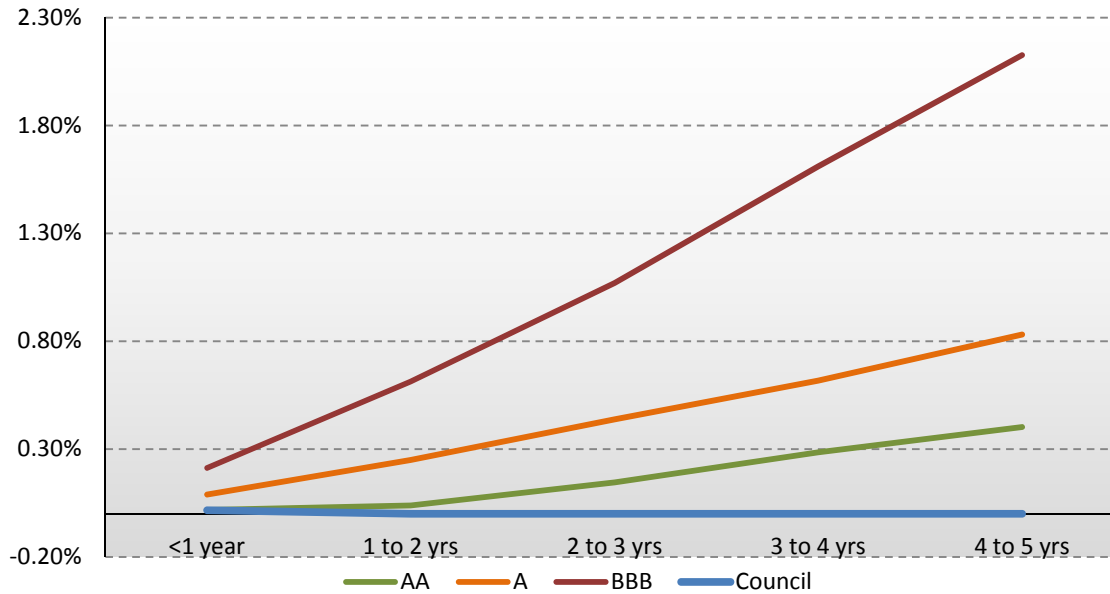
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	2.73%	£3,000,000	0.00%	£0	0.00%	0.35%	4	30	4	30
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	52.93%	£58,070,000	48.34%	£28,070,000	25.58%	0.76%	86	184	120	309
Orange	36.46%	£40,000,000	100.00%	£40,000,000	36.46%	0.75%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	7.88%	£8,650,000	57.80%	£5,000,000	4.56%	0.48%	33	33	30	30
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£109,720,000	66.60%	£73,070,000	66.60%	0.72%	48	101	101	259

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Relative Investment Risk and Rating Exposure

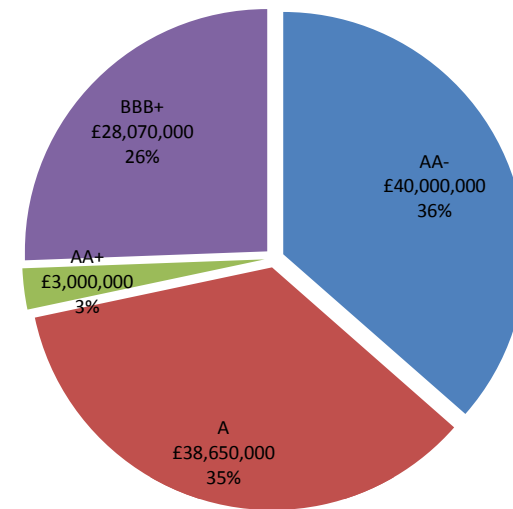
Relative Investment Risk Vs. Rating Categories



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%	0.038%	0.145%	0.284%	0.401%
A	0.089%	0.249%	0.438%	0.616%	0.831%
BBB	0.212%	0.613%	1.070%	1.610%	2.126%
Council	0.016%	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
07/03/2014	1254	Saudi Arabia	Saudi Arabia	Sovereign rating upgraded to 'AA' from 'AA-'. Outlook on the Sovereign Rating changed to Stable from Positive.
21/03/2014	1260	U.S.A	U.S.A	Sovereign rating affirmed at 'AAA'. Rating removed from Negative Watch and placed on Stable Outlook.
27/03/2014	1262	Lloyds Banking Group plc	UK	Long Term Rating affirmed at 'A', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1'. Viability Rating upgraded to 'a-' from 'bbb+'. Support Rating affirmed at '1'.
27/03/2014	1262	Lloyds Bank Plc	UK	Long Term Rating affirmed at 'A', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1'. Viability Rating upgraded to 'a-' from 'bbb+'. Support Rating affirmed at '1'.
27/03/2014	1262	Bank of Scotland Plc	UK	Long Term Rating affirmed at 'A', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1'. New Viability Rating at 'a-'. Support Rating affirmed at '1'.
27/03/2014	1263	Societe Generale	France	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	Deutsche Bank AG	Germany	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	Landesbank Baden Wuttermberg	Germany	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	MBNA Europe Bank	UK	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	The Royal Bank of Scotland Group Plc	UK	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	The Royal Bank of Scotland Plc	UK	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	National Westminster Bank Plc	UK	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	Bank of America, N.A.	U.S.A	All ratings affirmed and Outlook changed to Negative as a result of implied levels of sovereign support built into the ratings.
27/03/2014	1263	Citibank N.A.	U.S.A	Viability Rating upgraded to 'a' from 'a-'. All other ratings were affirmed.
28/03/2014	1264	Ulster Bank Ltd	UK	Long Term Rating affirmed at 'A-', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1'. Support Rating affirmed at '1'.

Shropshire Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/03/2014	1250	Germany	Germany	Outlook on the Sovereign Rating changed to Stable from Negative. Sovereign Rating was affirmed at 'Aaa'.
03/03/2014	1251	Luxembourg	Luxembourg	Outlook on the Sovereign Rating changed to Stable from Negative. Sovereign Rating was affirmed at 'Aaa'.
04/03/2014	1252	Banque et Caisse d'Epargne de l'Etat	Luxembourg	Outlook on the Long Term Rating changed to Stable from Negative. Long Term Rating affirmed at 'Aa1'.
07/03/2014	1253	Landwirtschaftliche Rentenbank	Germany	Outlook on the Long Term rating changed to Stable from Negative. Long Term Rating affirmed at 'Aaa'.
10/03/2014	1255	Belgium	Belgium	Outlook on the Sovereign Rating changed to Stable from Negative. Sovereign Rating was affirmed at 'Aa3'.
12/03/2014	1256	Bank Nederlandse Gemeenten	Netherlands	Long Term Rating affirmed at 'Aaa', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'. Financial Strength Rating affirmed at 'A'.
12/03/2014	1257	Landesbank Berlin AG	Germany	Outlook on the Long Term and Financial Strength Ratings changed to Negative from Stable. Long Term Rating affirmed at 'A1'. Short Term Rating affirmed at 'P-1'. Financial Strength Rating affirmed at 'D+'.
13/03/2014	1258	Yorkshire Building Society	UK	Long Term rating upgraded to 'Baa1' from 'Baa2'. Short Term Rating affirmed at 'P-2'. Financial Strength Rating affirmed at 'C-'.
14/03/2014	1259	Royal Bank of Scotland Group Plc	UK	Long Term Rating downgraded to 'Baa2' from 'Baa1', removed from Review for Possible Downgrade and placed on Negative Outlook. Short Term Rating affirmed at 'P-2'.
14/03/2014	1259	National Westminster Bank Plc	UK	Long Term Rating downgraded to 'Baa1' from 'A3', removed from Review for Possible Downgrade and placed on Negative Outlook. Short Term Rating affirmed at 'P-2'. Financial Strength Rating affirmed at 'D+', removed from Review for Possible Downgrade and placed on Negative Outlook.
14/03/2014	1259	The Royal Bank of Scotland Plc	UK	Long Term Rating downgraded to 'Baa1' from 'A3', removed from Review for Possible Downgrade and placed on Negative Outlook. Short Term Rating affirmed at 'P-2'. Financial Strength Rating affirmed at 'D+', removed from Review for Possible Downgrade and placed on Negative Outlook.
14/03/2014	1259	Ulster Bank Ltd	UK	Long Term Rating downgraded to 'Baa3' from 'Baa2', Negative Outlook. Short Term rating downgraded to 'P-3' from 'P-2'. Financial Strength Rating downgraded to 'E+' from 'D-', Outlook changed to Stable from Negative.
24/03/2014	1261	UniCredit Bank AG	Germany	Long Term Rating downgraded to 'Baa1' from 'A3', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-2'. Financial Strength Rating downgraded to 'D+' from 'C-', Outlook changed to Stable from Negative.

Shropshire Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action