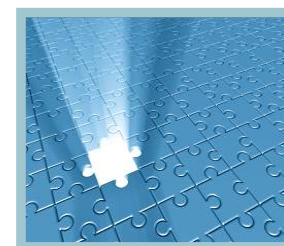


Shropshire Council

Monthly Investment Analysis Review

June 2014



Shropshire Council

Monthly Economic Summary

General Economy

The markets continued to be kept on their toes following an unexpectedly hawkish speech by Bank of England (BoE) Governor, Mark Carney.

Mr Carney took to the Mansion House with clear intentions to try and reinforce his interest rate views on financial markets. Much of Carney's speech was typical of nature; assessing the state of the economy and giving away a few clues about just how well they are getting on to meet targets. However, Carney went and threw a spanner into the works with his brief words on interest rates: "There's already great speculation about the exact timing of the first rate hike and this decision is becoming more balanced," he said. "It could happen sooner than markets currently expect." Only last month did the Governor signal that there was no hurry to raise rates. Now analysts predict the first Bank Rate hike could occur as early as this year. Earlier in the month, interest rates and the asset purchasing programme were kept on hold by the Monetary Policy Committee (MPC). Looking forward, greater emphasis will surely be placed on market data following the guidance offered by Carney in which he stressed that decisions would be data dependent.

Throughout the month, an outpour of positive data filtered through the economy. Britain's final Q1 GDP growth reading was robust; unchanged from previous 0.8% estimate. The Manufacturing PMI inched down to 57 in May from 57.3 previously; as manufacturers took on more staff and new orders continued to pile in. Britain's Services PMI also inched down to 58.6 from 58.7 previously. Britain's service sector; which remains the economy's most dominant sector, continues to post robust figures adding fuel to Carney's words of wisdom. Construction PMI posted growth in May; falling from 60.8 in April to 60, but signs began to surface that the sector may be struggling to meet demand. Both output for Industrial and Manufacturing production rose 0.4% on the month in April, indicating that there was some form of broadening out of the economic expansion. Elsewhere, Britain's unemployment rate fell to 6.6% in the three months to April. Unfortunately, what was weaker and more notable was wage data being softer than expectations, suggesting there is more spare capacity in the labour market than previously anticipated.

Some data had taken some noticeable setbacks. Britain's retail sales fell for the first time since the beginning of the year, in May. Whilst growth was still up 3.9% on the year, retail sales volumes dropped 0.5% on the month. The drop could have been larger had it not been for the strong sales of football shirts around the World Cup period. Falling CPI inflation, which eased to 1.5% in May, did ease the pressure on consumers' spending power, although wage growth is now back below headline inflation. Details released by the Office for National Statistics (ONS) on public finances showed a bigger than expected headline deficit in May. Public finances, excluding financial sector interventions, showed a deficit of £13.3bn. This was greater than the market forecasts and almost £5bn greater than the deficit from May 2013. Due to a slowdown in the exports - primarily in the chemical and manufacturing industries, the UK's trade deficit widened in April. According to the ONS, the goods' trade deficit grew to £8.9bn from £8.3bn previously. Despite efforts to boost trade, the combination of the strength in sterling and weak demand from the Eurozone dampened export growth.

Towards the end of the month, a keen eye was kept on the Financial Stability Report release by the Financial Policy Committee (FPC). After much speculation, the FPC has taken action to rein in a possible future house boom through introducing a loan-to-income ratio to limit the share of mortgages big lenders can make and also a test on borrowers' incomes to see if they are able to afford their mortgage following changes in the Bank Rate. As of now, neither measure has much stress and the FPC seem relatively relaxed about housing market developments to date. Over shores, the US jobless rate held steady at 6.3% in May and nonfarm payrolls rose 217,000. With average earnings increasing and a strong pace of hiring present, it came as a shock to the US when growth contracted at a much steeper pace than expected. The economy contracted 2.9% on an annualised basis compared to 1% previously. The magnitude of the first quarter revision suggests there lays deeper issues than the cold US weather. In the Eurozone, inflation fell to 0.5% in May, increasing the risks of deflation and acted as a catalyst for the European Central Bank (ECB) to act. The ECB cut the deposit rate to -0.1% and the refinancing rate to 0.15%, both down by 10bps in order to combat deflationary pressures and generate growth.

Housing Market

According to mortgage lender Halifax, British house prices spiked 3.9% higher in May; breaking two months consecutive months of falls and leaving house prices 8.7% higher than a year earlier. Nationwide house prices also maintained its strength; increasing 0.7% in May from 1.2% in April. Elsewhere, mortgage approvals by Britain's high street banks fell with tougher credit checks being imposed in the coming months. However, the annual rate was still 12% higher than a year earlier. Approvals of mortgages reached 41,757 in May - down slightly from April's reading of 41,934.

Forecast

Capita Asset Services is currently reviewing its interest rate forecast, with revised forecasts due to be released at the start of July. Capital Economics decided to alter their forecast - now expecting the first hike in Bank Rate for Q1 2015.

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

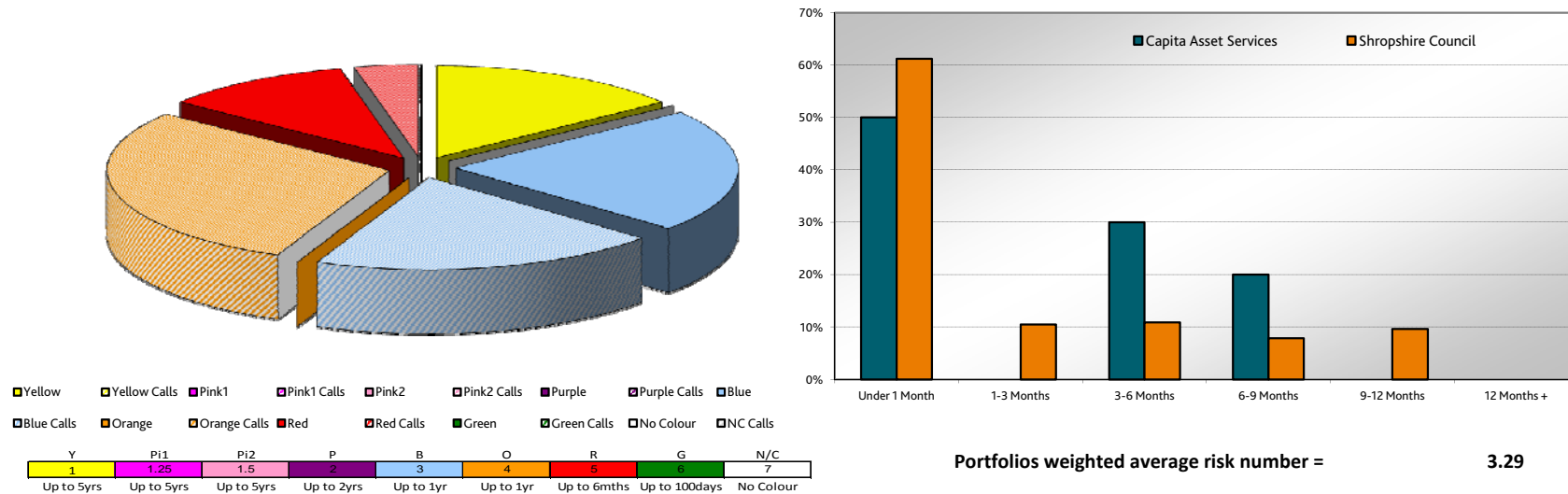
Shropshire Council

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	12,590,000	0.50%		Call	BBB+	0.001%
	Lloyds Bank Plc	5,000,000	0.60%	04/04/2014	04/07/2014	A	0.001%
	Nationwide Building Society	7,900,000	0.42%	02/06/2014	08/07/2014	A	0.002%
	Nationwide Building Society	2,100,000	0.42%	03/06/2014	09/07/2014	A	0.002%
	DMO	4,000,000	0.25%	16/06/2014	11/07/2014	AA+	0.001%
	DMO	3,550,000	0.25%	16/06/2014	14/07/2014	AA+	0.001%
	DMO	1,230,000	0.25%	17/06/2014	16/07/2014	AA+	0.001%
	DMO	690,000	0.25%	25/06/2014	17/07/2014	AA+	0.001%
	DMO	2,220,000	0.25%	27/06/2014	21/07/2014	AA+	0.001%
	Barclays Bank Plc	5,000,000	0.40%	10/06/2014	31/07/2014	A	0.007%
	Redditch Borough Council	3,500,000	0.32%	22/05/2014	01/08/2014	AA+	0.001%
	Barclays Bank Plc	5,000,000	0.54%		Call35	A	0.008%
	Lloyds Bank Plc	900,000	0.57%	07/05/2014	07/08/2014	A	0.009%
	Glasgow City Council	5,000,000	0.35%	13/05/2014	13/08/2014	AA+	0.002%
	National Westminster Bank Plc	15,000,000	0.60%		Call95	BBB+	0.052%
	Lloyds Bank Plc	4,320,000	0.95%	09/01/2014	08/01/2015	A	0.046%
	Lloyds Bank Plc	1,520,000	0.95%	13/02/2014	12/02/2015	A	0.054%
	Lloyds Bank Plc	5,000,000	0.95%	07/03/2014	06/03/2015	A	0.059%
	Lloyds Bank Plc	3,260,000	0.95%	02/04/2014	01/04/2015	A	0.065%
	Lloyds Bank Plc	5,000,000	0.95%	09/04/2014	08/04/2015	A	0.067%
	Lloyds Bank Plc	5,000,000	0.95%	17/04/2014	16/04/2015	A	0.069%
	Total Investments	£137,780,000	0.63%				0.017%

Shropshire Council

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.29

WARoR = Weighted Average Rate of Return

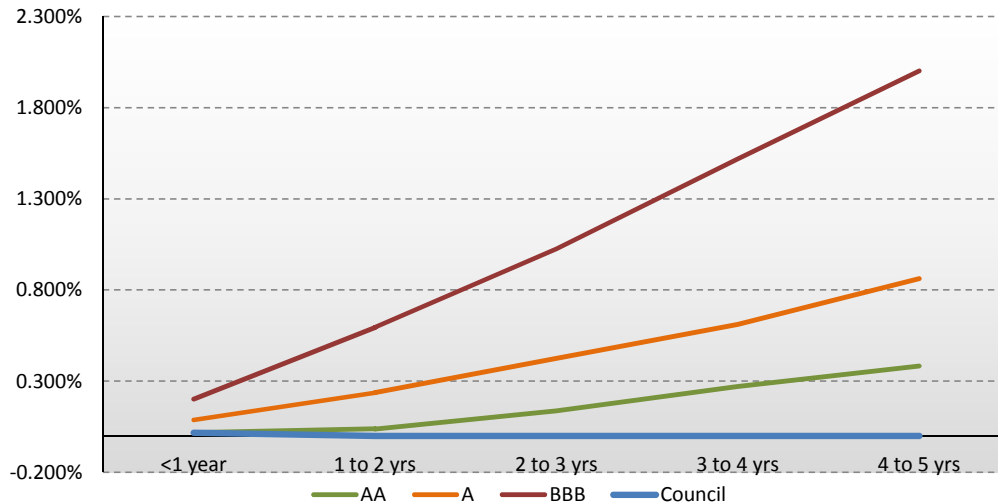
WAM = Weighted Average Time to Maturity

	% 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	14.65%	£20,190,000	0.00%	£0	0.00%	0.29%	25	50	25	50
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	41.80%	£57,590,000	47.91%	£27,590,000	20.02%	0.72%	133	186	208	310
Orange	29.03%	£40,000,000	100.00%	£40,000,000	29.03%	0.75%	0	0	0	0
Red	14.52%	£20,000,000	25.00%	£5,000,000	3.63%	0.44%	21	40	16	41
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
	100.00%	£137,780,000	52.69%	£72,590,000	52.69%	0.63%	62	91	107	168

Shropshire Council

Investment Risk and Rating Exposure

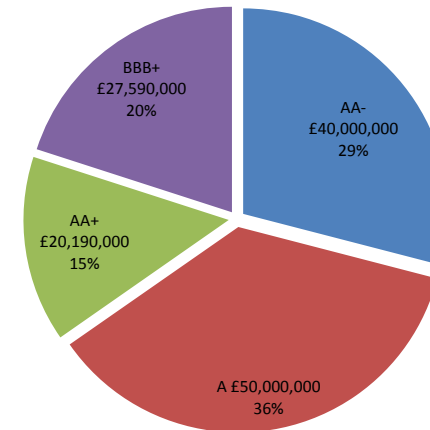
Investment Risk Vs. Rating Categories



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	0.017%	0.038%	0.137%	0.271%	0.384%
A	0.087%	0.237%	0.425%	0.610%	0.861%
BBB	0.201%	0.595%	1.025%	1.519%	2.000%
Council	0.017%	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
12/06/2014	1283	Landesbank Baden Wuerttemberg	GER	Long Term Rating Affirmed at 'A+', Negative Outlook. Short Term Rating Affirmed at 'F1+'. Viability Rating upgraded to 'bbb' from 'bbb-'. Support Rating Affirmed at '1'.
24/06/2014	1285	Skandinaviska Enskilda Banken AB	SWE	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 '1'.
24/06/2014	1285	Swedbank AB	SWE	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 '1'.

Shropshire Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
11/06/2014	1281	Bank of Nova Scotia	CAN	Long Term Rating Affirmed at 'Aa2', Outlook changed to 'Negative' from 'Stable'. Financial Strength Rating Affirmed at 'B-', Outlook changed to 'Negative' from 'Stable'
12/06/2014	1282	Bank of Montreal	CAN	Long Term Rating Affirmed at 'Aa3', Outlook changed to 'Negative' from 'Stable'. Financial Strength Rating 'C+', 'Stable' Outlook.
12/06/2014	1282	Canadian Imperial Bank of Commerce	CAN	Long Term Rating Affirmed at 'Aa3', Outlook changed to 'Negative' from 'Stable'. Financial Strength Rating 'C+', 'Stable' Outlook.
12/06/2014	1282	National Bank of Canada	CAN	Long Term Rating Affirmed at 'Aa3', Outlook changed to 'Negative' from 'Stable'. Financial Strength Rating 'C', 'Stable' Outlook.
12/06/2014	1282	Royal Bank of Canada	CAN	Long Term Rating Affirmed at 'Aa3', Outlook changed to 'Negative' from 'Stable'. Financial Strength Rating 'C+', 'Stable' Outlook.
12/06/2014	1282	Toronto Dominion Bank	CAN	Long Term Rating Affirmed at 'Aa1', Outlook changed to 'Negative' from 'Stable'. Financial Strength Rating 'B', 'Stable' Outlook.

Shropshire Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
04/06/2014	1280	BNP Paribas Fortis	BEL	Long Term Rating 'A+', removed from 'Negative Outlook' and place on 'Negative Watch'. Short Term Rating Affirmed at 'A-1'.
04/06/2014	1280	BNP Paribas	FRA	Long Term Rating 'A+', removed from 'Negative Outlook' and place on 'Negative Watch'. Short Term Rating Affirmed at 'A-1'.
13/06/2014	1284	U.K Sovereign Rating	UK	Long Term Rating Affirmed at 'AAA', Outlook changed to 'Stable' from 'Negative'.