

# Stratton Street UCITS - Renminbi Bond Fund UI

April 2016



- Fed's dovish tone and weaker US data saw further dollar weakness
- Pick-up in China data tempers Fed's global economic & financial development concerns
- The Fund's USD I Class gained +0.52%
- Holdings in the Middle East and Russia performed well

## Market Comment

The risk-on sentiment broadly continued in April although performance was somewhat tempered as market activity was once again dictated by central bank action and crude prices. We had the BoJ wrong-foot some investors by leaving its three key easing tools unchanged. The bank's inaction saw the yen continue its upward assault against the dollar, gaining ~5.6% over the month. Meanwhile, the Fed unsurprisingly left the funds rate unchanged, although it sounded slightly more upbeat about the risks of global economic and financial developments; after the recent pickup in economic data out of China. The broadly dovish tone saw the dollar weakness continue for the third consecutive month. Meanwhile, having surged to 1.93% ahead of the meeting, the yield on the 10-yr US Treasury closed at 1.83%; only 6bps higher.

Brent crude futures surged over 21% to close at \$48.13 by month end; the highest level this year as the overreactive markets clung onto any signs of reduced production. The three-day strike of oil and gas workers in Kuwait helped boost crude prices, as did the announcement that US production is in decline.

US data releases remained mixed, Q1'16 GDP growth was released below market expectations at 0.5%qoq annualised, the slowest pace of growth in two years, and below the "residual seasonality" average of 0.8%qoq. The ISM reading also disappointed, falling to the lowest reading since 2009; both production and job creation were marginally higher, but new business expanded at its slowest pace so far this year. Despite the Fed's favoured core PCE Q1'16 reading at +2.1% qoq, a June hike is looking ever less likely.

## Portfolio Review

The Fund's USD I Class was up +0.52% over the month, while the HSBC Offshore Renminbi Index returned +0.28%. The bounce in crude prices certainly helped risk assets during April with Russian quasi-sovereign and Middle East credits performing well. Meanwhile China and US Treasury exposure detracted from performance. Having found an opportunity during the month to reduce some exposure to Russia, after the stellar rally off the lows in January, we maintained our weighting in Russian Railways 7.487% 2031s. This holding was in fact the portfolio's star performer having gained over 4.5 points. The bond remains attractive at over 25% expected return and yield with a 2.7 notch uplift.

Fitch affirmed Russia's BBB- rating, however downgraded Saudi Arabia's rating by one notch to AA-. Coincidentally, our position in state-owned Saudi Electricity was the second best performing holding having rallied over 4 points in April. Despite the downgrade to A+ the bond remains over 4 credit notches cheap.

With the drop in recent and forecasted oil prices Saudi Arabia is expected to run sustained deficits for the next few years. Current estimates see those drawdowns slowing as early as next year, partly due to rising oil forecasts but also due to ongoing domestic reforms. The Government continues to have a large creditor buffer (equivalent to around a year's GDP) which it has accumulated over the past decade and we calculate the country has an NFA of 170% of GDP. Historically they have proven themselves able to weather prolonged low oil prices

## Outlook

As the global macro backdrop remains lacklustre, the IMF recently warned governments to not rely on low or negative interest rates alone to avert a recession and drive growth. Citing factors such as low productivity, the lack of firepower from monetary policy and persistently low inflation, the IMF is worried that there are still a number of factors that could blow global growth off course. Last month the IMF once again downgraded their global growth estimates to 3.2% for 2016 and 3.5% for 2017.

Whilst the IMF supports the policy of negative interest rates it believes it should not be the only economic policy tool utilised. Boosting reforms to raise productivity and employment, as well as not being overly aggressive with austerity measures, if countries can afford it, are areas that should be addressed.

It's hard to ignore the slowdown in China, but it is hardly news. China's Q1'16 GDP reading was released in-line with expectations at 6.7%. Over the past 30 years, the strongest growth rate of 14.3% was recorded in 1992, although in 2007 GDP did hit 14.2%. 6.7% is less than half the peak reading - however it is hardly a disaster and is way above growth rates in the G7. Quite why "only" 6.7% GDP growth is universally viewed as a negative remains one of the puzzles of modern finance. Equally, given the importance of China in the world economy, it remains a mystery as to why investors with a pessimistic view on China, are not more downbeat about global economic growth prospects.

## Historical Performance<sup>1</sup>

	2016 %	* Inception %
IDUSD Class	6.70	10.42
IDGBP Class	8.25	14.25
IDEUR Class	6.71	13.41
ODGBP Class	5.33	6.15

## Performance Summary<sup>1</sup>

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	0.52
HSBC China Offshore Renminbi bond index (USD)	0.28
Offshore Chinese Renminbi (CNH)	-0.34

## Fund Prices<sup>1</sup>

Institutional Class	Price	Monthly Return %
USD	105.09	0.52
GBP	106.74	0.51
EUR	105.81	0.37

  

Ordinary Class	Price	Monthly Return %
GBP	105.57	0.33

## Portfolio Statistics

Gross Redemption Yield	3.87
Gross Running Yield	4.13
Fund NAV (USD Millions)	27.10
Number of holdings	32
Number of countries	10
Duration	9.05

## Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	47.75	Sovereign	20.82
6 Star	24.24	Quasi	61.04
4 Star	11.04	Supra	4.10
3 Star	15.14	Corporate	12.21
Total	98.17	Total	98.17

Credit Rating	
Rating	% NAV
AAA	16.49
AA	46.71
A	23.93
Baa	11.04
Total	98.17

Portfolio Exposure by Country	% NAV
Abu Dhabi	9.01
China	22.85
Hong Kong	6.01
Oman	1.39
Qatar	22.24
Russia	11.04
Saudi Arabia	4.99
Supranational	5.50
Singapore	4.10
United States	11.04
Total	98.17

# Stratton Street UCITS - Renminbi Bond Fund UI

## Share class information

Institutional	Current AMC	Minimum Subscription	Subsequent Investment	Front-end load	SEDOL	ISIN	Bloomberg
ID EUR	1%	EUR 100,000	EUR 10,000	None	5078151	LU0850781518	STRBIDE LX
ID USD	1%	USD 100,000	USD 10,000	None	5078175	LU0850781781	STRBIDU LX
ID CNH*	1%	USD 100,000	USD 10,000	None	5078186	LU0850781864	STIDCNH LX
ID GBP	1%	GBP 100,000	GBP 10,000	None	5078208	LU0850782086	STRBIDG LX
ID GBP ACC	1%	GBP 100,000	GBP 10,000	None	BVJDP45	LU1163072603	TBC
ID CHF	1%	CHF 100,000	CHF 10,000	None	5078216	LU0850782169	TBC

  

Ordinary	Current AMC	Minimum Subscription	Subsequent Investment	Front-end load	SEDOL	ISIN	Bloomberg
OD GBP	1.5%	No minimum	No minimum	Up to 3%	5078275	LU0850782755	STRODGB LX
OD EUR	1.5%	No minimum	No minimum	Up to 3%	5078224	LU0850782243	STRBODE LX
OD USD	1.5%	No minimum	No minimum	Up to 3%	5078259	LU0850782599	TBC
OD CNH	1.5%	No minimum	No minimum	Up to 3%	5078267	LU0850782672	TBC
OD CHF	1.5%	No minimum	No minimum	Up to 3%	5078291	LU0850782912	TBC

Classes in red signify currently inactive but available on demand. \* This class was last valued on 22 January 2016, the class is currently inactive but available on demand.

## Fund Information

<b>Domicile / legal status:</b>	Luxembourg / SICAV (UCITS)
<b>Base currency of the Fund:</b>	USD
<b>Valuation currency:</b>	USD, EUR, GBP, CHF or CNH (depending on share class)
<b>Valuation/dealing:</b>	On every full banking day, which is simultaneously a stock exchange day in Luxembourg, United Kingdom and Frankfurt am Main.
<b>Subscription/withdrawal:</b>	Prior business day by 4pm (Lux time)
<b>Appropriation of earnings:</b>	Distributing (all share classes)
<b>Investment manager fee:</b>	For share classes "I" and "O": up to 1.70% p.a. of the net asset value of the share class. See table above for current annual management charge (AMC).
<b>Management company fee:</b>	For share classes "I" and "O": up to 0.30% p.a. of the net asset value of the Sub-Fund subject to min. EUR 45.000.- p.a. for up to 2 share classes; for additional share classes the Management Company receives additional min. 7.500.- p.a.
<b>Other fees:</b>	Custodian and Paying Agency Fee, Domiciliary and Corporate Agency Services Fee, Registrar and Transfer Agency Fee: up to 0.10% p.a. of the Sub-Fund's net asset value, min. up to € 40.000 p.a. subject to Luxembourgish VAT.
<b>Front-end load:</b>	For share classes "OD USD", "OD CNH", "OD GBP" and "OD CHF" up to 3%. There is no front-end load currently applicable for share classes "ID EUR", "ID USD", "ID CNH", "ID GBP", "ID GBP ACC" and "ID CHF".
<b>Redemption fee:</b>	None
<b>The Company:</b>	Stratton Street UCITS
<b>Name of the Sub-Fund:</b>	Stratton Street UCITS - Renminbi Bond Fund UI
<b>Asset Manager:</b>	Stratton Street Capital LLP
<b>Management Company:</b>	Universal-Investment-Luxembourg S.A.
<b>Auditors:</b>	KPMG Luxembourg
<b>Custodian:</b>	Brown Brothers Harriman S.C.A.
<b>Planned distribution countries:</b>	UK, Austria, Germany, Switzerland, France, Belgium, Netherlands, Sweden and Luxembourg
<b>*Launch Dates:</b>	01 October 2013: IDEUR launched, 21 October 2013: IDUSD launched, 31 October 2013: IDGBP launched, 16 April 2014: ODGBP launched
<b>Footnotes:</b>	1. Bloomberg (as at end of month)

## Platforms and providers

Stratton Street UCITS - Renminbi Bond Fund UI can be accessed via the following platforms and providers:

Aegon	AJ Bell/SIPP Centre
Ascentric	AXA Isle of Man
Canada Life International	Cofunds
Friends Provident Isle of Man	Legal & General
Novia	Royal Skandia
Transact	Seven Investment Management (7IM)
UBS Funds Centre	

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