

Stratton Street UCITS - Renminbi Bond Fund UI

May 2016



- Brent crude gains ~3% on the month
- Fed rhetoric turns hawkish; members state 2-3 rate hikes possible this year
- China data indicates stability
- US Treasuries and Russian quasi-sovereign holdings remain supportive

Market Comment

Asset markets were very mixed in May. FOMC rhetoric switched midway through the month, erring on the hawkish side and Brent breached the \$50 level during the final week, gaining 3.24% over the month. The yield on the 10-year US Treasury was pretty much unchanged, closing at 1.85%, while the 2-year fell 10 basis points (bps) to 0.784%, after some Fed members commented on the prospect of 2-3 rate hikes this year, starting as early as June.

Data from China showed a slight improvement, but more importantly, stability. The country lowered its 2016 growth rate to 6.5-7.0%, a more sustainable rate in our minds, achievable with the right balance of monetary and fiscal policy. The offshore renminbi fell 1.51% on the back of the stronger dollar; which gained ~3% (DXY Index). Unhindered by the currency volatility, China continued on its path to internationalise the renminbi, issuing its first offshore government bond in London; a RMB 3bn (USD457m) 3.28% 2019 offering which saw a huge amount of appetite, ~2.8 times oversubscribed. VW also tapped the renminbi market with a 3.6% three-year deal totalling RMB 2bn (EUR 270m), once again this issue was well absorbed by the market.

Portfolio Review

The Fund's USD I Class fell 1.79% over the month. The 1.51% fall in the offshore renminbi detracted from performance, however, the long-end US Treasury and quasi-sovereign holdings in Russia helped support the portfolio during the month. The benchmark 30-year UST for example fell 3bps while state-owned Vnesheconombank (VEB) 5.942% 2023 rallied over 1.7 points; the bond remains attractive trading at a yield of 6%.

The Middle East's new issue pipeline opened up in May, Mubadala 2.75% 2023 looked attractive to us. Rated Aa2, the bond was issued at a spread of +134bps over Treasuries, by the end of the month the bond had tightened around 10bps and continues to offer an attractive expected return and yield of 7%.

We reduced our position in state-owned China National Petroleum Corporation (CNPC), the largest integrated energy company in China. The 3.4% issue, maturing in 2023 has been resilient so far this year having gained over 4 points since January. The bond continues to offer ~65bps of spread cushion, and remains relatively attractive for an A1 credit; offering a similar risk-adjusted expected return and yield as Mubadala.

Outlook

Global growth, although anaemic, has shown some signs of stabilising, while market concerns of "China's hard landing" have abated, and oil prices have bounced off the lows. There are however, a number of unknowns going into June including, the UK EU Referendum, the concerns over the stability of oil after OPEC's non-event meeting, the stronger dollar, the Clinton-Trump head-to-head and the upcoming Fed meeting. It appears that the Fed are gearing up for a June/July rate hike; the so called close-call referendum might just be the one thing that keeps the Fed on hold in June, although some of the central bank members have stated that the risk of Brexit will have little impact on the US.

Although these events could result in some near-term volatility across all markets, a tightening of a further 25bps would be positive for the future outlook of the portfolio as the rise in inflationary levels in the US economy needs acknowledgment, especially from the Fed which wishes to remain "ahead of the curve". We suspect the probability of a hike priced in the market for June will swing ahead of the mid-month FOMC meeting. As such, we remain comfortable with our bar-bell strategy, of holding AAA bonds, while absorbing beta from BBB positions; creating a defensive A3 portfolio with a bias at the long-end. Broadly, we remain positioned for a further Federal Reserve rate rise in the coming months.

Historical Performance¹

	2016 %	* Inception %
IDUSD Class	4.79	8.44
IDGBP Class	6.24	12.12
IDEUR Class	4.68	11.26
ODGBP Class	3.42	4.23

Performance Summary¹

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	-1.79
Markit iBoxx ADBI High Grade Index (USD)	0.19
Offshore Chinese Renminbi (CNH)	-1.51

Fund Prices¹

Institutional Class	Price	Monthly Return %
USD	103.21	-1.79
GBP	104.75	-1.86
EUR	103.80	-1.90

Ordinary Class	Price	Monthly Return %
GBP	103.66	-1.81

Portfolio Statistics

Gross Redemption Yield	3.98
Gross Running Yield	4.22
Fund NAV (USD Millions)	26.42
Number of holdings	33
Number of countries	10
Duration	9.14

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	48.59	Sovereign	21.13
6 Star	24.53	Quasi	62.19
4 Star	11.28	Supra	4.20
3 Star	15.52	Corporate	12.40
Total	99.92	Total	99.92

Credit Rating	
Rating	% NAV
AAA	16.95
AA	43.71
A	26.58
Baa	12.68
Total	99.92

Portfolio Exposure by Country	% NAV
Abu Dhabi	10.50
China	23.13
Hong Kong	4.96
Oman	1.40
Qatar	22.55
Russia	11.28
Saudi Arabia	4.90
Supranational	4.20
Singapore	5.68
United States	11.32
Total	99.92

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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

Domicile / legal status:	Luxembourg / SICAV (UCITS)
Base currency of the Fund:	USD
Valuation currency:	USD, EUR, GBP, CHF or CNH (depending on share class)
Valuation/dealing:	On every full banking day, which is simultaneously a stock exchange day in Luxembourg, United Kingdom and Frankfurt am Main.
Subscription/withdrawal:	Prior business day by 4pm (Lux time)
Appropriation of earnings:	Distributing (all share classes)
Investment manager fee:	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).
Management company fee:	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.
Other fees:	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.
Front-end load:	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".
Redemption fee:	None
The Company:	Stratton Street UCITS
Name of the Sub-Fund:	Stratton Street UCITS - Renminbi Bond Fund UI
Asset Manager:	Stratton Street Capital LLP
Management Company:	Universal-Investment-Luxembourg S.A.
Auditors:	KPMG Luxembourg
Custodian:	Brown Brothers Harriman S.C.A.
Planned distribution countries:	UK, Austria, Germany, Switzerland, France, Belgium, Netherlands, Sweden and Luxembourg
*Launch Dates:	01 October 2013: IDEUR launched, 21 October 2013: IDUSD launched, 31 October 2013: IDGBP launched, 16 April 2014: ODGBP launched
Footnotes:	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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