Stratton Street UCITS - Renminbi Bond Fund UI

June 2016

- **UK EU Referendum dictated market sentiment, UK votes to leave EU; UK is downgraded**
- **Rollercoaster month across asset classes; safe-haven bond yields plummeted**
- **Influential central banks on hold; futures pricing in next Fed fund rate hike in 2018**
- **Fund's USD I Class gains 2.02% in June**
- **Renewed global growth concerns**

Market Comment

The UK EU Referendum in/out opinion polls shook markets all about last month; 51.9% of the British public voted to leave the EU, the consequent damage to market sentiment was extremely visible. Having soared to yearly highs ahead of the referendum results (as the remain camp appeared to take lead), the pound plummeted, trading at its weakest level since 1985 and finished 8.5% lower on the month; the worst performing currency against the dollar. Both S&P and Fitch downgraded the UK's credit rating to AA and Moody's put its Aa1 rating on negative watch.

Safe-haven bonds were the beneficiaries as yields plummeted to new lows; 10-year Bunds for example fell into negative territory for the first time on record, the ECB's bond buying programme did little to help already very low (and negative) yields across high-quality European benchmarks. 10-year Gilts dropped below 1% to record lows and US Treasuries rallied, the 10-year yield closed the month 38bps lower at 1.47%. The Swiss curve out to 2058 closed the month trading in negative yield territory. Suffering further upward pressure, the Swiss National Bank (SNB) intervened to stabilise the Swiss franc, while the other safe-haven currency, the yen, touched an intraday low of JPY 99.02, and ended the month over 7% stronger against the dollar.

Uncertainty ahead of the referendum saw the four most influential central banks (BoE, Fed, BoJ and SNB) leave monetary policy unchanged. A dovish Fed held rates, what surprised us was that there was no dissent from any members to the statement. The futures market is not pricing in a Fed fund rate hike until 2018. US data releases once again remained mixed; the Chicago Fed National Activity Index (CFNAI), in particular, slid to -0.51; sparking recession fears.

Portfolio Review

The fund's USD I Class gained 2.02% in June. Our US Treasury positions added to portfolio performance during the market turbulence, and positions in strategically important quasi-sovereign bonds caught hold of the post-Brexit risk-on bounce into month-end.

One of the best performing holdings came from Saudi Arabia's dominant utility company, Saudi Electricity (SECO). The single A rated position, SECO 5.06% 2043 enjoyed the bounce with the yield tightening around 50bps over the month, remaining attractive at 5.14%. Russian yields fell to near two-year lows; our holdings in state-owned issues have been some of the best performers so far this year. Over the month, state-owned Gazprom 8.625% 2034 (USD) rallied 5 points, closing at a yield of 6.11% and Russian Railways 7.487% 2031 (GBP) rallied around 45bps to 6.53% and continues to offer an attractive risk-adjusted expected return and yield of around 24%.

There were a number of new issues from the Middle East which looked fairly attractive; we added Qatar's telecommunications company, Ooredoo (QTel) 3.75% 2026 to the portfolio. Rated single A, the bond was issued at a spread of 231bps over Treasuries, the holding performed well tightening to 214bps; a gain of over 2 points.

Outlook

It appears that the PBoC are allowing the renminbi to gradually devalue against the basket of currencies against which it is managed. As mentioned, sterling fell aggressively last month, and the euro also depreciated against the dollar; this would imply that those currencies alone would cause a fall in the value of the renminbi. We do not believe a forced devaluation of the renminbi would help the Chinese or the world economy for that matter, in fact such an event would lead to a clash with the US, who have already highlighted a number of potential currency manipulators. Aware of these pressures, it would not be in China's interests to weaken the currency in any major way, equally, the last thing the world needs is a resurgent dollar.

Unfortunately the relatively small moves in the renminbi against the dollar attracts quite a lot of press attention. Since the referendum results were announced (to month-end), the offshore renminbi (CNH) was up over 9% against the sterling and 1% against the euro; but gains against other major currencies rarely get a mention. Interest rate differentials rarely get much attention either, but these are very important when the overall spot movements are small, which has been the case with the renminbi. So whilst the CNH is down 1.6% against the dollar so far this year, when carry is adjusted for, holders of renminbi have seen a GAIN of 0.30% overall. Going forward, we expect the large current account surpluses of China, Europe and Japan, combined with a weaker than expected US economy, to lead to dollar weakness and renminbi strength.

Broadly, uncertainty post-referendum destabilised asset markets and concerns surrounding the future of the EU have mounted. It is hard to see the Brexit outcome doing anything other than dragging down global growth from an already weak position. As a consequence, long-dated high grade bonds, outside of the EU at least, look to offer the best value in such an uncertain world; as such we remain comfortable with our A2 rated Pan-Asian portfolio with an average ~3 notch credit cushion.

Historical Performance[1]

	2016 %	* Inception %
IDUSD Class	6.90	10.63
IDGBP Class	8.39	14.39
IDEUR Class	6.69	13.40
ODGBP Class	5.14	5.96

Performance Summary[1]

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	2.02
Markit iBoxx ADBI High Grade Index (USD)	1.71
Offshore Chinese Renminbi (CNH)	-1.33

Fund Prices[1]

Institutional Class	Price	Monthly Return %
USD	105.29	2.02
GBP	106.87	2.02
EUR	105.79	1.92

Ordinary Class	Price	Monthly Return %
GBP	105.38	1.66

Portfolio Statistics

Gross Redemption Yield	3.66
Gross Running Yield	4.08
Fund NAV (USD Millions)	24.43
Number of holdings	32
Number of countries	9
Duration	9.14

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	51.35	Sovereign	20.96
6 Star	25.47	Quasi	63.93
4 Star	9.78	Supra	-
3 Star	11.08	Corporate	12.79
Total	97.68	Total	97.68

Credit Rating	
Rating	% NAV
AAA	12.70
AA	46.66
A	27.00
Baa	11.32
Total	97.68

Portfolio Exposure by Country	% NAV
Abu Dhabi	11.72
China	23.92
Hong Kong	4.44
Oman	1.55
Qatar	23.19
Russia	9.78
Saudi Arabia	5.75
Supranational	-
Singapore	6.25
United States	11.08
Total	97.68

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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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