

# Stratton Street UCITS - Renminbi Bond Fund UI

July 2016



- Central banks thrown off by Brexit aftershock
- Q2'16 US growth weaker-than-expected
- Fund's USD I Class gained 2.09% in July
- Offshore renminbi gained 0.67% against dollar

## Market Comment

The Brexit effect rippled through markets last month throwing central banks into defensive mode; the US Fed held rates and the BoJ doubled its ETF buying programme in addition to the surprise JPY28tn (~5% of GDP) fiscal stimulus package. As default UK Prime Minister Theresa May readied her cabinet to prepare for "Brexit means Brexit", the BoE also kept rates on hold at 50bps catching some market observers off-guard as consensus was for a 25bp cut\*. The BoE clearly indicated that it will take action at the next meeting in August, no doubt armed with more post-referendum data releases to support the decision. The pound stabilised somewhat in July, helped by a weaker dollar resulting from the worse-than-expected Q2'16 US GDP reading, which also saw US Treasuries rally into month-end; the 10-year benchmark closed at 1.45%. The IMF once again revised global growth estimates lower, to 3.1% citing Brexit's "sizeable increase to uncertainty".

Elsewhere, China's economic data has been a bit more encouraging of late, helping temper slowdown fears; industrial production and retail sales beat market expectations in June and manufacturing readings for July have surprised on the upside. The economy expanded to 6.7% yoy in Q2'16, ahead of market consensus, and falls in-line with the government's 6.5-7% target.

\* (which it subsequently did, by cutting rates to 0.25%)

## Portfolio Review

Credit markets were broadly positive in July, the Fund's USD I Class gained 2.09%; taking performance to 9.14% year to date. Positive contributors to performance included the 0.67% appreciation of the offshore renminbi against the dollar, and holdings at the longer-end of the spectrum.

Our GBP holding in state-owned Russian Railways 7.487% 2031 has been one of the best performers this year, and in July gained a further 6 points. The bond continues to offer attractive returns, and a yield of ~5.8% with over 2 credit notches of cushion.

Another firm favourite holding of ours, Abu Dhabi's sovereign wealth fund issue, IPIC 6.875% 2041 was another positive contributor to performance in July. The Aa2 rated holding rallied almost 6 points, trading at a spread of 242bps over Treasuries and yield of 4.2%. By our calculations, similar bonds trade at spreads closer to 70bps; which implies a return of just under 20%.

A holding from Qatar's telecommunications company, Ooredoo (QTel) 3.75% 2026 has performed well since it was issued in June. Having gained over 4.2 points in July, the A rated bond is approaching "fair value", we will look to switch out of this holding as it tightens further into a more attractive issue, until then we will continue to absorb the 3.4% yield on offer.

## Outlook

We expect global growth to remain anaemic as the world is further impacted by the Brexit outcome. How long the Brexit hangover remains can only be speculated, more will hopefully become evident when negotiations begin and Article 50 is triggered.

China is not immune to the UK's decision to leave the EU, with Brexit dominating the G20 summit last month, having added uncertainty in the global economy, where growth was already "weaker than desirable". We believe that both global economic uncertainty and domestic headwinds will continue to weigh on China's economy, however, the government has ample fiscal capacity to support the economy; with the fiscal deficit at only 3% of GDP.

Global yields continued to fall in July, further into negative territory for many government issuers, in fact for the first time ever, a 10-year benchmark German Bund was issued with a negative yield. If yields continue to fall, investors holding such paper will benefit from the capital gains which will offset the interest rate loss; the pain will come when yields stop falling or indeed rise. At Stratton Street, we do not hold any negatively yielding paper in our portfolio.

With markets quickly losing faith in central banks our bias at the long-end of the curve remains supportive of performance. We therefore remain comfortable with our highly rated portfolio, A3, in terms of credit risk which continues to offer ample spread cushion and an attractive yield.

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

	2016 %	* Inception %
IDUSD Class	9.14	12.94
IDGBP Class	10.81	16.95
IDEUR Class	8.96	15.81
ODGBP Class **	15.01	15.90

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

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	2.09
Markit iBoxx ALBI China offshore (USD) unhedged	1.33
Offshore Chinese Renminbi (CNH)	0.67

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

Institutional Class	Price	Monthly Return %
USD	107.49	2.09
GBP	109.26	2.24
EUR	108.04	2.13

  

Ordinary Class	Price	Monthly Return %
GBP	115.27	9.39

## Portfolio Statistics

Gross Redemption Yield	3.49
Gross Running Yield	4.02
Fund NAV (USD Millions)	24.66
Number of holdings	32
Number of countries	9
Duration	9.18

## Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	51.78	Sovereign	21.00
6 Star	24.72	Quasi	63.82
4 Star	9.84	Supra	
3 Star	11.17	Corporate	12.69
Total	97.51	Total	97.51

Credit Rating	
Rating	% NAV
AAA	12.79
AA	46.26
A	27.06
Baa	11.40
Total	97.51

Portfolio Exposure by Country	% NAV
Abu Dhabi	12.02
China	23.16
Hong Kong	4.49
Oman	1.57
Qatar	23.34
Russia	9.84
Saudi Arabia	5.71
Singapore	6.22
United States	11.16
Total	97.51

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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
<b>ID CNH*</b>	<b>1%</b>	<b>USD 100,000</b>	<b>USD 10,000</b>	<b>None</b>	<b>5078186</b>	<b>LU0850781864</b>	<b>STIDCNH LX</b>
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
<b>OD EUR</b>	<b>1.5%</b>	<b>No minimum</b>	<b>No minimum</b>	<b>Up to 3%</b>	<b>5078224</b>	<b>LU0850782243</b>	<b>STRBODE LX</b>
<b>OD USD</b>	<b>1.5%</b>	<b>No minimum</b>	<b>No minimum</b>	<b>Up to 3%</b>	<b>5078259</b>	<b>LU0850782599</b>	<b>TBC</b>
<b>OD CNH</b>	<b>1.5%</b>	<b>No minimum</b>	<b>No minimum</b>	<b>Up to 3%</b>	<b>5078267</b>	<b>LU0850782672</b>	<b>TBC</b>
<b>OD CHF</b>	<b>1.5%</b>	<b>No minimum</b>	<b>No minimum</b>	<b>Up to 3%</b>	<b>5078291</b>	<b>LU0850782912</b>	<b>TBC</b>

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>	4pm (Lux time) on the business day prior to the relevant Dealing Date
<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 (Luxembourg) 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)
<b>**</b>	The ODGBP class was inactivated on 29 July 2016

## 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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