

# Stratton Street UCITS - Renminbi Bond Fund UI

August 2016



- Fed chatter sees market odds for next hike revised to December
- Another positive month; Fund's USD I Class gained 1.00%
- Russia and Middle East quasi-sovereign holdings outperformed
- We look to maintain a bias in the long-end with a high weighting in US Treasuries

## Market Comment

In another relatively quiet August, market focus remained on central bank moves. Increasingly hawkish Fed rhetoric saw 10-year US Treasuries rise 12bps off the previous month's lows, to 1.58%. Most Fed members, including the known doves, appeared to reprice the market's odds for a hike in December this year, from March 2017; the dollar gained momentum in the second half of the month, up ~0.5% (DXY Index). Meanwhile the BoE delivered a 25bps rate cut, expanded its QE program and introduced a Term Funding Scheme.

Elsewhere, with China's fiscal deficit running relatively small compared with other major economies, we heard that the PBoC is looking to increase the deficit from 3% to 5% to stimulate growth. Sheng Songcheng, an analyst at the central bank noted that although interest rate cuts and tax cuts can help spur growth, 'Falling interest rates, even negative rates, may not encourage investment', and that a cut in corporation tax 'is an urgent policy and a policy we need to actively implement now'. With an availability of policy firepower, China has the room and scope to manage growth, the same however cannot be said for the other central banks.

## Portfolio Review

Brent crude rallied over 10% during the month with markets gripping hold of any chatter surrounding oil price stabilisation talks. Performance was supported by the bounce in oil, with the strongest outperformance coming from quasi-sovereign holdings in the Middle East and Russia; the Fund's USD I Class gained 1.00% in August.

We remain comfortable with the portfolio's high weighting in US Treasuries; these positions act as a barbell strategy protecting the portfolio against a future sell-off in credit markets. This could be triggered by the Fed raising rates, or indeed credit weakness caused by a realisation that stock markets have been pricing in almost all of the good news and very little of the potential downside risks.

We will maintain a bias at the longer-end of the curve, sitting at around ten years, with the higher credit weighting at A2. We believe benign inflation encourages investment along the current positively sloping yield curve, while reducing the portfolio's overall risk profile, thus avoiding the very tight credit spreads on offer for the higher credit risk absorbed.

## Outlook

With the Fund's USD I Class up 10.22% so far this year we are regularly asked what our expectations of future gains are. As mentioned, we remain confident with our bias at the long-end, and view US dollar bonds as high yielders given that other major markets appear to offer little, to zero, and even negative yields. The current portfolio remains attractive with a weighted average spread around +170bps, offering ~3 credit notches of cushion, and the high weighted average A2 rating; which again provides us plenty of scope to move down the credit curve when/if the opportunity arises to take on further credit risk.

In our view, spreads are neither cheap nor expensive currently, however, we believe our stance in regard to both duration and credit is the optimal position given the risk reward characteristics of our investment process. We therefore believe there are still gains to be had in this world of high liquidity and cash rich investors; we expect yields across our positions to continue to fall as we likely enter a period of much lower yields than previously perceived. Any pickup in volatility offers a good opportunity to add to positions, however, we feel little will change over the near-term regardless of whether the Fed move to hike or hold at the meeting in September.

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

	2016 %	* Inception %
IDUSD Class	10.22	14.06
IDGBP Class	11.92	18.12
IDEUR Class	9.90	16.80

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

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	1.00
Markit iBoxx ALBI China offshore (USD) unhedged	0.77
Offshore Chinese Renminbi (CNH)	-0.89

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

Institutional Class	Price	Monthly Return %
USD	108.56	1.00
GBP	110.35	1.00
EUR	108.97	0.86

## Portfolio Statistics

Gross Redemption Yield	3.32
Gross Running Yield	3.96
Fund NAV (USD Millions)	25.13
Number of holdings	32
Number of countries	9
Duration	9.15

## Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	52.06	Sovereign	20.66
6 Star	24.53	Quasi	64.24
4 Star	9.93	Supra	
3 Star	10.88	Corporate	12.50
Total	97.40	Total	97.40

Credit Rating	
Rating	% NAV
AAA	12.49
AA	46.37
A	27.04
Baa	11.50
Total	97.40

Portfolio Exposure by Country	% NAV
Abu Dhabi	12.00
China	22.96
Hong Kong	4.47
Oman	1.57
Qatar	23.58
Russia	9.93
Saudi Arabia	5.88
Singapore	6.13
United States	10.88
Total	97.40

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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

<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>	Active classes: Distributing
<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, Belgium and Luxembourg
<b>*Launch Dates:</b>	01 October 2013: IDEUR launched, 21 October 2013: IDUSD launched, 31 October 2013: IDGBP launched, 28 November 2013: IDCNH launched, ** 16 April 2014: ODGBP launched **
<b>Footnotes:</b>	1. Bloomberg (as at end of month)
**	The IDCNH class was inactivated on 22 January 2016
**	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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