Stratton Street UCITS - Renminbi Bond Fund UI

September 2016

- **The Fed held rates leaving door open for a December hike**
- **BoJ moved to steepen the JGB curve**
- **OPEC production cut "agreement"; oil rallied**
- **Russian quasi-sovereign bonds outperform**
- **Global growth momentum is slowing; could be time to deploy fiscal tools**

Market Comment

September witnessed a rollercoaster month as asset markets were once again on tenterhooks, awaiting central bank monetary policy announcements; particularly from the BoJ and Fed. As we had expected the BoJ moved to steepen the JGB curve, by launching 'QQE with Yield Curve Control', or Quantitative and Qualitative Monetary Easing with 10-year yield cap at 0%, and the Fed maintained the status quo; leaving a hike in December on the table. The futures market appeared confused with all the mixed FOMC member rhetoric throughout the month, finally ending the month pricing in a 59.3% chance of a hike in December. The Fed's median forward guidance was revised down to two rate rises, from three, in 2017.

Oil was a driving force in September, OPEC announced it would hold a meeting to discuss curbing production. Then for the first time in eight years, the cartel reached an "agreement" to marginally cut crude production, in an attempt to temper the supply glut and stabilise oil prices. Markets reacted positively to the news despite no fundamental changes or a concrete deal; which is due to be ratified at the OPEC meeting in November. Nonetheless, Brent enjoyed a ~6% rally over the month closing above $50pb.

Elsewhere, the Chinese offshore renminbi appreciated against the dollar over the month, closing at 6.6770. We expect the PBoC will look to maintain currency stability, especially as the renminbi joins the IMF's Special Drawing Rights (SDR) basket on October 1. Economic data releases showed China's PMI data was steady in September; both the official and Caixin manufacturing readings remained in expansionary territory, while the non-manufacturing print improved to 53.7.

Portfolio Review

The Fund's USD I Class was marginally down 0.12% (net of fees) in September. Russian holdings once again remained resilient, with state-owned Gazprom 8.625% 2034 and Vnesheconombank 5.942% 2023 gaining over a point each; both remain attractive with yields of 5.7% and 4.9% respectively.

Our favoured holding in Abu Dhabi's investment company, IPIC 6.875% 2041 also performed well over the month, tightening 12bps to a spread of 177bps over Treasuries. The bond continues to offer an attractive risk adjusted return around 15% with a yield of ~4%.

Outlook

US employment appears robust and August's inflation numbers surprised on the upside, although retail sales did retreat. So some might say that the case for a 25bp hike has strengthened, but it appears that as much as the Fed may wish to normalise it is concerned with the eventual global market turmoil; as markets continue to cling onto central bank mutterings and have thrown fundamentals out the window. We saw demonstrations of this all last month as Fed speakers opined differing views and asset markets swung aggressively. The FOMC committee continues to indicate a 'gradual' path to tightening and this is exactly what they are doing, surely a small 25bps of tightening a year is gradual. We doubt that a 25bps hike will upset markets as it is already pretty much priced in. Interest rates are expected to remain lower for a prolonged period, thus continue to be supportive of our investment grade portfolio; which yields ~3.5%.

World growth momentum appears to be slowing and inflation remains benign, central banks have been bearing the brunt of sustaining growth by keeping interest rates at record lows; with the Fed, ECB and BoJ fast running out of options. As such these low interest rates, which do not appear to be budging anytime soon, have encouraged increased government, non-financial and private borrowing. We have discussed the need for governments to combine fiscal policy (e.g. tax incentives and government-led debt restructuring programmes) along with the current easy monetary policy to boost growth. Yes short-term government borrowing will increase in the short-run, however this option appears more attractive than a debt-deflation spiral.

China's fiscal deficit is relatively small as a percentage of GDP compared with other major economies, last month a statement on the PBoC website stated that China is looking to increase the deficit from 3% of GDP 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 likes of the ECB and BoJ for example.

Historical Performance[1]

	2016 %	* Inception %
IDUSD Class	10.09	13.93
IDGBP Class	11.54	17.72
IDEUR Class	9.67	16.57

Performance Summary[1]

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	-0.12
Markit iBoxx ALBI China offshore (USD) unhedged	0.08
Offshore Chinese Renminbi (CNH)	0.20

Fund Prices[1]

Institutional Class	Price	Monthly Return %
USD	108.43	-0.12
GBP	109.98	-0.34
EUR	108.75	-0.20

Portfolio Statistics

Gross Redemption Yield	3.26
Gross Running Yield	3.86
Fund NAV (USD Millions)	25.69
Number of holdings	32
Number of countries	9
Duration	8.77

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	50.47	Sovereign	20.00
6 Star	23.87	Quasi	62.28
4 Star	9.62	Supra	
3 Star	10.47	Corporate	12.15
Total	94.43	Total	94.43

Credit Rating	
Rating	% NAV
AAA	12.04
AA	45.18
A	26.09
Baa	11.12
Total	94.43

Portfolio Exposure by Country	% NAV
Abu Dhabi	11.77
China	22.37
Hong Kong	4.34
Oman	1.50
Qatar	22.94
Russia	9.62
Saudi Arabia	5.49
Singapore	5.93
United States	10.47
Total	94.43

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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:	4pm (Lux time) on the business day prior to the relevant Dealing Date
Appropriation of earnings:	Active classes: Distributing
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 (Luxembourg) S.C.A.
Planned distribution countries:	UK, Austria, Germany, Switzerland, Belgium and Luxembourg
Launch Dates:	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
Footnotes:	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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