

Stratton Street UCITS - Renminbi Bond Fund UI

October 2016



- China's economic data releases surprise on the upside
- "Hard Brexit" concerns dominated markets through October
- Possible Fed hike in December coupled with ECB QE tightening concerns and revised inflation expectations saw global financial assets sell-off
- Renminbi added to IMF SDR basket; PBoC continue to maintain currency stability against CFETS basket

Market Comment

China's data releases for September surprised on the upside; retail sales and industrial production were in-line with expectations and CPI beat the market consensus at 1.9%yoy with PPI bouncing into positive territory. The Q3'16 GDP reading matched market expectations at an annualised 6.7%yoy, unchanged from the previous quarter and on track to meet the government's 6.5-7% target. The services sector once again expanded at a faster rate than the rest of the economy, contributing over 50% to growth. The Purchasing Managers releases for October remained supportive with the official manufacturing print bouncing to a 26 month high and in-line with the private Caixin reading, at 51.2. New orders, employment and raw materials all increased; this has seen some market makers bearish on China rethinking their forecasts and strategies. The non-manufacturing reading also surprised at 51.2, bouncing 1.1 points.

Elsewhere, "Hard Brexit" concerns dominated asset markets, with sterling extending its losses against the dollar, falling below GFC levels. The currency is now one of the worst performing against the dollar this year having fallen over 17%. In fact on a total return basis, both the offshore and onshore renminbi have gained over 20% against sterling this year.

Gilts also suffered with the 10-year benchmark yield rising 50 bps. In fact global asset markets sold-off towards the end of the month, as the possibility of a Fed rate hike in December increased, uncertainty over the ECB's future QE stance grew and inflation expectations were revised upwards. US Treasuries outperformed versus other sovereign bonds, but were still weaker in October with the yield up 23bps at 1.83%.

Portfolio Review

As a result the Fund's USD I Class fell 2.68% in October, the fall in US Treasuries did not help performance. The positive contributors to performance came from the Middle East, after the new Saudi government deal breathed some life into the region's credit.

The Saudi government benchmark launch was the largest ever developing market bond deal at USD17.5bn. We added the 10-year and 30-year AA-/A1 issues across our portfolios as they offered the most attractive expected returns of 7.8% and 20.4% with yields of 3.4% and 4.6% respectively. Saudi's Utility company, SECO, the best performing bond on October saw its 5.06% 2043 bond tighten 36bps to a spread of 263bps, a yield above 5% and over 5 notches of credit cushion.

Taqqa Abu Dhabi, the Emirate's quasi-sovereign energy holding company also issued in October, we added the 10-year tranche to the portfolio at a spread of 200.3bps over, the bond ended the month trading ~10bps tighter. We continue to support such bonds from the region's highly rated sovereign and quasi-sovereign issuers.

Outlook

Away from the Brexit and US election concerns, inflation forecasts appear less benign. Having consistently undershot governments' 2% targets, most recently due to record low oil prices and lackluster growth, it appears that inflation is trending upwards, albeit it still at low levels historically.

In the US, although we have seen a continued reduction in slack within the labour market, other economic data readings have been less positive. Even with Donald Trump as President, Fed rhetoric has continued to suggest that the central bank will look to hike in December. The uncertainty surrounding the future Trump administration could cause some bond market jitters although we are still of the view that any interest rate increases are likely to remain gradual. Many of the forces (such as demographics and secular stagnation) that have been driving neutral rates to lower levels will remain entrenched anchoring interest rate expectations at the long-end of the curve. However, we would expect the Fed to tighten more rapidly under a scenario where Trump is able to adopt suitable expansionary fiscal policy, but do not consider this a sensible policy choice given that the US economy is already close to full potential. With so many unknowns, it is clear that markets are finding it very difficult to make a definitive call at this juncture and for this reason we expect asset classes will continue to be volatile. We therefore believe that having a suitable mix of AAA positions alongside the credit spread component is the best way to be placed currently.

As for China, with the PMIs comfortably in expansionary territory we expect growth momentum to continue on a sustainable path of around 6.7%; a rate of expansion most countries would be very pleased with. Short term marginal downside growth pressures could come from new tightening measures to control the property sector and high leverage levels within the corporate sector. We view the government's readiness to tackle these issues, before they have a detrimental effect on the economy as positive in the longer-term. Meanwhile, the PBoC has managed the renminbi very closely to the CFETS basket, and does not appear to be burning a hole in the country's reserves to maintain currency stability. With the renminbi's inclusion in the IMF's Special Drawing Rights basket at the beginning of October, we expect that over time, other central bank holdings in the renminbi will increase. We see the recent US dollar strength as a renminbi buying opportunity. Even with the redback's weakness, our Renminbi Bond Fund products have maintained strong year-on-year performance.

Historical Performance¹

	2016 %	* Inception %
IDUSD Class	7.14	10.87
IDGBP Class	8.34	14.33
IDEUR Class	6.58	13.28

Performance Summary¹

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	-2.68
Markit iBoxx ALBI China offshore (USD) unhedged	0.14
Offshore Chinese Renminbi (CNH)	-1.53

Fund Prices¹

Institutional Class	Price	Monthly Return %
USD	105.52	-2.68
GBP	106.82	-2.87
EUR	105.68	-2.82

Portfolio Statistics

Gross Redemption Yield	3.60
Gross Running Yield	4.11
Fund NAV (USD Millions)	24.61
Number of holdings	33
Number of countries	9
Duration	9.24

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	54.85	Sovereign	23.93
6 Star	23.66	Quasi	64.48
4 Star	9.49	Supra	
3 Star	12.00	Corporate	11.59
Total	100	Total	100

Credit Rating	
Rating	% NAV
AAA	13.56
AA	48.84
A	26.52
Baa	11.08
Total	100

Portfolio Exposure by Country	% NAV
Abu Dhabi	10.99
China	22.07
Hong Kong	4.49
Oman	1.59
Qatar	23.76
Russia	9.49
Saudi Arabia	9.49
Singapore	6.12
United States	12.00
Total	100

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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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