Stratton Street UCITS - Renminbi Bond Fund UI

November 2016

- **A tumultuous month across asset markets resulting from the unexpected US Election outcome**
- **Renminbi remains relatively resilient against the stronger dollar, versus other major currencies**
- **Global bond yields reprice as growth and inflation expectations are revised**
- **China's PMIs indicate increased economic confidence and stability**
- **The Fund's USD I Class fell 5.80% in November but remains up 0.92% YTD**

Market Comment

A tumultuous month saw Donald Trump's unexpected win push befuddled financial asset markets to extremes. Hypersensitive markets saw the dollar's 3.1% (DXY Index) gain pretty much wipe out most emerging market currencies over the month; after the US presidential election result was announced. The only emerging market currencies to have actually remained resilient against the dollar's onslaught were the Taiwanese dollar, Russian rouble and the Chinese renminbi. The Turkish lira took the hardest beating, falling over 9%. Comparatively the renminbi spot rate was down 1.65% over the month, and has continued to strengthen against its anchor, the CFETS basket of currencies.

Meanwhile global yields repriced, the yield on the 10-year US Treasury for example rose 56 bps over the month to 2.38%; inflation forecasts under a Trump administration and thus higher interest rate expectations. The probability of a Fed hike ended the month on a 100% chance. Brent crude ended the month on a high, +4.5%, after OPEC agreed to cut production on the final day of the month; which further added to inflation chatter.

Elsewhere, China's manufacturing and non-manufacturing PMIs remained supportive in November, with the manufacturing reading rising to levels last seen in August 2014. Increased domestic demand and continued economic confidence, within the demand and supply sectors, has seen the sub-indices for production and new orders maintain their expansion. The services sector also remains healthy indicating stable economic recovery and growth.

Portfolio Review

The Fund's USD I Class fell 5.80% in November but remains up 0.92% YTD.

As markets struggled to find their feet in November, global bond yields climbed to multi-month highs, thus our positions in US Treasuries detracted from performance. Credit spreads widened significantly off the back of this especially within emerging markets. Asian holdings however held up relatively well over the month with the likes of Aa3 rated Overseas-Chinese Banking Corporation 3.15% 2023 trading only 10bps wider over the month, down only 0.4 points in price terms and one of the market outperformers.

The US Treasury holdings cost 147 basis points due to our 11.9% weighting and our intentional long duration stance, the Middle East exposure at 45.8% lost 269 basis points, and China with a 20.8% weighting cost 71 basis points; broadly there was nowhere to hide in this market.

With bond markets now stabilising at these higher yields it does appear that markets have now discounted the likelihood of Donald Trump's potential fiscal policy effect, which is expected to encourage US growth by way of infrastructure spending and tax cuts. But we still need further details as to the magnitude and timing, and whether he will be able to put in place acceptable policies to satisfy the House and Senate. Broadly, with little in the way of detail the bond market, we believe, has erred on the side of caution which we feel offers selective opportunities and of course more attractive yields. We continue to look for opportunities to add to the fund's performance over the coming period; 'with volatility comes opportunity' as we always say.

Outlook

With the dollar expected to remain relatively strong ahead of the December FOMC meeting, PBoC Yi Gang has reiterated that the renminbi should be measured relative to the CFETS basket as opposed to a simple bilateral exchange rate relationship with the dollar. We continue to expect the renminbi to remain relatively stable against the basket with a view that the PBoC will not look to devalue the currency as this would go against the objective to push economic expansion towards stronger and more sustainable consumer-led drivers.

Meanwhile there have been growing concerns that the country's bond market may remain fragile in the short term as the central bank maintains a tight grip on leverage within the market. As we do not hold any government debt this has not affected our portfolios, however we do believe that the steps policymakers are taking to flush out inefficiencies, squeeze de-leveraging within the bond and corporate sector coupled with tightening measures within the property market are all positive longer-term.

With markets looking for a 25bps rate hike in December, what is more challenging to determine is what a Trump Presidency really means for growth and inflation. Trump's rhetoric has so far suggested four main areas for policy to target: tax reforms, infrastructure spending, deregulation and the renegotiation of existing trading relationships. The balance between the macro measures versus those targeting trade will be important for determining the growth outcome with trade intervention risking a negative hit to growth. At the outset the macro-measures could well be the main focus delivering an uptick to growth; the OECD is now looking for US growth of 2.3 percent in 2017 and 3 percent in 2018. But this has to be balanced against the tightening of monetary conditions that is already taking place in markets. We expect the Fed will respond by tightening more quickly than previously expected to counter any potential inflationary impact, and longer term, curves should continue to flatten; if the short term growth impact is offset by tighter monetary policy longer term growth will be weaker.

The theoretical framework supporting Stratton Street's NFA analysis holds that the performance of bonds and currencies of debtors and creditors varies according to whether the world is experiencing a period of reflationary financial market conditions, where capital flows from creditors to debtors, or whether we are in deleveraging phase with capital flowing in the opposite direction. We expect Trump's policies to speed up the deleveraging process as the Fed is forced to tighten more quickly.

The US dollar is the world's de facto reserve currency, thus enjoys an 'exorbitant privilege' for this role. Therefore, despite the US being a net debtor with a NFA profile that has deteriorated since the mid-1980s the relationship with the real effective exchange rate is weak. US monetary policy is a key driver of global capital flows: expansionary US monetary policy post the GFC has supplied the world with ample cheap dollar liquidity but rather than deleveraging and reducing the excesses of this boom period global debt levels have actually risen, a situation made all the worse by insipid global growth. The IMF estimated that global nonfinancial sector debt in 2015 reached 225 percent of world GDP. As this cycle reverses it is the weaker debtor nations, with large net foreign liabilities, and reliant on issuing foreign debt in US dollars that will come under the most pressure. But as with the 2013 'taper tantrum' volatility could temporarily spread to some issuers, even those with stronger underlying fundamentals, although we would expect the stronger credits to bounce back in due course.

Historical Performance[1]

	2016 %	* Inception %
IDUSD Class	0.92	4.44
IDGBP Class	2.11	7.76
IDEUR Class	0.16	6.46

Performance Summary[1]

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	-5.80
Markit iBoxx ALBI China offshore (USD) unhedged	-0.17
Offshore Chinese Renminbi (CNH)	-1.96

Fund Prices[1]

Institutional Class	Price	Monthly Return %
USD	99.40	-5.80
GBP	100.68	-5.75
EUR	99.32	-6.02

Portfolio Statistics

Gross Redemption Yield	4.07
Gross Running Yield	4.30
Fund NAV (USD Millions)	22.77
Number of holdings	32
Number of countries	9
Duration	8.99

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	55.26	Sovereign	24.19
6 Star	22.43	Quasi	63.06
4 Star	10.01	Supra	
3 Star	11.85	Corporate	12.30
Total	99.55	Total	99.55

Credit Rating	
Rating	% NAV
AAA	13.43
AA	48.65
A	25.83
Baa	11.64
Total	99.55

Portfolio Exposure by Country	% NAV
Abu Dhabi	9.65
China	20.80
Hong Kong	4.61
Oman	1.63
Qatar	24.69
Russia	10.01
Saudi Arabia	9.82
Singapore	6.49
United States	11.85
Total	99.55

Stratton Street UCITS - Renminbi Bond Fund UI

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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