Stratton Street UCITS - Renminbi Bond Fund UI

December 2016

- **Fed raises rates by 25bp to 0.75%, and forecasts three rate hikes in 2017**
- **Trump rally sees the dollar hit all-time highs; renminbi remains stable against CFETS basket**
- **China data surprises on the upside, economy is stabilising**
- **Russian quasi-sovereign holdings outperform**
- **A cloud of political uncertainty lies ahead**

Market Comment

Markets ended on a more positive note last month, but the year closed with a dark cloud of political uncertainty hanging over Brexit and the Trump administration. As we had expected, the Fed raised rates by 25bps to 0.75% and pencilled in an additional hike in 2017; taking it to three forecasted hikes. The Treasury market swung around in December, with the yield on the benchmark 10-year peaking as high as 2.60% post-Fed announcement, finally closing at 2.45%. The dollar also gathered pace, hitting an all-time high ahead of the month-end; the DXY Index closed 0.7% higher on the month.

Global and domestic demand appear to have improved as China's trade data releases for November and December materially rebounded, exceeding market expectations. Exports gained and imports jumped the most in over two years off the back of a surge in commodity demand. The combination of a weaker currency, and stronger commodity prices suggests China's PPI will continue to push higher. Higher PPI inflation should lead to increased corporate profitability, as these two measures have historically been positively correlated. Higher and more stable inflation has aided the PBoC in shifting to a more neutral monetary policy stance.

Stronger PMI data and significantly better trade data in China indicates further economic stabilisation. China's 2016 growth expectations will be met and should remain on a progressive trend, between 6.5%-6.7% yoy, going into Q3'17. 2017 should be an interesting one as policy tightening within the housing sector for example and upgrades to supply-side reform start to filter through, coupled with the government's more proactive fiscal push, alongside a more neutral to tighter monetary stance.

Portfolio Review

The Fund's USD I Class fell 0.40% in December. The renminbi struggled against the stronger dollar through the month, with the offshore currency falling 0.8%. However, overall the redback remained relatively stable and actually strengthened against the CFETS basket. Another detractor from performance was our holdings in US Treasuries, which eventually rallied in the second half of December.

Russian quasi-sovereign holdings were the best performers last month, and through the year. Expectations for improved US-Russian relations under a Trump administration boosted sentiment. State-owned Gazprom 8.625% 2034 for example jumped 4.9 points higher, tightening ~41bps to a yield of 5.9%. Meanwhile Russian Railways 7.487% 2031 gained just under 4 points to tighten to a still very attractive yield of 6%.

Saudi Electricity 5.06% 2043 recovered in December, after a tumultuous couple of months, gaining ~2.8 points. Higher quality and more liquid names in the Middle East did feel the pinch last month with the likes of long-end Qatar sovereign paper falling 1-2 points.

Outlook

2017 is set to be a very interesting year. Trump's radical policy promises are an obvious talking point as is the strength of the dollar. But is the US economy strong enough to handle two or three rates hikes? Will the housing market start to stall now that mortgage costs have risen significantly in recent months? What about the effect of ageing populations dragging down growth and inflation, the opposite of what many people think will happen to global growth next year? These are all questions we look forward to discussing in 2017.

Political change in major economies is likely to continue with populist parties getting an increasingly large share of the votes. But whatever party is in power, one cannot escape the reality that economies cannot gain competitiveness by continuing to do things the same way they have historically. There are plenty of difficult ways to gain competitiveness; through significant investment or by slashing wages, but the easiest one is to devalue your currency.

Which raises the question as to whether Trump's fiscal policies will achieve their goals. The short term impact is likely to cause an increase in the budget and current account deficits and with the FOMC likely to tighten more quickly than might have otherwise been the case, the dollar is quite likely to rally further. But that is unlikely to make the US more competitive, in fact quite the reverse. So don't be at all surprised to see the US Treasury market flatten as investors look through the short term growth boost and start to factor in the combination of a stronger dollar and higher short rates on the longer term outlook for the US economy.

Trump's policies could quite perversely help some of the emerging economies as they gain competitiveness if the dollar does indeed strengthen, as is currently expected. Weakening currencies are bad news for indebted nations however, as their unhedged dollar liabilities rise as a proportion of GDP, but for the creditor nations, this will help their longer term prospects. In due course it will also present opportunities in some emerging currencies, although that may be a story for later in 2017 or maybe even into 2018.

Elsewhere, China's growth figures surprised a lot of sceptics last year. The official and Caixin PMI readings for December indicate further expansion within both the services and manufacturing sectors. If Trump's campaign promises to bolster infrastructure spending do come to fruition, this will no doubt boost China's exports, albeit with the unknown caveat of punitive import taxes.

With China's economy rapidly reforming, to a stage where domestic consumption remains robust and trade is no longer the largest contributor to GDP growth, economic sentiment appears to be improving; despite Trump's US protectionism promises. According to those in the know, over 60% of Chinese exports are with markets outside of the US, Japan and eurozone. So, if Trump does manage to go through with his 45% tariffs on Chinese exports, and cuts imports from China by 50%, the impact on the country's diversified trading revenue stream will most likely be nudged at most.

Historical Performance[1]

	2016 %	* Inception %
IDUSD Class	0.52	4.02
IDGBP Class	1.54	7.16
IDEUR Class	-0.44	5.82

Performance Summary[1]

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	-0.40
Merrill Lynch China Offshore Investment Grade TR (USD)	-0.86
Offshore Chinese Renminbi (CNH)	-0.85

Fund Prices[1]

Institutional Class	Price	Monthly Return %
USD	99.40	-0.40
GBP	100.68	-0.56
EUR	99.32	-0.60

Portfolio Statistics

Gross Redemption Yield	4.10
Gross Running Yield	4.29
Fund NAV (USD Millions)	22.27
Number of holdings	32
Number of countries	9
Duration	9.30

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	54.90	Sovereign	24.54
6 Star	21.61	Quasi	64.76
4 Star	10.54	Supra	
3 Star	12.08	Corporate	9.83
Total	99.13	Total	99.13

Credit Rating	
Rating	% NAV
AAA	13.67
AA	44.31
A	28.94
Baa	12.21
Total	99.13

Portfolio Exposure by Country	% NAV
Abu Dhabi	9.81
China	19.94
Hong Kong	4.72
Oman	1.67
Qatar	24.86
Russia	10.54
Saudi Arabia	10.27
Singapore	5.24
United States	12.08
Total	99.13

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 0.35 % p.a. with a minimum fee of up to €55.000. – p.a. Min. of up to €55.000. – p.a. for up to 2 share classes; for each additional share class (from the third share class) the Management Company receives minimum fee of €7.500. – p.a. (unhedged) / € 10.000. – p.a. (currency hedged).
Other fees:	Depositary Bank Fees: Global Custody Charges: up to 0.10% p.a. plus transactions fees, minimum € 3.334 monthly Depository Oversight Fee: up to 0.03% p.a. minimum € 500 monthly plus TVA Excluding any other ancillary cost applicable as per the prevailing Depository Bank Fees schedule. The above fees are indicative and investors may be charged additional amounts in connection with the duties and services of the service providers in accordance with customary bank practice. Transfer Agency Services Fee: Annual registrar fee € 4.000 p.a. plus € 350 p.a. per share class plus account opening fee, maintenance fee and transaction fees – minimum € 2.500 per month. Plus additional costs in relation with Global Automatic Exchange of Taxpayer Information Services (Foreign Account Tax Compliance Act (FATCA & Common reporting Standard (CRS). The Sub-Fund pays further professional fees and reasonable out of pocket expenses to the service providers on a commercial basis. Domiciliation & Company Secretary Services: Each Sub-Fund will participate in the following costs charged (prorate) on the company level: € 3.600. - p.a. per legal entity Core Domiciliation Services € 3.600. - p.a. per legal entity Core Corporate Agency Services The Sub-Fund pays further professional fees and reasonable out of pocket expenses to the service providers on a commercial basis.
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
Ascentric
Canada Life International
Friends Provident Isle of Man
Novia
Transact
UBS Funds Centre
AJ Bell/SIPP Centre
AXA Isle of Man
Cofunds
Legal & General
Royal Skandia
Seven Investment Management (7IM)

Contact Information

Email:	sales@strattonstreet.com	info@universal-investment.com
Telephone:	+44 (0)207 766 0888	+352 (0) 261502-1
Address:	**Stratton Street Capital LLP** 200 Aldersgate Street London, EC1A 4HD	**Universal-Investment-Luxembourg S.A.** 15, rue de Flaxweiler L-6776 Grevenmacher LUXEMBOURG