

Stratton Street UCITS - NFA Global Bond Fund UI

April 2017



- Generally positive month for bond markets; Fund's QDUSD class gained 1.02%
- US dollar index weakened; Trump's pro-growth policies are slow to get implemented
- Risk-on bias into month end; French Presidential election result as expected
- Fed still on track to raise rates although recent economic data releases have 'softened'

Market Comment

Generally positive month for bonds; the 10 year UST yield fell by 11 bps to 2.28% at month end and investment grade credit spreads tightened benefiting from more of a risk-on bias into month end. The swing in sentiment was mirrored in the VIX index of volatility which spiked to a 5 month high mid-month only to reverse this and reach the lows of the past 10 years.

One factor helping risk appetite improve was the initial round of the French Presidential election where, as expected, Emmanuel Macron and Marine Le Pen won the most votes and will go head to head in the final round of voting on 7 May. This helped the euro rally into month end and sterling also performed better against the US dollar after Theresa May's volte face announcing a general election on June 8. Unsurprisingly, the Dollar index ended the month 1.3% lower.

Investors still expect the Fed to continue with its tightening policy as the year progresses but it is becoming increasingly apparent that the gusto and furore that Trump brought to the campaign trail has not yet translated into a lot of change or detail policy-wise: the realities of public office are seeing his initial rhetoric considerably toned down. Moreover, some of the recent US data releases have been softer than expected: notably Q1 GDP was weak at a quarterly annualised growth rate of 0.7%. That said, Q1 is notoriously difficult to analyse with seasonal adjustments a noted problem but at this stage most forecasts are still looking for a recovery in Q2.

Elsewhere, a recovery in risk appetite was supportive of bond markets in the Middle East and Russia despite crude prices weakening into month end. New issuance was readily absorbed: for example, Mubadala came to the markets with an USD1.5bn multi-tranche deal that was close to three times covered.

Portfolio Review

The Fund's QDUSD class gained 1.02% (net of fees) over the month outperforming the JP Morgan Global Aggregate Bond Index (USD) which gained 0.77% over the same period.

The main contributors to performance came from the fund's positions in Qatar, United States, Russia and Saudi Arabia. At the individual holding level RZD Capital 7.487% 2031, State of Qatar 6.4% 2040 and Scottish Widows 5.5% 2023 were notable outperformers.

Positions were added in the 7- and 12- year tranches of the Mubadala issue which came at attractive spreads of 125bps and 165bps over Treasuries for an Aa2 rated issuer. The bonds ended the month trading 23bps and 32bps tighter since issue, and continue to offer attractive risk-adjusted returns and yields, around 6% and 10.5% respectively. The bonds also offer 3.4 and 4.4 credit notches of protection against unforeseen events. Mubadala's rating is aligned with the government of Abu Dhabi as it is wholly owned and run by the emirate and thus benefits from implicit financial support. The company is instrumental in the diversifying of the emirate's economy away from hydrocarbon-based activities.

Since the January lows the Mexican peso and bonds have repriced from extremely oversold levels as fears of a trade war and souring of relations with the US have eased. Thus, the United Mexican States 4.125% 2026 A3 issue was sold and rotated into the higher rated (Aa3 on a best rating basis) quasi-sovereign Statoil 3.95% 2043 bond which is strongly backed by the Norwegian government. Other key portfolio changes included switching the holding in China Uranium Development 3.5% 2018 into the A1 rated OCBC 4.25% 2024 issue which screened over 3 credit notches cheap on our models.

Outlook

June still remains a live meeting for another rate rise. The Fed's April meeting statement viewed the recent spate of weaker data points as transitory: clearly policy remains data dependent but it is likely to take sustained economic weakness or a big geopolitical shock to derail the Fed from two additional 25 basis point hikes as the year progresses. Inflation indicators have so far remained benign: for example, the March core PCE is running at 1.6% yoy although the FOMC statement views inflation as running close to their 2% longer run objective. The recent weakness in oil and commodity prices has also helped temper forward inflation expectations.

Historical Performance¹

	2017 %	Inception %
QDUSD	4.65	5.39
QAUSD	4.68	5.17
QDGBP hedged	4.29	4.91
QAEUR hedged	4.03	5.06

Performance Summary¹

Index	Monthly Return %
Stratton Street UCITS – NFA Global Bond Fund UI QDUSD	1.02
JPMorgan Global Aggregate Bond Index (USD)	0.77

Fund Prices¹

Institutional Class	Price	Monthly Return %
QDUSD	105.39	1.02
QAUSD	105.17	1.05
QDGBP hedged	104.91	0.87
QAEUR hedged	105.06	0.87

Portfolio Statistics

Gross Redemption Yield	4.29
Gross Running Yield	4.75
Fund NAV (USD Millions)	82.32
Number of holdings	48
Number of countries	14
Duration	9.34
Average Credit rating	Baa1

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	46.74	Sovereign	25.04
6 Star	15.97	Quasi	56.89
4 Star	15.22	Supra	-
3 Star	20.67	Corporate	16.67
Total	98.60	Total	98.60

Credit Rating

Rating	% NAV
AAA	3.27
AA	34.26
A	36.68
Baa	24.39
Total	98.60

Portfolio Exposure by Country	% NAV
Abu Dhabi	6.52
Chile	3.47
China	10.01
Hong Kong	1.33
Kuwait	1.87
Mexico	8.79
Norway	3.03
Oman	5.96
Qatar	19.84
Russia	11.75
Saudi Arabia	10.83
Singapore	3.32
United Kingdom	4.46
United States	7.42
Total	98.60

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In the absence of any detail on Trump's tax reform and fiscal stimulus initiatives and the difficulty of knowing what he can actually get passed by Congress we see little evidence to convince us that US growth can sustainably be boosted back above the 3% level: the structural trends of poor demographics, secular stagnation and elevated global debt levels remain firmly entrenched. Trump did manage to get the healthcare reform bill passed by Congress on its second attempt but it still remains to be seen whether the bill can overcome opposition in the Senate to actually be passed into law.

Our view remains that the Fed will remain ahead of the curve and the yield curve will flatten so we continue to favour positioning at the long end. In terms of credit, while spreads in investment grade credit may not tighten significantly from current levels we still see scope for valuation upside by targeting undervalued credits with several notches of credit cushioning versus their rating and which trade on attractive positive yields. The portfolio trades ~3.4 credit notches cheap with a gross redemption yield of 4.29%.

Share class information

Class	AMC	Minimum Subscription	Subsequent Investment	Front-end load	WKN	ISIN	Bloomberg
QAEUR hedged	0.60%	EUR 500,000	None	Up to 3%	A2AQ20	LU1483930282	SNFAQAE
QAUSD	0.60%	USD 500,000	None	Up to 3%	A2AQ2Z	LU1483930100	SNFAQAU
QDGBP hedged	0.60%	GBP 500,000	None	Up to 3%	A2AQ2Y	LU1483930019	SNFAQDG
QDUSD	0.60%	USD 500,000	None	Up to 3%	A2AQ2W	LU1483929862	SNFAQDU
RDEUR hedged*	1.10%	No minimum	None	Up to 3%	A2AQ22	LU1483930449	TBC

* Class not yet activated but available on demand

Fund Information

Domicile / legal status:	Luxembourg / SICAV (UCITS)
Base currency of the Fund:	USD
Valuation currency:	USD, EUR, GBP (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
Redemption fee:	None
The Company:	Stratton Street UCITS
Name of the Sub-Fund:	Stratton Street UCITS – NFA Global 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.
Launch Date Fund:	30 th November 2016
Launch Date Class:	QAEUR hedged & QDGBP hedged 30 th November 2016, QDUSD 9 th December 2016, QAUSD 13 th December 2016

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¹ Source: Bloomberg and Stratton Street calculations. All returns are calculated net of fees and include dividends re-invested, data as at end Jan-2017. Past performance is not a reliable indicator of future performance.

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