

Stratton Street UCITS - NFA Global Bond Fund UI

July 2017



- The Fund's QDUSD class rose 1.12% and +6.54% year to date
- Fed left rates unchanged but expects balance sheet normalisation to begin 'relatively soon'
- US dollar index fell 2.9% over the month
- Kuwait and the US mediate the Saudi-Qatar spat; GCC bonds perform solidly

Market Comment

July was generally a positive month across asset markets; the VIX index of volatility reached another new low, the S&P another record high and commodities, notably oil and copper, made strong gains. US Treasuries ended the month little changed: the yield on the 10 year compressed 1 basis point to 2.29% at month end.

The Fed left rates unchanged at its July meeting but indicated that it expects to begin its balance sheet normalisation program 'relatively soon' assuming 'the economy evolves broadly as anticipated'. Economic data releases were mixed; the Chicago Fed National Activity Index, a broad based indicator of 85 economic variables, showed a modest improvement to 0.13 in June but missed market expectations. The labour market continued to recover in terms of jobs added but wage data remained benign. Inflation data remained soft (June core PCE inflation came in at 1.5% yoy) which dissipated some of the market's expectation for future interest rate rises. The IMF downgraded its US GDP forecast to 2.1% for 2017 and 2018 given 'policy uncertainties' and a baseline assumption of no change. Against this backdrop, the dollar continued to weaken with the US dollar index falling 2.9% over the month. The euro appreciated as investors continued to anticipate the ECB was getting closer to reducing its stimulus.

In the Middle East, the Saudi Arabia et al spat with Qatar continued. Some progress was made when the US stepped in to mediate as Qatar signed a memorandum of understanding with the US on anti-terrorism measures. Middle Eastern credits traded stronger on the back of this although negotiations seem to have reached an impasse for the time being.

Portfolio Review

The Fund's QDUSD class rose 1.12% over the month (net of fees) outperforming the JP Morgan Global Aggregate Bond Index (USD) which rose 0.40% over the same period.

The portfolio's GCC and Mexican holdings were amongst the top performers reversing the previous month's weaker performance. Sentiment was helped by a recovery in oil prices and Middle Eastern credits benefited from some progress with the US mediating in the Saudi-Qatar spat. The fund's Mexican holdings contributed 0.22% to performance and the Qatar holdings contributed 0.33%. Abu Dhabi contributed 0.13% and Oman 0.10%.

We added to our Codelco position with Codelco 6.16% 2036 which was screening well on our models trading over 4 credit notches cheap.

Outlook

The recent US data trend continues to point to an improving labour market but still subdued inflation and benign wage picture. The next FOMC meeting is scheduled for 19-20 of September and we expect that the Fed will begin its balance sheet normalisation program which has been well flagged to the market over the past couple of months.

While the Fed can be considered to have reached its maximum employment goal, the price stability objective is proving much trickier with the Fed's favoured inflation measure (personal consumption expenditure) languishing below the 2 percent goal. Opinion is split between committee members seeing the softening in inflation as transitory and others concerned that progress towards the objective may have slowed and that the softness could persist. To us this implies a cautious and gradual approach to any further rate rises and downside risk to the 'dot plot'.

Historical Performance¹

	2017 %	Inception %
QDUSD	6.54	7.29
QAUSD	6.66	7.16
QDGBP hedged	5.96	6.58
QAEUR hedged	5.46	6.50

Performance Summary¹

Index	Monthly Return %
Stratton Street UCITS – NFA Global Bond Fund UI QDUSD	1.12
JPMorgan Global Aggregate Bond Index (USD)	0.40

Fund Prices¹

Institutional Class	Price	Monthly Return %
QDUSD	105.51	1.12
QAUSD	107.16	1.17
QDGBP hedged	104.70	1.03
QAEUR hedged	106.50	0.98

Portfolio Statistics

Gross Redemption Yield	4.20
Gross Running Yield	4.68
Fund NAV (USD Millions)	100.90
Number of holdings	51
Number of countries	14
Duration	9.55

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	50.20	Sovereign	25.30
6 Star	13.64	Quasi	58.51
4 Star	14.86	Supra	
3 Star	19.20	Corporate	14.09
Total	97.90	Total	97.90

Credit Rating

Rating	% NAV
AAA	3.85
AA	25.23
A	46.51
Baa	22.31
Total	97.90

Portfolio Exposure by Country	% NAV
Abu Dhabi	11.67
Chile	5.03
China	7.68
Hong Kong	1.08
Kuwait	3.79
Mexico	8.25
Norway	2.49
Oman	5.96
Qatar	18.42
Russia	9.83
Saudi Arabia	10.04
Singapore	2.71
United Kingdom	3.64
United States	7.31
Total	97.90

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That said, the Fed will also have to consider the relaxation in financial conditions, US dollar weakness and some signs of a pick-up in investment spending. Q2 GDP grew 2.6% (quarterly annualised) and business investment was robust growing 5.2% after a 7.1% gain in Q1. But with a lack of detail on fiscal stimulus initiatives, tax reform or other policy initiatives from Donald Trump's administration it is difficult to see how US growth can be sustainably boosted back above 3%: the structural trends of poor demographics, secular stagnation, a slow-down in labour productivity and elevated global debt levels remain firmly entrenched.

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 ~3.3 credit notches cheap with a gross redemption yield of 4.20%.

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 June-2017. Past performance is not a reliable indicator of future performance.

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