Stratton Street UCITS - NFA Global Bond Fund UI

August 2017

Stratton Street
UNIVERSAL INVESTMENT

- **Fund's QDUSD class gained 1.34%; +7.96% YTD**
- **Geopolitical tensions and benign inflation outlook support a Treasury rally**
- **Fed expected to start balance sheet adjustment in September and leave rates unchanged**
- **US dollar remains on the back-foot**

Market Comment

August was a generally positive month for bond markets as increased geopolitical tensions on the back of North Korea's missile launch program supported safe haven assets and a still benign US inflation outlook helped Treasuries; the 10-year US Treasury yield fell 17 bps to yield 2.12% at month end.

There have been some strong data points on the US economy, notably US consumer confidence which hit the second highest level since 2000 and the second estimate of US Q2 GDP (quarterly annualised) which was revised up to 3% with a strong upward revision to the consumption data. However, and more importantly, inflation and wage data releases continued to paint a benign picture muting expectations for further rate rises later this year. For example, the July PCE deflator came in at 1.4% for both the headline and core readings. As a result consensus seems to have built for the Fed to start its balance sheet adjustment program in September but take a 'wait and see' approach to further interest rate rises.

The rally in Treasuries extended to other sovereign markets and underpinned investment grade credit markets. The euro continued to appreciate versus the US dollar, to the extent that there is some concern building that euro strength could temper the recovery. Sovereigns in the Euro area generally performed well with the 10 year bund yield falling 18 bps to yield 0.36% at month end. The US dollar remained under pressure: the DXY index fell 0.21% over the month.

In the Middle East, there was little notable progress towards ending the spat between Saudi Arabia and Qatar. However, both bond markets were well supported although volumes were light into month end due to the Eid holiday period.

Portfolio Review

The QDUSD class gained 1.34% (net of fees) over the month outperforming the JP Morgan Global Aggregate Bond index (USD) which gained 0.93%.

The Fund's Mexican holdings contributed 23 bps with the United Mexican States 4.6% 2046 adding 11 bps and the balance coming from the Fund's Pemex positions. Abu Dhabi was also an important contributor adding 19 basis points with IPIC 6.875% 2041 adding 11 bps. The Qatar holdings added 16 bps to performance in August and 1.19% year to date.

A new position was added in DP World 6.85% 2037. DP World is the fifth largest port operator in the world. The company, which is largely owned (80.5%) by the Government of Dubai recently received a one notch upgrade by Fitch to BBB+, and is rated Baa2 by Moody's. It trades on a yield of 4.9% and is trading close to 2.5 credit notches cheap on our models. We rotated out of our holding in Saudi International 6.85% 2026s, which had rallied to all-time highs and was therefore offering less attractive returns and spread cushion compared with other holdings. We also added a position in Apple 3.85% 2043 which is rated Aa1/AA+ by Moody's/S&P and screens attractively on our models trading just over 4 credit notches cheap.

Outlook

The US economy has continued to expand at a moderate pace but it is difficult to see any policy initiatives getting passed and implemented quickly so as to meaningfully and sustainably boost the US growth outlook above 3%. Trump's speech on Tax reform was short on detail indicating a broad corporate tax target of 15% but with the debt limit only likely to be extended until December and the budget still to be addressed by Congress progress is likely to be slow. Getting a read on how the US economy is tracking could also be complicated over the next couple of quarters due to the impact of Hurricane Harvey and Hurricane Irma.

Historical Performance[1]

Class	QDUSD	QAUSD	QDGBP	QAEUR
1 Month	1.34	1.34	1.23	1.16
3 Months	1.97	2.01	1.70	1.50
Year to date	7.96	8.09	7.22	6.68
Inception %	8.73	8.60	7.85	7.74

Performance Summary[1]

Index	Monthly Return %
Stratton Street UCITS – NFA Global Bond Fund UI QDUSD	1.34
JPMorgan Global Aggregate Bond Index (USD)	0.93

Fund Prices[1]

Institutional Class	Price	Monthly Return %
QDUSD	106.92	1.34
QAUSD	108.60	1.34
QDGBP hedged	105.99	1.23
QAEUR hedged	107.74	1.16

Portfolio Statistics

Gross Redemption Yield	4.11
Gross Running Yield	4.67
Fund NAV (USD Millions)	103.40
Number of holdings	53
Number of countries	15
Duration	9.88

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	49.96	Sovereign	23.57
6 Star	13.45	Quasi	59.66
4 Star	14.63	Supra	
3 Star	20.05	Corporate	14.86
Total	98.09	Total	98.09

Credit Rating	
Rating	% NAV
AAA	3.80
AA	26.00
A	44.48
Baa	23.81
Total	98.09

Portfolio Exposure by Country	% NAV
Abu Dhabi	11.52
Chile	5.03
China	7.60
Dubai	1.82
Hong Kong	1.08
Kuwait	3.78
Mexico	8.29
Norway	2.48
Oman	5.86
Qatar	18.16
Russia	9.59
Saudi Arabia	8.44
Singapore	2.68
United Kingdom	3.51
United States	8.25
Total	98.09

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Critically, for the US the inflation and wage picture remains extremely benign: we still expect that the Fed will announce the beginning of its balance sheet normalisation program at the September 19-20 meeting but, given the still soft inflation picture, we expect that they will adopt a cautious approach and leave interest rates unchanged, preferring instead to monitor how the situation evolves. The key issue is whether the softening in inflation is transitory or whether progress towards the inflation objective may have slowed and this softness could persist.

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, North Korea remains a potential catalyst for a period of risk aversion in markets and as ever we would look for any opportunities to rotate our holdings to take advantage of any such periods. In the absence of such volatility, spreads in investment grade credit may not tighten significantly from current levels but 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 credit notches cheap with a gross redemption yield of 4.11%.

Share class information

Class	AMC	Minimum Subscription	Subsequent Investment	Front-end load	WKN	ISIN	Bloomberg
QA EUR hedged	0.60%	EUR 100,000	None	Up to 3%	A2AQ20	LU1483930282	SNFAQAE
QA USD	0.60%	USD 100,000	None	Up to 3%	A2AQ2Z	LU1483930100	SNFAQAU
QA GBP hedged	0.60%	GBP 100,000	None	Up to 3%	tbc	LU1493930365	tbc
QD GBP hedged	0.60%	GBP 100,000	None	Up to 3%	A2AQ2Y	LU1483930019	SNFAQDG
QD EUR hedged	0.60%	EUR 100,000	None	Up to 3%	tbc	LU1483929946	tbc
QD USD	0.60%	USD 100,000	None	Up to 3%	A2AQ2W	LU1483929862	SNFAQDU
RD EUR hedged*	1.10%	No minimum	None	Up to 3%	A2AQ22	LU1483930449	tbc

*Class 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 (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:	30th November 2016
Launch Date Class:	QAEUR hedged & QDGBP hedged 30th November 2016, QDUSD 9th December 2016, QAUSD 13th 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 August-2017.
Past performance is not a reliable indicator of future performance.