

Stratton Street UCITS - NFA Global Bond Fund UI

September 2017



- The Fund's QDUSD Class was down 0.21% in September; up 7.78% year to date
- Fed held rates, but more hawkish rhetoric insinuates a further rate hike in December
- Russia's long-term debt outlook upgraded to positive by Fitch
- Tax reform and subsequent effect on debt ceiling will be monitored closely

Market Comment

A mixed month across asset markets was once again driven by geopolitics and central bank rhetoric. Fed Chair Yellen's seemingly hawkish tones drove a sell-off in UST yields; this was further compounded by the proposed 'revolutionary' US tax plan. What concerns us is the tax-plan's eventual effect on the debt ceiling; we expect to hear more on this by year-end. Nonetheless, the yield on the 10-year UST was up 22bps and USD gained momentum; the DXY Index closed the month 0.44% higher.

Meanwhile, the Fed held rates at 1%-1.25%, we heard further mixed messages from Fed members with those in acceptance of lowly inflation calling for further hikes, while others remained concerned of hiking too quickly with lacklustre price pressures. The futures market, however, received a wake-up call after Yellen's address, where she reiterated that a December hike is clearly a possibility. Gold unsurprisingly nosedived in September; meanwhile Brent rallied 7.48%.

Elsewhere, what did grab market attention was Moody's one notch downgrade to the UK's long-term rating, to Aa2 and the final reading of UK's Q2'17 GDP surprised to the downside. Despite this, sterling was the best performing currency last month, having gained almost 4% against the dollar. We suspect ongoing Brexit negotiations to add downward pressure to sterling in the coming months as little in the way of 'sufficient progress' has been made, according to EU's Brexit negotiator Barnier. The euro may also come under pressure as the Catalan referendum dispute drags on as most expect, and Germany tidies up its new government.

Portfolio Review

The Fund's QDUSD Class was down 0.21% in September. Positive performance was driven by the quasi-sovereign positions in Qatar and Russia. Fitch's upgrade to a positive outlook on Russia's long-term debt supported the country's higher grade debt. However, ahead of the bumper issuance from the Kingdom of Saudi Arabia, the outstanding bonds we hold took a knock. Chilean quasi-sovereign bonds also widened over the month, thus detracting from positive performance. The Fund's QDUSD Class is up 7.78% year to date.

During the month there was not much in the way of attractive new issuance. Instead we added to the position in an old favourite bond, DP World 6.85% 2037; which continues to offer attractive risk-adjusted expected returns of 11.7% with a yield of 4.9% and ~3 notches of credit cushion'. We also increased our holding of Abu Dhabi's sovereign wealth holding company, Taqa 6.5% 2036. This A3 rated quasi-sovereign bond yields 4.4% and offers an attractive expected return and yield of 13%.

Outlook

Although recent US data has shown signs of improvement, inflation readings remain lacklustre; PCE in August was 1.4%. GDP remains strong at 3.1% for Q2'17, however, expectations are for slower Q3'17 growth post the hurricane disruptions. We expect to hear more on the tax-reform proposal in the coming months, this could be interesting especially as the debt ceiling debate will be had before long and expectations are for a sizeable increase, in order to achieve 3%yoy growth; especially considering that there are no spending cuts in the running as yet. Rating agency Moody's has warned that the 'light on details' reform package is credit negative for the US government's Aaa long-term rating. In October we also expect further discussions on the Fed Chair selection; the decision could affect financial regulation and the pace of future rate hikes.

Historical Performance¹

Class	QDUSD	QAUSD	QDGBP	QAEUR
1 Month	-0.21	-0.21	-0.34	-0.39
3 Months	2.30	2.31	1.93	1.75
Year to date	7.78	7.86	6.90	6.27
Inception %	8.54	8.37	7.53	6.76

Performance Summary¹

Index	Monthly Return %
Stratton Street UCITS – NFA Global Bond Fund UI QDUSD	-0.21
JPMorgan Global Aggregate Bond Index (USD)	-0.50

Fund Prices¹

Institutional Class	Price	Monthly Return %
QDUSD	106.70	-0.21
QAUSD	108.37	-0.21
QDGBP hedged	105.63	-0.34
QAEUR hedged	107.32	-0.39

Portfolio Statistics

Gross Redemption Yield	4.21
Gross Running Yield	4.73
Fund NAV (USD Millions)	113.09
Number of holdings	53
Number of countries	15
Duration	9.79

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	49.75	Sovereign	23.38
6 Star	13.43	Quasi	59.68
4 Star	13.97	Supra	
3 Star	21.45	Corporate	15.54
Total	98.60	Total	98.60

Credit Rating

Rating	% NAV
AAA	3.67
AA	23.82
A	45.85
Baa	25.26
Total	98.60

Portfolio Exposure by Country	% NAV
Abu Dhabi	11.00
Chile	4.50
China	7.90
Dubai	3.11
Hong Kong	0.98
Kuwait	3.73
Mexico	8.72
Norway	2.26
Oman	5.53
Qatar	17.67
Russia	9.47
Saudi Arabia	8.57
Singapore	2.43
United Kingdom	3.52
United States	9.21
Total	98.60

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In terms of credit, it seems asset markets are looking at all the positives and ignoring the underlying concerns, which include the likes of: heightened geopolitical tensions, benign inflation, and central bank divergence; developed market government bonds could therefore come under pressure. On the flip-side, emerging markets have continued to outperform YTD; as the economic dynamic between developed and emerging markets is starkly different from where it was pre-GFC. For example Asian economies are a lot 'richer' than they were before, and borrowing methods have become less expensive; the One Belt One Road, for example, has opened up a number of infrastructure initiatives within the region that would otherwise have not been funded.

We don't separate countries in terms of developed and emerging, we would rather consider whether a country is capable of paying us back and therefore would not take any unnecessary risk just to achieve a 'high' yield. As such we remain comfortable with our average 5 star (NFA ranked) portfolio; with a weighted average yield of 4.21%, average single A rating, and around 4 notches of credit cushion.

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

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