

# Stratton Street UCITS - NFA Global Bond Fund UI

October 2017



- Fund's QDUSD class gained 0.21% over the month; +8% YTD
- Uncertainty about next Fed Chair and 'solid' economic data pressure Treasuries
- ECB scales back QE to €30bn per month but extends the term

## Market Comment

Despite a rally into month end US Treasuries struggled to make headway; the yield on the 10 year rose 5 basis points to end the month at 2.38% although the 2yr-30yr curve bear flattened. Inevitably, there was some skittishness ahead of the announcement of the nomination for the next Fed chair and the implications this has for policy. Into month end, Jerome Powell appeared the favourite which gave the market some comfort as it implies a high degree of policy continuity. Investors continued to look for a further rate rise in December and data on the US economy generally showed the economy growing at a solid pace but importantly the inflation data continued to remain benign. The Republicans did make some progress by getting the budget resolution adopted by both the Senate and Congress and getting closer to presenting draft legislation on tax reform but the process is likely to be tortuous and it is too early to tell if it will provide much in the way of a growth stimulus.

This backdrop supported the US dollar index (DXY) which gained 1.6% over the month. Brent crude gained 6.7% mom helped by hopes of an extension in production cuts and uncertainty about production from the Kirkuk region in Iraq.

Elsewhere, the Japanese election saw Shinzo Abe's Party re-elected implying more of the same policy-wise while the 19th National Congress of the Communist Party of China entrenched President Xi Jinping's position and suggests further supply-side reforms and deleveraging going forward. The ECB announced the scale back of its bond buying programme to €30bn per month although extended the term to September and this came with a dovish tilt with Mario Draghi commenting he did not envisage the program as 'stopping suddenly': Bunds took the news well with the yield on the 10 year bund falling 10 basis points to yield 0.36% at month end and shrugging off any European uncertainties from the Catalonia crisis.

## Portfolio Review

In October, the fund's QDUSD class gained 0.21% (net of fees) outperforming the JP Morgan Global Aggregate Bond Index (USD), up 0.05%. Year to date the Fund's QDUSD class has returned +8% outperforming the JP Morgan Global Bond Index which gained 3.35%.

Top contributors to October's performance included China Cinda 4.25% 2025, Codelco 6.15% 2036, Statoil ASA 3.95% 2043 and Scottish Widows 5.5% 2023. Holdings such as Codelco, the Chilean state owned copper producer, were helped by copper making another new high mid-month. Despite a recovery in oil prices, Pemex came under some pressure along with Mexico generally as hopes of swift progress on renegotiating the NAFTA agreement stagnated.

We added a position in the 30-year (amortising) bond from state-owned Abu Dhabi Crude Oil Pipeline (ADCOP). Rated AA, the bond was issued at a yield of 4.6%, using our proprietary Relative Value Model, we calculated that the bond is over 6 notches cheap. The bond traded well post issue and was among the top contributors to performance. This deal was particularly interesting as we think the long-end of the Abu Dhabi Government curve is attractive in its own right. We also added a position in Abu Dhabi Government 4.125% 2047 which was issued at a spread of 130 basis points over Treasuries and was trading over 4 credit notches cheap on our models.

## Outlook

Recent data points have pointed to the US economy growing at a 'solid' pace: notably 3Q GDP grew at a 3% quarterly annualised rate, although volatile inventory gains contributed to 0.7% to this gain and underlying components such as real final sales to domestic purchasers showed a more modest expansion of 2.2% in Q3. Looking beyond the volatility of one individual quarter, the Fed's latest median projections look for growth to run at 2.1% and 1.9% for 2018 and 2019 respectively. The issue is whether growth can sustainably be boosted above 3% and are the proposed tax changes really going to end up giving much of a sustainable boost on this front.

## Historical Performance<sup>1</sup>

Class	QDUSD	QAUSD	QDGBP	QAEUR
1 Month	0.21	0.21	0.09	0.04
3 Months	1.34	1.34	0.98	0.81
Year to date	8.00	8.09	7.00	6.31
Inception %	8.77	8.60	7.63	7.36

## Performance Summary<sup>1</sup>

Index	Monthly Return %
Stratton Street UCITS – NFA Global Bond Fund UI QDUSD	0.21
JPMorgan Global Aggregate Bond Index (USD)	0.05

## Fund Prices<sup>1</sup>

Institutional Class	Price	Monthly Return %
QDUSD	106.92	0.21
QAUSD	108.60	0.21
QDGBP hedged	105.73	0.09
QAEUR hedged	107.36	0.04

## Portfolio Statistics

Gross Redemption Yield	4.15
Gross Running Yield	4.64
Fund NAV (USD Millions)	120.29
Number of holdings	54
Number of countries	14
Duration	9.90

## Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	51.13	Sovereign	24.25
6 Star	12.65	Quasi	57.94
4 Star	13.06	Supra	
3 Star	20.11	Corporate	14.76
Total	96.95	Total	96.95

## Credit Rating

Rating	% NAV
AAA	3.49
AA	28.00
A	41.88
Baa	23.58
Total	96.95

Portfolio Exposure by Country	% NAV
Abu Dhabi	15.89
Chile	4.26
China	7.45
Dubai	2.94
Kuwait	3.50
Mexico	8.01
Norway	2.17
Oman	5.20
Qatar	16.42
Russia	8.80
Saudi Arabia	7.91
Singapore	2.30
United Kingdom	3.32
United States	8.78
Total	96.95

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Importantly, the inflation data remains well behaved and with balance sheet normalisation also underway we still see the Fed taking a gradual and patient approach to raising rates. The announcement of Jerome Powell as the next Fed Chair implies continuity of policy going forward. That said, a replacement for Stanley Fischer (Vice-Chair) who retired in October is yet to be named and a further three seats on the seven seat Board of Governors are vacant.

Our view remains that the Fed will remain ahead of the curve and we continue to favour positioning at the long end of the yield curve. Recent comments from the Treasury Borrowing Advisory Committee, while only recommendations, has alleviated some

market concern about issuance at the long-end of the curve by advocating 'increasing issuance in bills and the 2, 3, and 5 year sectors, while maintaining issuance at the longer end such that the WAM (Weighted Average Maturity) does not materially change from current levels'. Investment grade credit spreads remains in the tighter end of the range 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 ~3.8 credit notches cheap with a gross redemption yield of 4.15%.

## 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

<b>Domicile / legal status:</b>	Luxembourg / SICAV (UCITS)
<b>Base currency of the Fund:</b>	USD
<b>Valuation currency:</b>	USD, EUR, GBP (depending on share class)
<b>Valuation/dealing:</b>	On every full banking day, which is simultaneously a stock exchange day in Luxembourg, United Kingdom and Frankfurt am Main.
<b>Subscription/withdrawal:</b>	4pm (Lux time) on the business day prior to the relevant Dealing Date
<b>Redemption fee:</b>	None
<b>The Company:</b>	Stratton Street UCITS
<b>Name of the Sub-Fund:</b>	Stratton Street UCITS – NFA Global Bond Fund UI
<b>Asset Manager:</b>	Stratton Street Capital LLP
<b>Management Company:</b>	Universal-Investment-Luxembourg S.A.
<b>Auditors:</b>	KPMG Luxembourg
<b>Custodian:</b>	Brown Brothers Harriman (Luxembourg) S.C.A.
<b>Launch Date Fund:</b>	30 <sup>th</sup> November 2016
<b>Launch Date Class:</b>	QAEUR hedged & QDGBP hedged 30 <sup>th</sup> November 2016, QDUSD 9 <sup>th</sup> December 2016, QAUSD 13 <sup>th</sup> December 2016

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<sup>1</sup> 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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