

Stratton Street UCITS - NFA Global Bond Fund UI

December 2017



- The Fund's QDUSD class 0.37%, +8.68% in 2017
- As expected the Fed raised interest rates by 25 bps
- US tax reform continues to make progress

Market Comment

The Fed raised the target range of the Federal Funds rate by 25 bps to 1.25-1.5% at the December meeting. Fixed income markets had low trading volumes and periods of softness on generally stronger economic data points, progress on tax reform and some upward revisions to US GDP growth estimates. However, an end of year rally meant the 10 year UST yield ended the month unchanged. The UST yield curve flattened taking the spread between the 2-year and 10-year benchmarks to decade lows during the month, and the spread between the 5s30s tightened to 10-year lows on the penultimate trading day. The DXY weakened ending the month 1% lower.

The Fed's updated set of economic projections was a key focus for markets. The median projection for the Fed funds rate is unchanged looking for three 25 bps hikes in 2018 and two in 2019. Importantly, in spite of some upward revisions to the committee's growth forecasts and reduced slack in the labour market, the committee's median forecast for core PCE inflation was left unchanged at 1.9% for 2018 and 2% in 2019. According to Janet Yellen, 'most' participants had factored in some fiscal stimulus and changes in financial conditions as progress continued to be made on US tax reform.

Portfolio Review

The Fund's QDUSD class gained 0.37% (net of fees) over the month while the JPM Global Agg. Index (USD) gained 0.47%. Holdings from the US, Abu Dhabi, Russia and Chile were amongst the top contributors. The rally in Brent to \$66.9 helped to support sentiment towards Russia and the Middle East: Russian Railways 7.487% 2031 was a star performer, tightening around 10 bps over the month, having rallied to a near all-time high price. As we had expected a US Fed rate hike we had positioned our portfolios accordingly going into December, as such we made no major changes to positions during the month other than adding to some existing positions.

For 2017 the Fund's QDUSD class was up 8.68% (net of fees) significantly outperforming the benchmark which returned 3.72%. Over this period the Fund's holdings in Russia, Mexico, Qatar and the US were the greatest contributors.

Outlook

Even with some changes to the Fed voters in 2018, we see the Fed's projected rate rise forecasts as erring on the aggressive side: we expect the pace of hikes to ease in 2H'18 as the previous hikes and balance sheet hikes start to take effect. The longer term inflation outlook remains supportive for bonds and we would envisage 2-3 more hikes as likely to be sufficient, although we will continue to monitor the inflation situation and react accordingly. We expect the yield on longer-dated UST has scope to fall, and the curve could flatten further, with yields on 10 year and 20 year debt falling toward 2.25% and possibly lower. We also look for some further spread tightening in better rated credits.

In terms of portfolio positioning, we think it is important to consider both the duration and spread contribution to the overall portfolio risk. We continue to position the portfolio's duration at the long end of the curve as we expect the Fed will remain ahead of the curve but maintain a bias to higher quality credits with an average portfolio rating of A3.

Historical Performance¹

Class	QDUSD	QAUSD	QDGBP hedged	QAEUR hedged
1 Month	0.37	0.39	0.24	0.11
3 Months	0.83	0.89	0.51	0.27
Year to date	8.68	8.82	7.44	6.56
Inception %	8.94	8.92	7.46	7.03

Performance Summary¹

Index	Monthly Return %
Stratton Street UCITS – NFA Global Bond Fund UI QDUSD	0.37
JPMorgan Global Aggregate Bond Index (USD)	0.47

Fund Prices¹

Institutional Class	Price	Monthly Return %
QDUSD	107.59	0.37
QAUSD	109.33	0.39
QDGBP hedged	106.17	0.24
QAEUR hedged	107.61	0.11

Portfolio Statistics

Gross Redemption Yield	3.88
Gross Running Yield	4.40
Fund NAV (USD Millions)	134.81
Number of holdings	53
Number of countries	13
Duration	9.58

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	48.35	Sovereign	24.52
6 Star	11.11	Quasi	54.20
4 Star	12.72	Supra	-
3 Star	18.54	Corporate	12.00
Total	90.72	Total	90.72

Credit Rating

Rating	% NAV
AAA	3.14
AA	28.87
A	39.32
Baa	19.39
Total	90.72

Portfolio Exposure by Country	% NAV
Abu Dhabi	19.92
Chile	3.85
China	6.55
Kuwait	3.13
Mexico	8.87
Norway	1.95
Oman	4.56
Qatar	16.87
Russia	8.87
Saudi Arabia	4.47
Singapore	2.01
United Kingdom	3.06
United States	6.61
Total	90.72

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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%	A2AQ2Y	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%	A2Aq2X	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 month end. Past performance is not a reliable indicator of future performance.

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