

Stratton Street UCITS - Renminbi Bond Fund UI

January 2016



- Global recession fears deepen
- ECB signal further easing, dovish Fed hold rates and BoJ adopt negative rates
- Emerging markets enjoyed a risk-on rally at the end of the month
- Rotated out of Asian outperformers into defensive government bonds

Market Comment

Markets started the year in the same vain they had left off in 2015. As concerns over recessionary fears deepened; market sentiment was extremely fragile. US and China data did little to support markets and the risk-off tone saw a further plunge in the commodity space, with other markets following suit. That was until Mario Draghi's signal of further ECB easing and the Fed's rate hold, rounded off nicely with the BoJ's surprise negative interest rate announcement. Markets reacted positively to the central bank policy decisions and emerging market bonds enjoyed the risk-on rally into month-end.

Portfolio Review

The Fund's USD A Class was down -0.99% while the HSBC Offshore Renminbi Index fell -1.90%. Holdings in China and Hong Kong were the largest contributors to performance, while Middle Eastern holdings widened and the offshore renminbi marginally depreciated against the strong dollar.

As our concerns over the health of the global macro environment worsened, we rotated the portfolio towards a more defensive positioning during the month. We sold our holding in Hainan Air 3.625% 2020 (rated A1/A), which had rallied over a point to a spread of +178 bps mid-month and our holding in Bank of China 5.55% 2022 (rated A3/A), ~0.5 points higher during the month. This holding was initially added to the portfolio back in February 2012 at +322 bps, we closed the position in January at +180bps.

We switched these outperformers into a supranational issue from Asian Development Bank 2% 2025 (rated AAA), which gained ~1.3 points, and a position in the benchmark 30-year Singapore government issue, rated AAA by Fitch at a yield of 2.80%. This bond gained over a point, falling to a yield of 2.73%.

Outlook

Market focus has somewhat shifted away from China, the renminbi and the commodity (oil) rout to the heightened possibility of a US/global recession. Unsurprisingly UST have continued their rally. Although the US labour market is showing continued strength, manufacturing and non-manufacturing data points are in decline; we wonder whether this effect is spilling-over into the rest of the economy. In fact the Chicago Fed National Activity Index has remained in negative territory, suggesting that the risk of a recession is rising.

We have long spoken of our concerns regarding quantitative easing and the effects long-term sustained support will eventually have, especially in terms of deflation; the main drag on Fed monetary policy decisions. The futures market is not convinced that the Fed will raise rates this year, despite the central bank pushing for a "gradual" four increases. We doubt that current market turmoil will improve markedly to warrant a hike in March and reiterate our more bearish stance to global growth. Our expectation is for the Fed Funds rate to remain below 1% in 2016.

As we have previously noted, in this environment investors should be very wary of sub-investment grade bonds which have tended to perform badly in weak growth environments. In contrast high grade bonds, particularly at the long-end, tend to perform much better, we will therefore maintain a our high weighted average credit rating (A3) on the Fund with our bias at the long-end.

Historical Performance¹

	2016 %	* Inception %
IDUSD Class	-0.99	2.45
IDGBP Class	-0.24	5.28
IDEUR Class	-1.14	5.07
ODGBP Class	-1.51	-0.74

Performance Summary¹

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	-0.99
HSBC China Offshore Renminbi bond index (USD)	-1.90
Offshore Chinese Renminbi (CNH)	-0.39

Fund Prices¹

Institutional Class	Price	Monthly Return %
USD	98.68	-0.99
GBP	99.64	-0.24
EUR	99.34	-1.14

Ordinary Class	Price	Monthly Return %
GBP	98.72	-1.51

Portfolio Statistics

Gross Redemption Yield	4.68
Gross Running Yield	4.74
Fund NAV (USD Millions)	24.45
Number of holdings	27
Number of countries	9
Duration	8.01

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	48.01	Sovereign	12.37
6 Star	26.98	Quasi	63.59
4 Star	14.50	Supra	9.75
3 Star	9.75	Corporate	13.53
Total	99.24	Total	99.24

Credit Rating	
Rating	% NAV
Aa	46.12
A	26.40
AAA	12.22
Baa	14.50
Total	99.24

Portfolio Exposure by Country	% NAV
Abu Dhabi	6.89
China	25.57
Hong Kong	6.52
Oman	1.41
Qatar	24.25
Russia	14.50
Saudi Arabia	4.94
Supranational	9.75
Singapore	5.41
Total	99.24

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Share class information

Institutional	Current AMC	Minimum Subscription	Subsequent Investment	Front-end load	SEDOL	ISIN	Bloomberg
ID EUR	1%	EUR 100,000	EUR 10,000	None	5078151	LU0850781518	STRBIDE LX
ID USD	1%	USD 100,000	USD 10,000	None	5078175	LU0850781781	STRBIDU LX
ID CNH	1%	USD 100,000	USD 10,000	None	5078186	LU0850781864	STIDCNH LX
ID GBP	1%	GBP 100,000	GBP 10,000	None	5078208	LU0850782086	STRBIDG LX
ID GBP ACC	1%	GBP 100,000	GBP 10,000	None	BVJDP45	LU1163072603	TBC
ID CHF	1%	CHF 100,000	CHF 10,000	None	5078216	LU0850782169	TBC

Ordinary	Current AMC	Minimum Subscription	Subsequent Investment	Front-end load	SEDOL	ISIN	Bloomberg
OD GBP	1.5%	No minimum	No minimum	Up to 3%	5078275	LU0850782755	STRODGB LX
OD EUR	1.5%	No minimum	No minimum	Up to 3%	5078224	LU0850782243	STRBODE LX
OD USD	1.5%	No minimum	No minimum	Up to 3%	5078259	LU0850782599	TBC
OD CNH	1.5%	No minimum	No minimum	Up to 3%	5078267	LU0850782672	TBC
OD CHF	1.5%	No minimum	No minimum	Up to 3%	5078291	LU0850782912	TBC

Classes in red signify 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, CHF or CNH (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:	Prior business day by 4pm (Lux time)
Appropriation of earnings:	Distributing (all share classes)
Investment manager fee:	For share classes "I" and "O": up to 1.70% p.a. of the net asset value of the share class. See table above for current annual management charge (AMC).
Management company fee:	For share classes "I" and "O": up to 0.30% p.a. of the net asset value of the Sub-Fund subject to min. EUR 45.000.- p.a. for up to 2 share classes; for additional share classes the Management Company receives additional min. 7.500.- p.a. Custodian and Paying Agency Fee, Domiciliary and Corporate Agency Services Fee, Registrar and Transfer Agency Fee: up to 0.10% p.a. of the Sub-Fund's net asset value, min. up to € 40.000 p.a. subject to Luxembourgish VAT.
Other fees:	
Front-end load:	For share classes "OD USD", "OD CNH", "OD GBP" and "OD CHF" up to 3%. There is no front-end load currently applicable for share classes "ID EUR", "ID USD", "ID CNH", "ID GBP", "ID GBP ACC" and "ID CHF".
Redemption fee:	None
The Company:	Stratton Street UCITS
Name of the Sub-Fund:	Stratton Street UCITS - Renminbi Bond Fund UI
Asset Manager:	Stratton Street Capital LLP
Management Company:	Universal-Investment-Luxembourg S.A.
Auditors:	KPMG Luxembourg
Custodian:	Brown Brothers Harriman S.C.A.
Planned distribution countries:	UK, Austria, Germany, Switzerland, France, Belgium, Netherlands, Sweden and Luxembourg
*Launch Dates:	01 October 2013: IDEUR launched, 21 October 2013: IDUSD launched, 31 October 2013: IDGBP launched, 16 April 2014: ODGBP launched
Footnotes:	1. Bloomberg (as at end of month)

Platforms and providers

Stratton Street UCITS - Renminbi Bond Fund UI can be accessed via the following platforms and providers:

Aegon	AJ Bell/SIPP Centre
Ascentric	AXA Isle of Man
Canada Life International	Cofunds
Friends Provident Isle of Man	Legal & General
Novia	Royal Skandia
Transact	Seven Investment Management (7IM)
UBS Funds Centre	

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