Stratton Street UCITS - Renminbi Bond Fund UI

December 2015

Stratton Street
UNIVERSAL INVESTMENT

- **As expected the Fed raised rates by 25bps; any further tightening to be gradual**
- **Treasury yield curve flattened and investment grade credit spreads widened**
- **Oil hit an 11 year low and the high yield sector remained under pressure**
- **Downside global growth risks; we expect fewer rate hikes than the Fed forecast**

Market Comment

December witnessed a further rocky month, in what was a volatile year across markets, as concerns over global growth deepened. The Fed finally delivered a 25bps rate increase; markets were relatively unchanged and the news well absorbed by emerging markets. Geopolitics and the steep fall in commodities however weighed on market sentiment; Brent crude fell 16.4% to 11-year lows after OPEC agreed to keep taps running. Currencies also came under pressure in December, this was also a theme through the year as the dollar appreciated 9.3% (DXY Index). The yield on the ten-year US Treasury rose six bps to 2.27%.

US data remained mixed. Although marginally up in November, retail sales were released below expectations, whilst employment figures broadly improved. Inflation remained subdued with the Fed's preferred measure, the PCE Core, at 1.3% yoy. Since the Fed's rate hike, consumption and investment data have both slipped. The December Chicago PMI reading came in well below market expectations, remaining in contractionary territory; the lowest reading since mid-2009.

Elsewhere, China announced the CFETS basket weights; the four largest currencies in the basket (USD, EUR, JPY and HKD) account for almost 70% of the basket. Having undergone significant liberalisation recently, we believe this just another step in improving transparency and shows that policymakers intend to make the exchange rate policy increasingly flexible and better understood. The renminbi (RMB) fell 1.47% over the month, however despite the currency's volatile year, the RMB was up 0.17% against the strong dollar on a total return basis in 2015. On the data front, manufacturing remains soft, however other data points picked up in November; retail sales beat market expectations rising to a ten-month high, industrial production jumped to a six-month high, while Fixed Asset Investment was unchanged at a robust 10.2% yoy; clearly fiscal and monetary stimulus is working to stabilise the economy.

Portfolio Review

The Fund's USD I Class fell 3.43%. Holdings across the board were marginally lower in December, lacklustre global growth concerns and the subsequent commodity route along with geopolitical pressures tempered investor optimism. The 2.3% fall in the offshore RMB against the dollar also hindered performance. Over 2015 the Fund's USD I Class gained 0.86% while the HSBC Offshore Renminbi Index fell 2.63%; our Russian quasi-sovereign holdings were the star performers.

We are of the opinion that there are huge downside risks in the global economy and the chance of the US economy stalling is high. Therefore our positioning in long duration, compared to our peers, and the much higher credit profile (A3), concentrating in quasi-government and sovereigns issues by wealthy nations will be maintained. That is until the risks are fully priced into lesser credits, which should then offer an opportunity for diversification from our current stance; but we are nowhere close to fair value yet, according to our proprietary models.

Outlook

With the Fed having finally started raising rates, one of the major uncertainties is now behind us. The extent of future Fed hikes will depend on the evolution of economic data throughout 2016; median consensus forecast suggest 1.25%. Our forecast is for a lower Fed funds rate with 1% being the most likely outcome given the significant downside risks to global growth.

The ISM reading for December fell to 48.2, the lowest reading since June-2009. Never before has the Fed started a tightening cycle with the ISM below 50 (the average of the past three is 57.2) which suggests to us that rate increases will be very modest. If we are wrong, then it is far more likely that US growth disappoints and rates end the year below 1%; we see very little risk of rates exceeding 1% by the end of 2016. In that environment, with inflationary pressures virtually non-existent, it is our contention that investors will find investment grade bonds very appealing.

In China, we expect policymakers to maintain their accommodative stance as the country's growth model and currency transformations play out. What is clear is that the country's economy is far from contracting but is still growing at a robust rate; Bloomberg's monthly China GDP tracker picked up to 6.85% in November. As for the RMB, we expect that if the USD appreciates against other major currencies, the PBoC will be willing to accept some depreciation in the RMB against the dollar, on the condition that versus the CFETS basket it will remain relatively stable. We see such potential for depreciation versus a strong dollar being only moderate and short term. Meanwhile total expected returns from exposure to the currency (including carry) still seem attractive over all horizons and the ongoing trend continues to suggest growing importance of China and the RMB in international markets in the coming years.

Historical Performance[1]

	2015 %	* Inception %
IDUSD Class	0.86	3.48
IDGBP Class	1.67	5.54
IDEUR Class	0.81	6.28
IDCNH Class	6.59	12.26
ODGBP Class	-1.10	0.78

Performance Summary[1]

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	-3.43
HSBC China Offshore Renminbi bond index (USD)	-2.70
Offshore Chinese Renminbi (CNH)	-2.30

Fund Prices[1]

Institutional Class	Price	Monthly Return %
USD	99.67	-3.43
GBP	99.88	-3.51
EUR	100.49	-3.48
CNH	108.19	-1.28

Ordinary Class	Price	Monthly Return %
GBP	100.23	-3.69

Portfolio Statistics

Gross Redemption Yield	4.64%
Gross Running Yield	4.81%
Fund NAV (USD Millions)	32.30
Number of holdings	30
Number of countries	8
Duration	7.17

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	50.85	Sovereign	9.47
6 Star	25.59	Quasi	67.49
4 Star	18.10	Corporate	17.58
Total	94.54	Total	94.54

Credit Rating	
Rating	% NAV
Aa	42.68
A	33.76
Baa	18.10
Total	94.54

Portfolio Exposure by Country	% NAV
Abu Dhabi	6.54
China	24.48
Hong Kong	15.28
Oman	1.11
Qatar	22.22
Russia	18.10
Saudi Arabia	4.61
Singapore	2.20
Total	94.54

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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.
Other fees:	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.
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 28 November 2013: IDCNH 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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