Stratton Street UCITS - Renminbi Bond Fund UI

June 2015

- **Greece uncertainty caused havoc across all asset classes**
- **Fed remain flexible and data-dependant with regards to normalising rates**
- **China policy makers continue to deploy easing measures to support economy**
- **Global growth remains subdued**

Market Comment

Broadly, markets witnessed extreme volatility through the month as the Greece crisis ensued and markets prepare for the Fed to raise rates. Despite the general risk-off theme throughout the month core developed yields witnessed aggressive sell-offs. The yield on the ten-year Bund spiked through the 1% psychological level during the month eventually closing at 0.76%, 28 basis points higher. The benchmark ten-year US Treasury mimicked the move rising 23 basis points over the month to 2.36%; having spiked as high as 2.499% ahead of the retail sales print.

The review period began with questions over whether Greece would repay the first instalment due to the International Monetary Fund (IMF), the payment was missed and Greece elected to bundle all instalments to the end of the month. As most had suspected, Greece then missed (or defaulted on or is now in "arrears" on) the total EUR 1.5bn payment, and has thus become the first developed nation to miss such a payment to the IMF. Having had a number of meetings and emergency summit discussions with the country's creditors, Greek Premier, Alexis Tsipras was not willing to budge and on the last weekend of the month capital controls were imposed and a referendum scheduled for July 5. The call for the referendum did give markets some respite and core rates rallied, but all-in-all credit markets were already bruised.

With one eye firmly on Greece, markets were using the other to look for any improvements to US economic data and consequently any rate hike signals from the Fed; but the central bank remains flexible and data-dependant. Fed members appeared dovish after they revised their forecast for rate increases, or dots, lower for 2016-2017. The May nonfarm payroll number did surprise on the upside, but was then revised lower and unemployment was expected to stick at 5.4% but actually increased to 5.5%; the participation rate edged marginally higher. Average hourly earnings increased moderately. The retail sales print supported market sentiment increasing in-line with expectations; driven by a large increase in sale of vehicle parts. US growth in the first quarter was revised to -0.2%, and more recent Q2 data shows signs of patchy improvement. The Chicago Purchasing Manager reading for June remained in contractionary territory, and the ISM Milwaukee print slide from May's reading but the consumer confidence index beat expectations.

Elsewhere the People's Bank of China fixed the renminbi stronger against the dollar over the month, both the onshore and offshore renminbi were pretty flat in June. Data prints for May point to continued softness but the economy looks to be stabilising with recent June numbers showing signs of improvement; the official manufacturing PMI has stayed in expansionary territory (i.e. above 50) for four straight months. Towards the end of the month the central bank announced further easing on interest rates and reserve requirement ratio (RRR); the one-year lending and deposit rates were cut by 25 basis points and the RRR was sliced up to 50-300bps for selected banks. This move came in response to the recent decline in the A-share equity market and softer economic data, particularly inflation. PPI once again remained in negative territory in May and CPI was +1.2%

Historical Performance[1]

	2015 %	* Inception %
IDUSD Class	5.75	8.49
IDGBP Class	5.77	9.79
IDEUR Class	5.95	11.70
IDCNH Class	5.53	11.15
ODGBP Class	4.36	6.34

Performance Summary[1]

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	-2.20
HSBC China Offshore Renminbi bond index (USD)	0.41
Offshore Chinese Renminbi (CNH)	-0.04

Fund Prices[1]

Institutional Class	Price	Monthly Return %
USD	105.91	-2.20
GBP	105.49	-2.15
EUR	107.26	-2.21
CNH	108.56	-2.15
Ordinary Class	**Price**	**Monthly Return %**
GBP	106.19	-2.97

Portfolio Statistics

Gross Redemption Yield	4.72%
Gross Running Yield	4.92%
Fund NAV (USD Millions)	36.37
Number of holdings	41
Number of countries	9
Duration	7.73

Fund Breakdown

Net Foreign Assets		Credit Rating	
Rating	% NAV	Rating	% NAV
7 Star	51.41	Aa	38.79
6 Star	23.90	A	32.14
4 Star	18.20	Baa	24.36
3 Star	3.43	Ba [2]	1.65
Total	96.94	Total	96.94

Entity Type		Region	
Entity	% NAV	Region	% NAV
Sovereign	8.96	Asia Pacific	37.41
Quasi	60.89	C&W Asia	18.19
Corporate	23.66	Middle East	41.34
Supra	3.43		
Total	96.94	Total	96.94

Portfolio Exposure by Country	% NAV
Abu Dhabi	9.46
China	22.25
Hong Kong	12.09
Kazakhstan	3.43
Malaysia	1.65
Qatar	24.71
Russia	18.20
Saudi Arabia	3.74
Singapore	1.41
Total	96.94

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Portfolio Review

As risk sentiment faltered during the month the Fund's USD I class fell -2.20%. Having been the portfolio's star performers so far this year our holdings in Russia and Qatar sold-off in June and holdings elsewhere held up well; all things considered.

We are longer term value investors, searching for attractive risk-adjusted returns with added credit protection (spread cushion). At the end of June, the portfolio's weighted average expected return and yield (calculated using our proprietary models) was around 15% with an average 3.5 credit 'notch' cushion. The bonds held are USD and GBP denominated with a weighted average rating of Baa1, roughly 70% of our holdings are in sovereign and quasi-sovereign holdings. The portfolio yields around 4.7.

Outlook

The Fed appear optimistic that the US economy will rebound after the softer first quarter and markets continue to price in a move to normalise in September. The IMF urged the Fed to leave the initial rate increase until the beginning of next year, an official from the World Bank echoed this sentiment during the month. With the Grexit weighing heavy globally, one has to wonder whether the former organisations could actually be right; although a Fed President, James Bullard shrugged off the Greece endgame stating the situation "would not change the timing of any rate hike……I would say September is still very much in play". Although labour market conditions are showing signs of improvement, wage growth has not yet picked up and inflation continues to remain stubbornly low; core PCE inflation weakened to 1.2% yoy in May, well below the Fed's 2% target. We expect continued credit volatility as we approach liftoff.

Elsewhere, China officially set their target for 2015 growth at 7%, Chinese authorities will continue to deploy further easing measures - such as expanding the country's fiscal deficit - if necessary, in order to maintain stable economic growth and prevent the economy from slipping into deflationary territory. The central bank has also vowed to stabilise the renminbi to cushion the economy and ahead of the IMF's Special Drawing Rights Basket (SDR) inclusion decision.

Share class information

Institutional	Current AMC	Minimum Subscription	Subsequent Investment	Front-end load	SEDOL	ISIN	Bloomberg
ID EUR	1%	EUR 250,000	EUR 10,000	None	5078151	LU0850781518	STRBIDE LX
ID USD	1%	USD 250,000	USD 10,000	None	5078175	LU0850781781	STRBIDU LX
ID CNH	1%	USD 250,000	USD 10,000	None	5078186	LU0850781864	STIDCNH LX
ID GBP	1%	GBP 250,000	GBP 10,000	None	5078208	LU0850782086	STRBIDG LX
ID GBP ACC	1%	GBP 250,000	GBP 10,000	None	BVJDP45	LU1163072603	TBC
ID CHF	1%	CHF 250,000	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.

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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) 2. The holding in VTB Capital 6.95% 2022 is currently rated as sub-investment grade following on from the downgrade of the Russian sovereign which is now rated Baa2 by Moody’s and BBB- by S&P (still investment grade). This VTB issue is subordinated so, although it was investment grade at purchase, it had a lower rating than our other holdings. We continue to have confidence in our Russian holdings and their expected risk adjusted returns, which factor in the current ratings, and we continue to monitor the position closely.

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	

Contact Information

Email:	sales@strattonstreet.com	info@universal-investment.com
Telephone:	+44 (0)207 766 0888	+352 (0) 261502-1
Address:	**Stratton Street Capital LLP** 200 Aldersgate Street London, EC1A 4HD	**Universal Investment Luxembourg S.A.** 15, rue de Flaxweiler L-6776 Grevenmacher LUXEMBOURG