

# Stratton Street UCITS - Renminbi Bond Fund UI

October 2015



- Fed hold off from raising rates; lift-off in December remains “live”
- Renminbi appreciates against the strong dollar; onshore +0.64%, offshore +0.61%
- Fund’s USD class gained +2.59%
- Broadly positive performance across all holdings; Russia quasi-sovereign issues outperform
- IMF to decide renminbi SDR inclusion by the end of November

## Market Comment

Market focus once again remained on the Fed rate decision and softening economic growth in China. The month started with a disappointing US non-farm payroll reading which dampened expectations for an October rate lift-off. Further mixed data out of the US did little to convince the market otherwise and as the futures market had predicted, the Fed held off from raising rates at the October meeting. Having fallen as low as 1.97%, off the back of soft retail sales data the benchmark ten-year US Treasury yield ended up 11 basis points on the month at 2.14%, as the market was spooked by the Fed’s more hawkish comments that a December rate hike is firmly in play.

Although it was a holiday shortened month in China, October proved to be quite eventful. Speaking at the IMF/World Bank meeting in Peru, the central bank deputy governor Yi Gang said that the country's stock market correction is "almost over" adding that such corrections had had little impact on China's economy. Yi also stated that renminbi depreciation is inconsistent with fundamentals adding that the currency will become increasingly flexible. On the last day of the month the onshore renminbi gained 0.62% against the dollar after the announcement by the PBoC that it is to loosen capital controls around renminbi convertibility. The central bank also announced further interest rate cuts on both the one-year lending and deposit rates; by 0.25%. Next we had Xi Jinping's state visit to the UK and the PBoC’s first renminbi denominated issuance outside of China, in the London market; the RMB 5bn issue was heavily oversubscribed and priced at an interest rate of 3.1%.

Finally, the keenly awaited Q3 GDP reading was released stronger than anticipated by the market at 6.9% yoy. Manufacturing and construction were weaker in Q3 than in the first half of the year, but this was somewhat offset by the property market which had a strong bounce in September with a recovery in the government's fiscal situation from land sales. This bodes well for the fourth quarter outcome with an investment-led recovery and growth expected by quite a few observers to rise above the government's 7% target to around 7.2% yoy. Also of note was the fall in inflation to 1.6% in September versus 2% in August which opens the door for further monetary easing should it be required over the coming months.

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

|             | 2015 % | * Inception % |
|-------------|--------|---------------|
| IDUSD Class | 5.89   | 8.64          |
| IDGBP Class | 6.80   | 10.86         |
| IDEUR Class | 5.97   | 11.72         |
| IDCNH Class | 7.67   | 13.40         |
| ODGBP Class | 4.35   | 6.33          |

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

| Index   | Monthly Return % |
|---|------------------|
| Renminbi Bond Fund UI (Inst USD Class)        | 2.59             |
| HSBC China Offshore Renminbi bond index (USD) | 1.78             |
| Offshore Chinese Renminbi (CNH)               | 0.64             |

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

| Institutional Class | Price  | Monthly Return % |
|---------------------|--------|------------------|
| USD                 | 104.64 | 2.59             |
| GBP                 | 104.92 | 2.52             |
| EUR                 | 105.63 | 2.57             |
| CNH                 | 109.30 | 1.94             |
| Ordinary Class      | Price  | Monthly Return % |
| GBP                 | 105.75 | 2.57             |

## Portfolio Statistics

|                         |       |
|-------------------------|-------|
| Gross Redemption Yield  | 4.54% |
| Gross Running Yield     | 4.81% |
| Fund NAV (USD Millions) | 34.73 |
| Number of holdings      | 32    |
| Number of countries     | 9     |
| Duration                | 7.43  |

## Fund Breakdown

| Net Foreign Assets |       | Entity Type |       |
|--------------------|-------|-------------|-------|
| Rating             | % NAV | Entity      | % NAV |
| 7 Star             | 50.26 | Sovereign   | 9.25  |
| 6 Star             | 24.15 | Quasi       | 60.34 |
| 4 Star             | 18.43 | Corporate   | 23.25 |
| 3 Star             | 3.93  | Supra       | 3.93  |
| Total              | 96.77 | Total       | 96.77 |

| Credit Rating |       | Region       |       |
|---------------|-------|--------------|-------|
| Rating        | % NAV | Region       | % NAV |
| Aa            | 41.08 | Asia Pacific | 39.41 |
| A             | 33.33 | C&W Asia     | 18.43 |
| Baa           | 22.36 | Middle East  | 38.93 |
| Total         | 96.77 | Total        | 96.77 |

| Portfolio Exposure by Country | % NAV |
|-------------------------------|-------|
| Abu Dhabi                     | 6.38  |
| China                         | 23.04 |
| Hong Kong                     | 14.32 |
| Kazakhstan                    | 3.93  |
| Oman                          | 1.11  |
| Qatar                         | 23.03 |
| Russia                        | 18.43 |
| Saudi Arabia                  | 4.48  |
| Singapore                     | 2.05  |
| Total                         | 96.77 |

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## Portfolio Review

The Fund's USD I Class gained 2.59% over the month while the HSBC Offshore Renminbi Bond Index was up 1.78%. Positive performance in October was helped by the 0.64% appreciation of the offshore renminbi and a broad rally across the portfolio's holdings

During the month we rotated out of some of the better performing Russian holdings into Russian Railways (RZD) Capital 7.487% 2031; an underperformer. This issue rallied six points during October, tightening 90 basis points to a spread of 593; which remains attractive according to our relative value model. The state-owned Gazprom 8.625% 2034 issue was also a star performer having tightened 40 basis points to yield 6.1%.

Holdings in China, and Qatar sovereign paper were also large contributors to performance. The portfolio remains invested in high quality names with a weighted average A3 credit rating, and yields an attractive 4.5%.

## Outlook

With only one more FOMC meeting remaining this year, the Fed appear to have backed themselves into a corner especially with the more recent hawkish tones of a "live possibility" of a rate hike at the final meeting of the year in mid-December. Inflation remains troublesome as energy prices continue to drag, and the dollar continues its relentless upward assault. However, the more recent October employment figures have proved to be much stronger than the market expected; maybe this is enough evidence for the Fed to hike rates especially as global factors appear to have calmed. We will be watching this very closely, although we believe a 25 basis point hike has already been priced into the market and as Yellen has reiterated time and time again, further rate rises will be gradual.

Elsewhere, with relative calm returning to the Chinese equity markets and currency moves, we expect to hear from the IMF as to whether the renminbi will be included in its Special Drawing Right (SDR) basket by the end of the month. Sources suggest that actual "live inclusion" in the basket will be in September next year, thus allowing central banks enough time to adjust their reserves accordingly. We believe that China has come a long way since the IMF provided the initial roadmap to inclusion, including opening up the Chinese bond market to overseas central banks and changing the renminbi fixing methodology to a more market-driven policy. We believe the IMF's choice to postpone the decision can only be seen as a positive; to allow Chinese policymakers enough time to finalise all that is required so that inclusion as a reserve currency can be finalised with limited market volatility.

## 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.

# Stratton Street UCITS - Renminbi Bond Fund UI

## 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, CHF or CNH (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>        | Prior business day by 4pm (Lux time)   |
| <b>Appropriation of earnings:</b>      | Distributing (all share classes)   |
| <b>Investment manager fee:</b>         | 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).   |
| <b>Management company fee:</b>         | 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. |
| <b>Other fees:</b>                     | 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.                  |
| <b>Front-end load:</b>                 | 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".                                     |
| <b>Redemption fee:</b>                 | None   |
| <b>The Company:</b>                    | Stratton Street UCITS  |
| <b>Name of the Sub-Fund:</b>           | Stratton Street UCITS - Renminbi 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 S.C.A.   |
| <b>Planned distribution countries:</b> | UK, Austria, Germany, Switzerland, France, Belgium, Netherlands, Sweden and Luxembourg   |
| <b>* Launch Dates:</b>                 | 01 October 2013: IDEUR launched<br>21 October 2013: IDUSD launched<br>31 October 2013: IDGBP launched<br>28 November 2013: IDCNH launched<br>16 April 2014: ODGBP launched   |
| <b>Footnotes:</b>                      | 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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