Stratton Street UCITS - Renminbi Bond Fund UI

September 2015

- **Fund's USD I Class gained 2.41%**
- **Another volatile month for risk assets; weakening EM backdrop thus US rate debacle**
- **Further soft data out of China; authorities will remain accommodative**
- **Renminbi, one of the few currencies to appreciate against the dollar**
- **Holdings in Russia outperformed**

Market Comment

Another volatile month across risk assets saw equities continued their slide and safe-haven US Treasuries rally into the end of the month; the yield on the ten-year benchmark fell 18 basis points to 2.04%. The weakening emerging market backdrop, and thus the Fed's hold on rates did little to help market sentiment.

US data releases remained mixed. Key economic indicators disappointed such as retail sales and the Chicago Fed National Activity index, which fell to -0.41 in August. September's preliminary reading for University of Michigan sentiment came in way below expectations as did the Empire manufacturing print. However, new home sales beat expectations and the revised Q2 GDP reading came out at annualised 3.9%, versus market calls for 3.7% growth. Although unemployment has fallen to an "equilibrium" level, the Fed's "dual-mandate", which weighs up price stability and maximum employment when conducting monetary policy, is being skewed by subdued inflation. With global economic pressures and uncertainties troubling financial markets and the Fed, the central bank did not move to raise rates in September. Despite a more dovish tone at the September meeting, some Fed members maintain that "lift-off" before the end of the year is still "live".

Elsewhere, data out of China remained soft. According to the Q3 China Beige Book International (which surveys over 2100 companies), exports have been weaker, but were a less noteworthy driver of economic growth, while services have remained strong. A group report stated that "In China's maturing economy, not only is manufacturing no longer the bellwether of the overall economy, but exports are no longer the bellwether of the manufacturing sector". While overactive financial markets look to the Middle Kingdom for signs of stability, the report echoed our sentiment: "Current market perceptions of China may be more thoroughly divorced from facts on the ground than at any time in our nearly five years of surveying the economy." Adding that "Global sentiment on China has veered sharply bearish--too bearish. While we have long cautioned clients against relying on rosy official views of the Chinese economy, we believe sentiment has swung substantially too far in the opposite direction." We maintain that Chinese authorities have the firepower to stabilise the economy as they redefine the economic model, unlike the US, EU and Japan, and that the central bank will maintain its accommodative stance. Although growth is slowing, it is still growing at a rapid pace.

Stabilising the economy would also reduce currency depreciation. Chinese Premier Li said "There is no basis for persistent depreciation of the yuan, China's economic performance is within a reasonable range, we have sufficient foreign exchange reserves and the trade surplus is growing - all these factors indicate the yuan's exchange rate can be kept basically stable at a reasonable level". He added that ongoing depreciation of the currency is not a policy option for renminbi internationalisation. The renminbi was one of the few currencies to appreciate against the dollar in August; the onshore currency was up 0.36% while the offshore gained 1.26%.

Historical Performance[1]

	2015 %	* Inception %
IDUSD Class	3.22	5.90
IDGBP Class	4.18	8.14
IDEUR Class	3.31	8.92
IDCNH Class	5.63	11.25
ODGBP Class	1.73	3.66

Performance Summary[1]

Index	Monthly Return %
Renminbi Bond Fund UI (Inst USD Class)	2.41
HSBC China Offshore Renminbi bond index (USD)	2.33
Offshore Chinese Renminbi (CNH)	1.26

Fund Prices[1]

Institutional Class	Price	Monthly Return %
USD	102.00	2.41
GBP	102.34	2.55
EUR	102.98	2.34
CNH	107.22	0.88
Ordinary Class	**Price**	**Monthly Return %**
GBP	103.10	2.42

Portfolio Statistics

Gross Redemption Yield	4.74%
Gross Running Yield	4.86%
Fund NAV (USD Millions)	21.2
Number of holdings	30
Number of countries	8
Duration	7.49

Fund Breakdown

Net Foreign Assets		Entity Type	
Rating	% NAV	Entity	% NAV
7 Star	51.13	Sovereign	8.83
6 Star	23.54	Quasi	63.71
4 Star	17.51	Corporate	19.64
3 Star	4.48	Supra	4.48
Total	96.66	Total	96.66

Credit Rating		Region	
Rating	% NAV	Region	% NAV
Aa	42.17	Asia Pacific	39.07
A	32.50	C&W Asia	17.51
Baa	21.99	Middle East	40.08
Total	96.66	Total	96.66

Portfolio Exposure by Country	% NAV
Abu Dhabi	6.50
China	23.54
Hong Kong	14.10
Kazakhstan	4.48
Qatar	24.58
Russia	17.51
Saudi Arabia	4.52
Singapore	1.43
Total	96.66

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Despite the change in the fixing methodology against the dollar back in August and slowing economic growth, Swift have reported that in August, the redback was the fourth most used currency for global payments at 2.79%, overtaking the Japanese yen's share of 2.76%. Swift said "our indicators confirm [the renminbi's] journey in becoming an international currency. There is a call to action for the financial community, which is essential to the renminbi's continued success"; some welcomed news for policymakers who are pushing for IMF reserve currency status.

Portfolio Review

The Fund's USD I Class was up 2.41% in September, while the HSBC Offshore Renminbi Bond Index gained 2.33%. Overall, a rally in the portfolio's Russia quasi-sovereign holdings and the appreciation of the offshore renminbi against the dollar were the main drivers of performance through September.

The best performing bond, Vnesheconombank (VEB) 5.942% 2023 rallied over 7 points; the yield fell around 135 basis points to 7.2%. Gazprom 8.625% 2034, another outperformer, tightened 90 basis points to a spread of 520 basis points over. The bond remains attractive; trading at a yield of 7.6%.

The diversification within the portfolio continues to provide attractive risk adjusted returns; Russian holdings have in fact been the largest contributors to performance so far this year, followed by Qatar.

Outlook

After a tumultuous three months across asset markets, we head into the final quarter of 2015 where market focus will remain on: the fragile global economy, the repercussions of more recent micro blowouts (read VW and Glencore) and the Fed's rate decision.

With little change in Fed Fund guidance since the last FOMC minutes, there still appears to be a slight split in the Fed camp over this long-anticipated decision. Chicago Fed President, Charles Evans has said that the US inflation and dollar headwinds may not subside until the middle of next year and has therefore called for the initial rate hike to be delayed; thus allowing the Fed to navigate through these headwinds. Other Fed members have been quick to state that short term interest rates will likely be raised before the end of the year. The market however appears to be ignoring this more hawkish Fed sentiment; at the end of the month Fed fund futures were pricing in the likelihood of a rate rise in December at 41.2%, with a probability of a move in October at only 16%, and 63.8% in March 2016. Fed Chair Janet Yellen voiced last month that the data dependent FOMC would like to see further evidence of the labour market improving and inflation moving closer to the 2% target; the latest PCE price index reading (the Fed's preferred measure of inflation) was well below, at only 0.3% year-on-year in August. Whatever it may be, Fed members' verbal guidance remains cautious so as to not cause further uncertainty in already volatile markets.

Softness in the global economy, dragged lower by emerging market weakness, is not just getting in the the way of the Fed's rate decision, but it's troubling the International Monetary Fund; the IMF cut its global growth forecasts to 3.1% from 3.3%. Ahead of the release, IMF Head Christine Lagarde discussed the implications of the "major economic transitions", i.e. China's transition to the new growth model and the impending US rate hike, which are creating "spillovers and spillback." She did however acknowledge that these shifts are "necessary and healthy… They are good for China, good for the United States, and good for the world." The World Trade Organisation has also turned a bit more pessimistic, slashing its growth forecasts to 2.8% from 3.3% previously adding that a US rate hike, and further slippage in China could also hamper global growth further.

The current global backdrop continues to favour creditor nations over debtor nations; any de-risking globally is negative for debtor nations as capital flows back to creditor nations. The search for yield will continue making the Fund's gross redemption yield of 4.74% look compelling.

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.

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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)

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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