# Stratton Street UCITS – Next Generation Global Bond Fund UI

Factsheet - January 2021

## Fund Commentary

### Summary

- **The Fund's QAUSD class fell 1.68%**
- **Mixed month for asset markets**
- **Democrats win control of Senate: focus turns to the USD1.9tn stimulus package**
- **Powell cautions recovery uncertain, dependent on vaccine roll-out**
- **The US dollar index (DXY) gained 0.72%**

### Market Review

January was a mixed month across asset markets. Having started the month on a firm footing, the S&P 500 ended the month down 1.11%. Broadly, emerging equities fared better than developed markets. UST yields backed up, although recovered some ground into month end: The yield on the UST 10 year backed up 15 bps to 1.07%. The 2s30s spread widened 20bps to 172bps. IG credit markets broadly conceded ground against this backdrop. The US dollar index (DXY) gained 0.72%.

The reflation trade drove markets in early January as the market looked past Trump's impeachment proceedings to the Biden administration's policies, particularly the USD1.9tn proposed fiscal package following the Democrat victory in the Georgia Senate runoff. Plus, vaccination rollout boosted hopes for recovery of the post pandemic economy. USTs came under pressure on the prospect of further stimulus and unsettling 'taper talk' comments from some Fed speakers. Importantly, Jerome Powell rebuffed any taper talk as premature. Into month end markets traded with more of a risk-off bias as a combination of factors weighed on sentiment. This included a step up in market volatility and concern about the meteoric rise of GameStop's share price. Plus, Jerome Powell cautioned that the recovery is uncertain. With the advent of new virus strains it may be the case that new versions/boosters are required while vaccine roll-out is constrained by supply. Plus, as the month progressed stimulus enthusiasm eased: Biden would require some Republican support in the senate to reach the 60-vote threshold for legislation to pass or could use the reconciliation budget process.

The US Q4 GDP data showed the economy grew at a 4% annualised rate although the economy declined 3.5% yoy in 2020. However, the IMF's latest forecasts predict that the US and China will recover strongly from the pandemic with their economies at the end of 2022 only 1.5% smaller than the pre-pandemic path predicted. The IMF expects the global economy will now grow by 5.5% in 2021.

### Portfolio Review

In January, the Fund's QAUSD class fell 1.68% reflecting a general consolidation across IG credit markets. Holdings in Mexico, Abu Dhabi and the US were the main detractors from performance in January. We continue to favour our holdings in these markets which screen attractively on our models. For example, at the time of writing Aa2/AA/AA rated Mamoura Diversified Global Holdings (MDGH-GMTN BV) 6.875% 2041 trades on a yield of 2.93% and 4.6 credit notches cheap on our models. Split rated Ba2/BBB/bb- Pemex 6.625% 2035 trades on a yield of 7.11% and using a best rating trades 5.3 credit notches cheap on our models.

Holdings in OCBC 4.25% 2024, Sinopec Group 4.375% 2024, Abu Dhabi National Energy Company (TAQA) 4.875% 2030 were among the top contributors to performance. The Fund's China holdings were resilient. Importantly, the Biden administration has announced a delay for the Chinese military investment-ban policy which will now not come into effect until May 27th while it undertakes a review: towards the end of 2020 CNOOC Ltd was named to be added to a list of military companies barring US investors holding their securities. The Fund holds a position in CNOOC 4.375% 2028. The Fund's 8% CNH position versus the US dollar contributed to performance: the renminbi (CNH total return) gained 0.98% against the US dollar. During the month we added a new position in QNB Finance 1.625% 2025 and Standard Chartered Plc 5.7% 2022. We continue to target a high credit quality with a weighted average rating of A2.

### Outlook

Given the scale of 2020's pandemic-induced economic decline, 2021 should see a strong economic recovery. It is far too early for central banks to be considering a reversal of last year's rate cuts and the abundant liquidity provided to date will help support financial markets for some time.

Despite the likely sharp recovery in 2021, it is far from certain that the recovery will be long lasting. Based on current IMF forecasts, combining 2020 and 2021 growth rates will still see many countries below the GDP levels of 2019 with only three of the G20 countries above that level even by the end of this year. The fact that many countries will be below 2019's output even at the end of this year means that central banks are highly unlikely to be raising rates in 2021. Further fiscal stimulus packages may help, but even once the virus is under control, the world will be very different to the one we saw in 2019. The Fed has stated on a number of occasions that rates are likely to remain on hold until at least 2023.

Although the Fund currently only holds investment grade bonds (best rating basis), credit spreads are determined by relative pricing. With US High Yield trading at 4.15%, well below the lows of the past decade, investment grade bonds, particularly the undervalued ones held within the portfolio, have plenty of scope to rally further.

| Cumulative Performance | 1m | YTD | 1Yr | 3Yr | 5Yr | Since Inception (Ann.) |
|---|---|---|---|---|---|---|
| Class QAUSD | -1.68% | -1.68% | 5.82% | 25.05% | NA | 6.59% |
| Class QDUSD | -1.67% | -1.67% | NA | NA | NA | NA |
| Class QAEUR Hedged | -1.68% | -1.68% | 4.31% | 16.47% | NA | 4.92% |
| Class QDEUR Hedged | -1.71% | -1.71% | 4.34% | 16.45% | NA | 4.88% |
| Class QDGBP Hedged | -1.69% | -1.69% | 4.21% | 19.05% | NA | 5.65% |

| 12 month Performance | 31/12/2015 - 31/12/2016 | 31/12/2016 - 31/12/2017 | 31/12/2017 - 31/12/2018 | 31/12/2018 - 31/12/2019 | 31/12/2019 - 31/12/2020 |
|---|---|---|---|---|---|
| Class QAUSD | N/A | N/A | -2.67% | 17.81% | 9.93% |
| Class QDUSD | N/A | N/A | N/A | N/A | N/A |
| Class QAEUR Hedged | N/A | N/A | -5.46% | 14.62% | 8.18% |
| Class QDEUR Hedged | N/A | N/A | -5.40% | 14.54% | 8.22% |
| Class QDGBP Hedged | N/A | N/A | -4.33% | 15.91% | 8.17% |

## Fund Objectives

The Fund is designed to provide investors with a relatively high yield whilst achieving a superior risk/reward profile.

In seeking to achieve its objective, the Fund will comprise of the most attractively undervalued global bonds, as identified by the Portfolio Manager through its proprietary investment process.

## Further Information

Before making an investment and investor should ensure that they have read and understood the Key Investor Information Document and Prospectus, which can be found at https://www.strattonstreet.com and https://fondsfinder.universal-investment.com/en, where the risks associated with an investment in the Fund are set out in full.

Information in this fact sheet is at the last valuation point of the month of issue (except where indicated).

## Performance Summary

| | |
|---|---|
| Stratton Street UCITS – Next Generation Global Bond Fund UI QAUSD | -1.68% |
| Bloomberg Barclays Global Aggregate Total Return Index Value Hedged USD | -0.54% |

## Contact Information


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*Source: Stratton Street Capital LLP, Bloomberg.*

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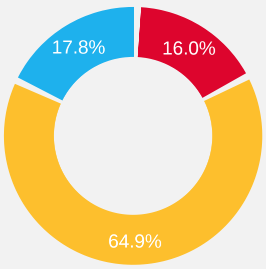
## Portfolio Statistics

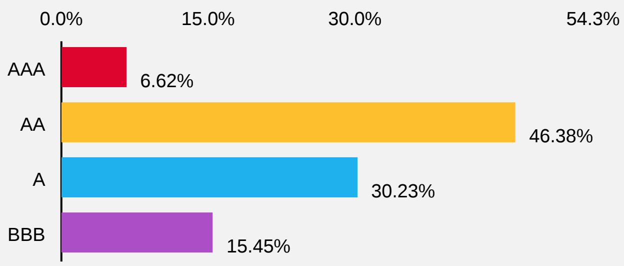
| | |
|---|---|
| Gross Redemption Yield | 2.95% |
| Gross Running Yield | 4.24% |
| 12 Month Historic Yield (Class QD GBP) | 3.12% |
| Number of Holdings | 37 |
| Number of Countries | 9 |
| Modified Duration | 9.57 |
| Average Credit Rating of Portfolio | A2 |

## Entity Breakdown (% NAV)




16.0% - Sovereign
64.9% - Quasi
17.8% - Corporate

## Credit Rating Breakdown (% NAV)




## Regional Breakdown (% NAV)

| | |
|---|---|
| Abu Dhabi | 24.55% |
| Qatar | 22.20% |
| China | 11.62% |
| United States | 10.91% |
| Mexico | 9.96% |
| Chile | 5.86% |
| United Kingdom | 4.85% |
| Russia | 4.44% |
| Singapore | 4.29% |

## Net Foreign Assets Breakdown (% NAV)

| | |
|---|---|
| 7 Star | 51.05% |
| 6 Star | 0.00% |
| 5 Star | 4.44% |
| 4 Star | 22.33% |
| 3 Star | 20.87% |

## Fund Information

| | |
|---|---|
| Fund Launch Date | 19 December 2016 |
| Fund Size | US$79.61m |
| Gross Exposure | 98.69% |
| Pricing Frequency | Daily |
| Domicile | Luxembourg |
| Exit Charge | None |

| Share Class | QA USD | QD USD | QA EUR Hedged | QD EUR Hedged | QA GBP Hedged | QD GBP Hedged | RD EUR Hedged |
|---|---|---|---|---|---|---|---|
| NAV per Share | 126.35 | 103.08 | 121.85 | 104.09 | N/A | 107.62 | N/A |
| Minimum Initial Investment | €100,000 | $100,000 | £100,000 | €100,000 | $100,000 | £100,000 | No minimum |
| Minimum Additional Investment | None | None | None | None | None | None | None |
| Entry Charge | Up to 3% | Up to 3% | Up to 3% | Up to 3% | Up to 3% | Up to 3% | Up to 3% |
| Ongoing Charge (as at 31/12/2019) | 1.05% | 1.07% | N/A | 0.99% | 1.68% | 1.01% | N/A |
| Launch Date | 02/06/2017 | 24/02/2020 | 19/12/2016 | 23/12/2016 | Inactive available on demand | 19/12/2016 | Inactive available on demand |
| ISIN | LU1483929433 | LU1483929193 | LU1483929516 | LU1483929276 | tbc | LU1483929359 | LU1483929789 |
| Bloomberg Ticker | SNGGQAU LX | SNGGQDU LX | SNGGQAE LX | SSNGQDE LX | tbc | SSNGQDG LX | tbc |

*Source: Stratton Street Capital LLP, Bloomberg.*

[1] *12M Historic Yield is calculated as the sum of the last two declared dividends per share as a percentage of the current NAV per share.*

## Important Information

This marketing material has been approved in the UK by Stratton Street Capital LLP which is a limited liability partnership incorporated and registered in England and Wales under partnership OC306260 with its registered office at 200 Aldersgate Street, London EC1A 4HD. Stratton Street Capital LLP is regulated by the Financial Conduct Authority.

The distribution of Shares in the Fund in Switzerland will be exclusively made to, and directed at, qualified investors ("Qualified Investors") as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended, and its implementing ordinance. Accordingly, the Fund has not been and will not be registered with the Swiss Financial Market Supervisory Authority. The Fund's Prospectus and/or any other offering materials relating to the Shares may be made available in Switzerland, free of charge, solely by the Swiss representative and/or authorized distributors to Qualified Investors. The Swiss representative is 1741 Fund Solutions AG and the Swiss paying agent is Tellco AG. In respect of the Shares distributed in or from Switzerland, the place of performance and jurisdiction is the registered office of the Swiss representative.

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An investment in the Fund would not constitute a substantial part of a typical investor's investment portfolio and is not suitable for an investor who cannot sustain a loss on their investment. There is no guarantee of the Fund's future performance and past performance is not a reliable indicator of future performance. The value of your investment and the income derived from it can go down as well as up, and you may not get back the money you invested. The risks associated with making an investment in the Fund are described in the Prospectus but investors should note, in particular, the following: 1) the Fund may invest a part of its assets in debt securities issued by governments or companies. As a result, it is subject to the risk of the insolvency of the issuers of the debt in which they invest; 2) The Fund is subject to the risk of the insolvency of its counterparties; and 3) The Fund invests in one or more financial derivative instruments. While the use of derivatives can be beneficial, derivatives also involve risks different from, and in certain cases, greater than, the risks presented by more traditional investments. The use of derivatives to hedge against losses may also reduce the profit opportunities of the Fund.

Attention Singapore Investors: In the event of any conflict or inconsistency between the information set out in this document and that of the Prospectus, the information set out in the Prospectus shall prevail. Please take note of the notice to Singapore Investors in the Prospectus.