Stratton Street

Stratton Street UCITS – Next Generation Global Bond Fund UI

Factsheet - April 2021

Fund Commentary

Summary

- **The Fund's QAUSD class gained 1.34%**
- **USTs and IG credit rally**
- **Economic recovery continues, supported by vaccine rollout and stimulus**
- **Fed: economy needs to show substantial further progress towards goals**
- **Powell states it is premature to talk of tapering**
- **US dollar index (DXY) declined 2.09%**

Market Review

April was broadly a positive month across asset markets. Economic data releases continued to point to a US recovery as the stimulus took effect, the economy continued to reopen, and vaccination rollout continued with President Biden surpassing his goal of 200m doses in the first 100 days of office. Notably, US Q1 GDP increased 6.4% on a quarterly annualised basis. Biden also proposed the USD2.25tn American Jobs Plan and USD1.8tn American Families Plan to be funded through tax rises, although the plans are likely to be modified in order to get approved.

USTs had already made a brutal adjustment in Q1 to reflect the improved economic outlook, and April was a better month: the yield on the UST 10-year tightened 11bps to 1.63% although the yield backed up into month end from a closing yield of 1.54%. The 5s30s spread tightened 3bps to 144bps at month end. Equity and commodity markets generally posted solid gains: The S&P 500 ended the month up 5.24%, Brent Crude gained 5.84% and copper gained 12.1%. Against this backdrop, IG and HY markets broadly gained while the USD dollar index (DXY) declined 2.09%. Eurozone Government Bonds came under some pressure as investors looked to an economic recovery as the vaccine rollout gained momentum.

Central Banks' policy response remained a focus. The Bank of Canada announced it would start to taper its weekly asset purchases as the outlook for the economy has improved but the Fed, BOJ and ECB continued with their supportive policy stance. While Jerome Powell acknowledged that the US economy had reached an 'inflection point', implying a period of faster growth and job creation, he also emphasised that the economy still needs to show substantial further progress towards the Fed's goals and that an uptick in inflation is expected to be largely transitory. He continued to dismiss 'taper talk' as premature. Similarly, Christine Lagarde said the ECB Governing Council "did not discuss any phasing out of PEPP because it is simply premature".

Portfolio Review

The Fund's QAUSD class gained 1.34% as IG credit markets performed better in April supported by the recovery in USTs. Having come under pressure in March, the Fund's holdings in Abu Dhabi were amongst the top contributors in April. Stronger oil/energy prices are credit positive for the Abu Dhabi sovereign along with quasi-sovereign positions such as Pemex and Gazprom which were also among the top performers. Split rated Pemex (rated Ba2/BBB/BB-) was also helped by continued gains in the high yield sector on the back of economic recovery prospects. Pemex 6.625% 2035 continues to look attractive trading on a yield of 6.99% and ~5.6 credit notches cheap. The Fund's 8.84% renminbi position (CNH) was a small positive contributor as the renminbi gained 1.65% against the US dollar. We continue to target higher quality credits, particularly quasi-sovereign and sovereign issuers, with a portfolio weighted average rating of A2.

Outlook

There is no doubt that the reopening of economies is leading to a strong rebound in economic growth and in turn reflected in strong readings for GDP growth and the labour market. These are backward looking indicators, however more timely indicators such as the monthly surveys of purchasing managers in the US are showing signs that the best may be behind us. To be clear, the data is still very strong, just not as strong one might expect.

The pace of expansion is important for sentiment regarding inflation. If inflation does not materialise when growth is strong, it is unlikely to materialise when growth is less strong. Inflation fears have been commonplace for almost half a century, but inflation has never materialised. So, a slowdown in growth will be watched carefully and, in our view, investors are likely to conclude that inflation is not going to be a problem this time either.

The reality, we believe, is that the underlying fundamentals are shifting in the direction of falling inflation. Working age populations are shrinking in much of the developed world with Japan, Germany, China, and the US all seeing a contraction in the 15–64-year-old age group. Beneath the surface is the 'Japanification' of the West, although what we are experiencing today is just the tip of the iceberg compared to what the future could have in store.

Although the Fund currently only holds investment grade bonds (best rating basis), credit spreads are determined by relative pricing. With US BB High Yield trading around 3.4%, close to record lows, investment grade bonds, particularly the undervalued ones held within the portfolio, have plenty of scope to rally further. Investors still need income, increasingly so in a world of ageing populations, and that backdrop should be supportive for fixed income assets in general.

Cumulative Performance	1m	YTD	1Yr	3Yr	5Yr	Since Inception (Ann.)
Class QAUSD	1.34%	-3.81%	8.04%	26.81%	N/A	5.56%
Class QDUSD	1.34%	-3.80%	7.97%	N/A	N/A	N/A
Class QAEUR Hedged	1.36%	-4.01%	6.84%	18.63%	N/A	4.06%
Class QDEUR Hedged	1.34%	-4.05%	6.87%	18.58%	N/A	4.02%
Class QDGBP Hedged	1.33%	-3.90%	7.38%	21.08%	N/A	4.77%

12 month Performance	31/03/2016 - 31/03/2017	31/03/2017 - 31/03/2018	31/03/2018 - 31/03/2019	31/03/2019 - 31/03/2020	31/03/2020 - 31/03/2021
Class QAUSD	N/A	N/A	5.12%	5.47%	10.66%
Class QDUSD	N/A	N/A	N/A	N/A	10.55%
Class QAEUR Hedged	N/A	N/A	1.90%	3.03%	8.98%
Class QDEUR Hedged	N/A	N/A	1.89%	2.85%	9.17%
Class QDGBP Hedged	N/A	N/A	3.04%	4.13%	8.98%

Source: Stratton Street Capital LLP, Bloomberg.

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	1.34%
Bloomberg Barclays Global Aggregate Total Return Index Value Hedged USD	0.26%

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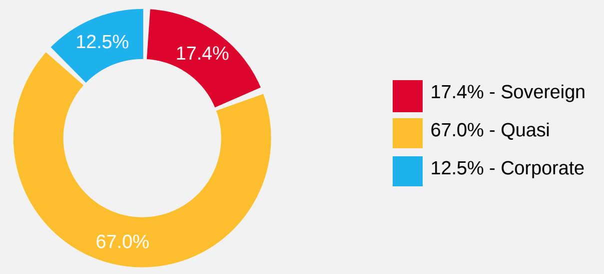
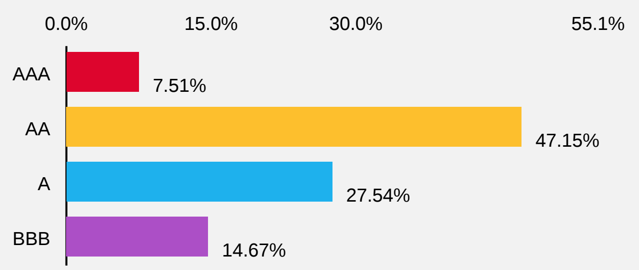
Portfolio Statistics

Gross Redemption Yield	3.27%
Gross Running Yield	4.23%
12 Month Historic Yield (Class QD GBP)	3.25%
Number of Holdings	35
Number of Countries	9
Modified Duration	9.95
Average Credit Rating of Portfolio	A2

Entity Breakdown (% NAV)



Credit Rating Breakdown (% NAV)



Regional Breakdown (% NAV)

Abu Dhabi	24.82%
Qatar	22.82%
China	12.14%
United States	11.88%
Mexico	9.99%
Chile	6.06%
Russia	4.68%
Singapore	2.37%
United Kingdom	2.11%

Net Foreign Assets Breakdown (% NAV)

7 Star	50.01%
6 Star	0.00%
5 Star	4.68%
4 Star	20.31%
3 Star	21.87%

Fund Information

Fund Launch Date	19 December 2016
Fund Size	US$74.89m
Gross Exposure	96.87%
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	123.61	99.23	118.96	99.96	N/A	103.48	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 31/12/2020)	1.02%	1.04%	0.97%	0.94%	N/A	0.97%	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