Renminbi Bond Fund

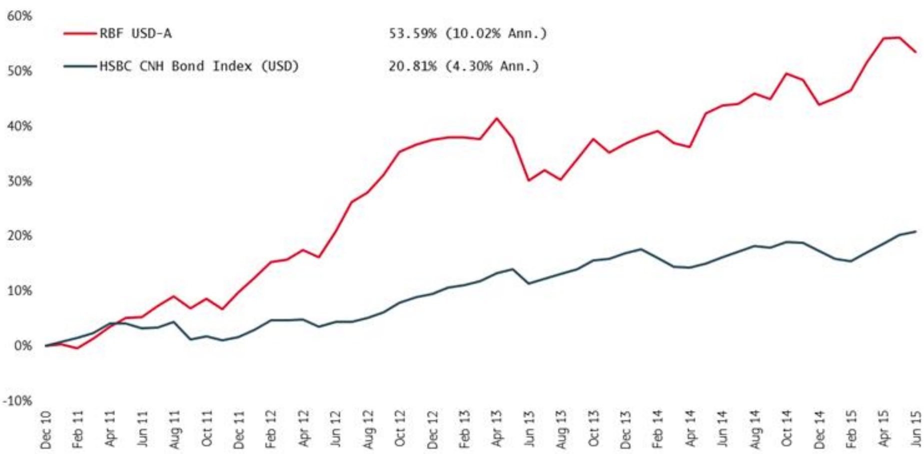
June 2015

Stratton Street

The Fund is designed to provide a high income from a diversified range of high quality investment grade Asian issuers, while providing exposure to the Chinese currency.

Investments are exclusively in creditor countries that can repay debts issued. China is a very large creditor, with huge foreign exchange reserves, and continues to run large surpluses, suggesting the renminbi remains undervalued and will appreciate longer term.

Performance Comparison – RBF Against Dim-Sum (CNH) Bond Index[1]



The Renminbi Bond Fund (USD Class – A) was launched at $100 on 30th November 2007. The comparison above is from end December 2010 when the HSBC Offshore Renminbi Bond Index (USD) launched. The Renminbi Bond Fund invests in Pan Asian investment grade bonds and is not constrained to offshore Renminbi bonds. All returns include dividends reinvested. Past performance is not a reliable indicator of future performance.

Trailing Performance (%)[1, 4]

Class A	USD	GBP	SGD
1 Month	-1.70	-1.63	-1.64
3 Months	1.23	1.35	1.33
Year to date	6.71	6.89	6.91
1 Year	6.78	7.10	6.96
3 Year (ann.)	8.33	8.46	8.26
5 Year (ann.)	10.89	10.90	10.61
Since Inception (ann.)	10.27	10.39	9.65

Historical Performance – USD Class A (%)[1]

	2008	2009	2010	2011	2012	2013	2014	2015	Since Inception
Class A (USD)	5.59	11.96	15.33	9.73	25.32	-0.51	5.19	6.71	109.84

Performance Summary (%)[1]

Fund/Index/Currency	Monthly Return
Renminbi Bond Fund (USD Class-A)	-1.70
HSBC Asian High Grade Bond Index	-0.83
iBoxx USD Treasuries TR Index	-0.98
HSBC China Offshore renminbi Bond Index (USD)	0.41
Chinese renminbi (CNY)	-0.05
Offshore Chinese renminbi (CNH)	-0.04

- **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**

Portfolio Statistics

Gross Redemption Yield (%)	4.89
Gross Running Yield (%)	5.18
Fund NAV (USD Millions)	118.65
Number of holdings	42
Number of countries	10
Duration	7.91

Risk Statistics Since Inception[5]

Information Ratio	3.53
Sharpe Ratio	1.41
Sortino Ratio	2.46
Annualised Standard Deviation	9.07

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 remain flexible and data-dependant. Fed members appeared dovish after they revised their forecast for rate increases,

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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%

Portfolio Review

As risk sentiment faltered during the month the Fund's USD A class fell -1.70%. 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 4.9.

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.

Fund Breakdown[3]

Net Foreign Assets		Credit Rating	
Rating	% NAV	Rating	% NAV
7 star	53.01	Aaa	-
6 star	23.75	Aa	42.54
5 star	-	A	30.29
4 star	19.35	Baa	25.42
3 star	3.70	Ba [6]	1.56
Total	99.81	Total	99.81

Portfolio Exposure by Country	% NAV
Abu Dhabi	9.01
China	22.91
Hong Kong	12.67
India	0.35
Kazakhstan	3.35
Malaysia	0.84
Qatar	26.52
Russia	19.35
Saudi Arabia	3.99
Singapore	0.82
Total	99.81

Entity Type	
	% NAV
Sovereign	8.83
Quasi-Sovereign	68.72
Supra	3.36
Corporate	18.90
Total	99.81

Historical Performance (%)[1]

	USD	GBP	SGD	JPY	AUD[2]	EUR[2]	CNH[2]	CHF[2]
Class A								
Dec 2007	0.21	0.22	0.20	0.21	-	-	-	-
2008	5.59	7.20	3.00	6.00	-	6.32	-	-
2009	11.96	11.22	11.49	10.82	-	21.65	-	-
2010	15.33	14.90	14.67	12.29	-	13.91	-	-
2011	9.73	9.62	9.24	8.66	-	9.95	-	-
2012	25.32	25.38	24.99	25.43	14.24	24.98	22.34	21.73
2013	-0.51	-0.52	-0.67	-0.37	1.76	-0.86	-1.93	-1.04
2014	5.19	5.43	5.12	5.01	7.62	5.09	8.01	4.89
2015 YTD	6.71	6.89	6.91	6.44	7.65	6.47	6.40	5.94
Class B[2]								
2012	22.09	22.07	21.86	22.17	14.12	21.77	22.06	21.48
2013	-0.75	-0.80	-0.91	-0.75	1.49	-1.11	-2.17	-1.31
2014	4.94	5.17	4.86	5.08	7.34	4.83	7.72	4.63
2015 YTD	6.57	6.75	6.78	6.43	7.53	6.34	6.26	5.81

Fund Prices[1]

	Class A		Class B	
	Price	Return %	Price	Return %
USD	169.19	-1.70	122.78	-1.72
GBP	164.29	-1.63	123.33	-1.66
SGD	161.89	-1.64	122.29	-1.66
JPY	20,061.23	-1.73	13,560.41	-1.76
AUD	122.13	-1.60	124.03	-1.61
EUR	111.62	-1.73	121.43	-1.76
CNH	124.13	-1.67	123.93	-1.69
CHF	120.24	-1.79	120.08	-1.82

Renminbi Bond Fund

RBF USD Class-A Monthly Returns (%)[1]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2007												0.21	0.21
2008	2.18	0.51	1.63	-3.17	-0.42	-0.08	0.04	0.47	-2.94	-7.80	9.00	7.10	5.59
2009	-3.60	-0.20	3.67	7.01	3.00	-0.27	2.65	2.27	3.57	0.45	-5.38	-1.18	11.96
2010	0.22	0.12	3.10	1.13	-2.58	3.63	2.91	2.26	2.63	0.66	-1.54	2.02	15.33
2011	0.42	-0.76	1.70	2.24	1.52	0.10	1.99	1.52	-2.02	1.69	-1.73	2.80	9.73
2012	2.40	2.60	0.39	1.58	-1.14	3.93	4.53	1.39	2.43	3.29	0.91	0.62	25.32
2013	0.34	0.03	-0.22	2.70	-2.49	-5.67	1.48	-1.32	2.96	2.64	-1.76	1.17	-0.51
2014	0.97	0.70	-1.50	-0.56	4.43	1.06	0.16	1.36	-0.68	3.13	-0.70	-3.08	5.19
2015	0.87	0.99	3.47	2.84	0.14	-1.70							6.71
										Since Inception			109.84

Fund Information

Investment Coverage:	China and Asia
Target Capacity:	Strategy uses very liquid assets, so no specific target
Underlying Assets:	Asian fixed income, initially hard currency denominated sovereign and corporate debt hedged into renminbi. In time renminbi denominated debt as well.
Minimum Subscription:	USD 100,000 initial, USD 10,000 subsequent or currency equivalent.
Management Fee:	A Class 1%. B Class 1.25%. (The fund can charge up to 1.5% management fee as set out in the Scheme Particulars.)
Initial Fee:	Nil for institutional clients, others up to 3%.
Redemption Fee:	Nil

Performance Fee:	Nil
Dealing:	Daily (Business days)
Valuation Currencies:	USD, GBP, SGD, JPY, EUR, CNH, CHF, AUD.
Subscription Notice:	1 business day
Withdrawal Notice:	1 business day
Investment Manager:	Stratton Street Capital LLP
Listed:	Irish Stock Exchange
Domicile / Legal Status:	Guernsey PCC structure
Auditors:	KPMG
Prime Brokers:	Societe Generale Newedge UK Limited
Administrators:	Northern Trust International Fund Administration Services (Guernsey) Ltd
Depositary:	Northern Trust (Guernsey) Limited

Class A	Sedol	ISIN	Ticker
USD	B284YJ4	GG00B284YJ47	RENBOFU GU
GBP	B284YK5	GG00B284YK51	RENBOFS GU
SGD	B284YL6	GG00B284YL68	RENBOFG GU
JPY	B284YM7	GG00B284YM75	RENBOFY GU
EUR	B284YN8	GG00B284YN82	RENBOAU GU
CNH	B5W1GZ2	GG00B5W1GZ29	RENBCNA GU
CHF	B4PT593	GG00B4PT5937	RENBOCA GU
AUD	B8L1WQ7	GG00B8L1WQ76	RENBOAA GU

Class B	Sedol	ISIN	Ticker
USD	B77KDD5	GG00B77KDD54	RENBOUB GU
GBP	B6TMSF9	GG00B6TMSF96	RENBOGB GU
SGD	B76BLK2	GG00B76BLK24	RENBSGB GU
JPY	B76LRL5	GG00B76LRL58	RENBOYB GU
EUR	B6ZXMM1	GG00B6ZXMM19	RENBOEB GU
CNH	B3ZYM45	GG00B3ZYM459	RENBCNB GU
CHF	B6QFL74	GG00B6QFL742	RENBOCB GU
AUD	B8L1WR8	GG00B8L1WR83	RENBOBA GU

Footnotes

1. Bloomberg (as at end of month)
2. Classes launched 1 February 2012 except AUD class which launched 2 July 2012.
3. 7 star over 100% of GDP, 6 star 100% to 50% of GDP, 5 star 50% to 25% of GDP, 4 star 25% to -25% GDP, 3 star -25% to -50%, 2 star -50% to -100%, 1 star less than -100%.
4. Primary share class and largest classes by assets.
5. Stratton Street, Bloomberg. Calculated since inception on an annualised basis (where applicable). Please note that risk analytics figures are calculated on gross returns whereas the performance figures are based on net asset value (NAV) returns.
6. 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.

Fund performance data includes dividends re-invested where a class has declared a dividend