SEI UK Strategic Portfolios

Quarterly Investment Review

Q1 2019

For use by advisers of regulated intermediaries in accordance with all applicable laws and regulations.

SEI New ways. New answers.®

seic.com

In this issue

Summary

Market overview

In stark contrast to the final quarter of 2018, the first quarter of 2019 saw strong equity market gains across the globe. The US equity market, as measured by the S&P 500 Index, delivered its best quarterly performance since 2009 with a return of 13.5% in USD terms, with megacap stocks posting even stronger gains. Credit and commodity markets were also beneficiaries of the risk on environment, with spreads erasing much of the widening that occurred over November and December. The BofAML US High Yield Constrained Index, hedged into GBP, returned 6.8% over Q1 while a recovery in energy prices led the Bloomberg Commodity Index to a gain of 6.3%, in USD terms.

On the economic front, recent data (Source: SEI) continued to disappoint. Preliminary US services and manufacturing indicators released towards the end of the quarter that fell short of forecasts, accompanied with an inversion in the US yield curve (with 10-year yields falling below 3-month rates), increased concerns about the near-term economic outlook. With the US central bank no longer expected to raise interest rates this year, and having signalled a pause to its balance sheet run-off in September, government bonds generated positive returns over the quarter. UK government bond yields declined in sympathy with US yields, with the 10-year gilt falling by almost 30 basis points to end the quarter at 1.0%.

Portfolio positioning

The stability-focused funds delivered returns of between 1.5% and 4.1% for the quarter. The strongest contributor came from the portfolios' allocation to Global Managed Volatility, which accounts for the majority if not of all the equity exposure across the stability range, as the strategy captured two-thirds of the broad equity market upside over the quarter. The funds' exposure to fixed-income strategies was also accretive to performance, both from an absolute and relative perspective. Our fixed-income managers, on the whole, outperformed their respective indices largely as a result of overweight credit positions.

The growth-focused strategies delivered returns of between 5.8% and 8.6% over the quarter. Exposure to risk assets dominated outcomes over the period, although from a relative perspective, the portfolios were held back by the overweight to Value within a number of the equity building blocks. Value was the biggest laggard over the quarter as investors favoured growth in the low interest rate environment promised by a dovish US Federal Reserve.

Economic outlook

At the end of last year, our view was that most equity markets were deeply oversold, overstating the weakness in economic fundamentals and the various uncertainties that plagued global markets over much of 2018. Today, there's no denying that a synchronised global slowdown is underway. However, we do not think that the world will soon fall into recession.

We see a good opportunity in Emerging Market equities, and have added to our overweight position over the quarter. China is clearly key, and we are optimistic that the country's economic conditions will improve as it begins to feel the impact of easier economic and monetary policies.

Within global equities, our outlook for Value remains strong. To us, valuation dispersions point to the strong potential for outsized outperformance from most regions. The US is the strongest outlier, where valuation dispersions are currently approaching the peak of the Tech Bubble of the late 1990s. As such we are maintaining our overweight to attractive value managers, at the expense of momentum and fundamental stability managers.

Source: SEI, Bloomberg, as at 31 March 2019.

SEI UK Strategic Portfolios: Performance

Stability-focused funds

	3 month	1 year	2 year*	3 year*	4 year*	5 year*
SEI Defensive Fund	1.5%	0.8%	0.2%	1.3%	1.0%	1.4%
SEI Conservative Fund	2.8%	2.3%	0.9%	3.1%	2.4%	2.9%
SEI Moderate Fund	4.1%	3.2%	1.4%	4.8%	3.8%	4.4%

Source: SEI, as at 31 March 2019. Net of fees, Sterling Wealth A Distributing share class. Past performance is not a reliable indicator of future results. *Indicates annualised data.

Contribution	Positioning and Performance Drivers	Key Manager(s) / Building Blocks
+ (Absolute)	Our strategic allocation to low volatility equities aided performance	SEI, LSV, Acadian, Wells Capital
+ (Absolute)	Our strategic allocation to fixed-income assets contributed to absolute returns	UK Core Fixed Interest, Emerging Market Debt
+ (Relative)	Underweight government and overweight credit positioning within our core fixed-income strategies aided relative performance as did country selection and an overweight to corporate debt within the Emerging Market Debt strategy	UK Core Fixed Income: Wellington Emerging Market Debt: Stone Harbor

Theme	Active Position	Rationale/Adjustment
Expect reacceleration in global growth following recent softening in economic data	Underweight G3 duration, overweight inflation, moderate credit overweight	We see better value outside the core developed government markets. Credit valuations have improved, although late cycle expansion risks restrain positioning
Relative value in non-core markets	Preference for emerging market debt	An attractive yield differential between emerging and developed markets and a dovish US Federal Reserve warrant a favourable outlook for the asset class

Growth-focused funds

	3 month	1 year	2 year*	3 year*	4 year*	5 year*
SEI Core Fund	5.8%	2.6%	2.0%	6.8%	4.8%	5.7%
SEI Balanced Fund	6.7%	2.5%	2.2%	8.1%	5.8%	6.7%
SEI Growth Fund	7.6%	2.6%	2.4%	9.6%	6.8%	7.9%
SEI Aggressive Fund	8.6%	3.4%	3.1%	10.9%	7.8%	9.1%

Source: SEI, as at 31 March 2019. Net of fees, Sterling Wealth A Distributing share class. Past performance is not a reliable indicator of future results. *Indicates annualised data.

Contribution	Positioning and Performance Drivers	Key Manager(s)
+ (Absolute)	Our strategic allocation to global and domestic equities was the primary contributor to absolute performance	N/A
+ (Absolute)	Our strategic bias to small cap equities within our equity allocation aided absolute performance	LSV, ArrowMark, William Blair & Co, Quoniam
+ (Relative)	Positive security selection within Emerging Market Equities (most notably within IT and energy) and Emerging Market Debt (country selection and an overweight to corporate debt) enhanced returns	Emerging Market Equities: RWC, Lazard Emerging Market Debt: Stone Harbor
− (Relative)	Our overweight to valuation focused managers globally as well as stock selection in the UK detracted from relative performance	Poplar, SNAM, Maj, Jupiter

N/A signifies that contribution was derived from asset allocation, rather than one or more specific investment managers.

Theme	Active Position	Rationale/Adjustment
Valuation orientated strategies attractive	Overweight valuation-focused managers	We retain strong conviction in valuation-focused strategies, as valuation dispersions remain near all-time historical wides
Expect reacceleration in global growth following recent softening in economic data	Overweight emerging market equities, underweight developed market equities	We view emerging market valuations as well as a softer tone from the US Federal Reserve as supportive for the asset class

Global Market Performance

Representative market indices

Equity Indices	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
MSCI World Index *(Net) (Hedged) (GBP)*	12.1%	12.1%	5.4%	7.1%	10.2%	6.2%	7.7%
FTSE UK Series All Share Index *(GBP)*	9.4%	9.4%	6.4%	3.8%	9.5%	6.0%	6.1%
Russell 1000 Index *(Net 30%) (USD)*	13.8%	13.8%	8.7%	11.0%	12.9%	9.5%	10.0%
MSCI Europe ex UK Index *(Net) (EUR)*	12.5%	12.5%	4.0%	2.2%	7.2%	1.6%	5.4%
MSCI Pacific ex Japan Index *(Net) (USD)*	12.2%	12.2%	4.6%	6.5%	10.3%	5.0%	3.9%
Tokyo Stock Exchange TOPIX with Dividend *(JPY)*	7.7%	7.7%	-5.0%	4.9%	8.1%	3.0%	8.0%
MSCI Emerging Markets Index *(Net) (GBP)*	7.4%	7.4%	-0.3%	5.4%	14.4%	8.0%	8.9%

Fixed Income	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
BofA Merrill Lynch UK Gilts All Stocks Index *(GBP)*	3.4%	3.4%	3.7%	2.1%	3.6%	3.5%	5.5%
Bloomberg Barclays Global Treasury Index *(Hedged) (GBP)*	2.2%	2.2%	3.1%	2.3%	1.4%	1.9%	3.2%
Bloomberg Barclays Global Aggregate Index, Hedged *(GBP)*	2.5%	2.5%	3.1%	2.2%	1.6%	1.9%	3.1%
Bloomberg Barclays Global Aggregate ex-Treasury Index *(Hedged) (GBP)*	3.0%	3.0%	3.1%	2.1%	1.9%	1.9%	2.9%
BofA Merrill Lynch US High Yield Constrained Index, Hedged *(GBP)*	6.8%	6.8%	3.9%	3.1%	7.3%	4.3%	3.9%
50/50 JPM EMBI Glob Div & JPM GBI-EM Glob Div *(GBP)*	3.5%	3.5%	0.9%	1.4%	5.8%	5.0%	4.6%

Cash	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
LIBOR 3 Month GBP *(TR) (GBP)*	0.2%	0.2%	0.8%	0.6%	0.6%	0.6%	0.6%

Commodities	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
Oil *(ICE Brent Crude)*	23.8%	23.8%	4.7%	12.5%	9.8%	-1.6%	-5.9%
Gold *($/oz)*	0.8%	0.8%	-2.5%	1.7%	1.6%	2.2%	0.1%
Bloomberg Commodity Index *(USD)*	6.3%	6.3%	-5.3%	-0.9%	2.2%	-3.7%	-8.9%

Source: Bloomberg, as at 31 March 2019. *Periods greater than 1 year are annualised.

Data refers to past performance. Past performance is not a reliable indicator of future results.

Q1 Asset Allocation Changes

Increased overweight to Emerging Market Equities

- At the end of February, SEI increased its overweight to Emerging Market Equities within the Dynamic Asset Allocation Fund, the tactical asset allocation fund held in the growth-focused portfolios.
- The larger overweight reflects our increased confidence in the trade. Emerging market equities (EM) have significantly underperformed their developed market (DM) counterparts over an extended period. Heightened trade tensions, a stronger US Dollar, weaker energy prices, China hard landing concerns and idiosyncratic issues in Turkey in particular weighed heavily on the emerging world throughout 2018. We believe EM investors have effectively priced in near worst case scenarios on many of these fronts, including a protracted and escalating trade war, and therefore find current valuations particularly attractive given relatively strong fundamentals.
- We expect EM to outpace DM in 2019 in both economic and earnings growth, with the later topping 10% for 2019. Despite these healthy growth expectations, EM equities are trading at forward Price-to-Earnings (P/E) last seen in 2015-2016 when oil markets bottomed at $35 per barrel from over $100 and China growth concerns prompted substantial stimulus measures. In addition, while the market has seemingly priced out most if not all of Fed tightening in 2019, the US dollar finished 2018 somewhat unaffected by these dovish expectations. We expect this dollar strength to abate in the near term due not only to a data-dependent Fed but from twin deficit headwinds and lack of foreign investor demand amid significantly higher Treasury supply.
- China remains a wildcard in our thesis given slowing growth and trade uncertainties. We believe investors have already priced in further escalation in the burgeoning trade conflict with the US and have discounted the possibility of additional stimulus, leaving higher potential for upside surprises in support of broader EM.

Q1 Manager Changes

NN investment partners

NN INVESTMENT PARTNERS BRINGS VALUE APPROACH TO STRATEGIC ASSET ALLOCATION TO THE SGMF GLOBAL MULTI-ASSET INCOME FUND

NN Investment Partners (NNIP) has been added to the SGMF Global Multi-Asset Income Fund (the Fund) as at 29 January 2019. NNIP's philosophy posits that a disciplined assessment and understanding of fundamentals and market dynamics can enable it to achieve superior and repeatable returns through flexible asset allocation. This manager utilises a relatively unemotional approach to strategic asset allocation based on excess yield and risk optimisation which we think provides a robust framework for determining where the team takes risk.

Once the team has formed a strategic asset allocation, it will apply a tactical overlay that combines both quantitative and qualitative views.

Portfolio Manager’s Notebook

UK and Europe

- Brexit is looming in one way or another and our managers continue to deal with the opportunities presented by the market.
- We are fairly cautious on the eurozone outlook. On balance, the portfolios lean toward value and pro-cyclical positions. Therefore, the portfolios should do well in a reflationary environment, but if Europe growth slows, it may lead to underperformance.
- If the US and China reach a trade deal and China trades more from the US, then it is not necessarily bad for Europe.
- If there is a “hard Brexit”, the near-term drop down would likely be a good buying opportunity. If uncertainty around Brexit lingers, then we should see more positive sentiment out of eurozone.
- The German PMI is worse-than-expected and dropping each month over last year.

Global Equities

- It appears like the global market is trying to second guess a recession and/or trade payoffs.
- Within the past month, the global market is very similar to the end of the technology bubble with large cap tech stocks leading very narrow and concentrated gains. The rest of the global market is not participating as much.
- Our positioning has not changed. Valuation dispersions are high around the world, which should bode well for value returns over next few years.
- Momentum is marginally unattractive. Quality remains expensive.
- Low-volatility equity looks fairly priced. Currently, there is minimal discount for low-volatility protection but also minimal premium. Therefore, our outlook is more cautious, which might be a good time to start accumulating low-volatility positions.

United States

- Large cap growth continues to beat large cap value.
- Value has not been able to sustain a trend.
- Exposure to stability through consumer staples and healthcare has been resistant to slowdowns but are unable to keep up with the growth in the technology sector.
- The bullish camp is looking at soft economic data while the bearish camp is pointing to peak margins (wages, rates, oil prices).
- Earnings revisions and breadth have rolled over in the US and been cut in half from July through now. We are now at negative earnings growth for the first quarter.
- We are Overweight Stability, almost as much as Value. Small cap stability looks cheaper than large cap and has been rotating into stability, along with value.

Asia Equities

- Overall sentiment has improved but remains in cautious territory.
- China economic growth expectations are mixed.
- China 'A' shares is a big market for global investors but has recently been a highly volatile market place.
- Value has not worked this year. Small cap has been beating large cap and growth has been beating value. Therefore, large cap value has been underperforming.
- Quality looks expensive.

Emerging Markets

- Overall, the EM view is attractively valued and it should outpace the developed world from the growth perspective.
- Outflows from EM are at 10-year highs, so plenty of opportunities for EM to do well as investors gain confidence that the worst is past with USD and US/China trade growth.
- We are overweight local currency/short USD.
- A US/China resolution would be a positive for fundamentals.
- Current account adjustments have been notable and a positive for EM.

Global Bonds

- We are underweight duration in US/UK/Japan with exception being Europe. We are overweight duration in Europe (this is comprised of short Germany, longs elsewhere).
- We have a yield-curve steepener, with the front-end likely going lower.
- The possibility of hard Brexit would lead to lower GBP. Generally, long sterling and short euro/short USD.
- Monetary policy seems ineffective as a long-term stimulus tool in Europe.
- The Fed made a dovish pivot on January 4, which helped risk assets.
- US Growth is below expectations. The Fed lowered expectations at its recent meeting. Growth will be slower in 2019 than 2018 as the tax reform reaction fades.
- US Yields are down for the year, most of it occurring in March.

High Yield

- High yield market up just under 7% YTD. Yields down 150 bps. Spreads down 130 bps to 4.03%.
- Speculative default rate around 2.9%. Forecast to reach low under 2%.
- No material changes at fund level. Most managers have taken down risk over last quarter to wait for opportunities.

Data source: Bloomberg, as at 31 March 2019.

In Depth: Economic Outlook

- A sluggish first quarter and an inverted Treasury yield curve have raised concerns regarding the bull market's health.
- Until we see a more significant deterioration in the economic and financial fundamentals that have underpinned the global bull market in risk assets over the past two years, our default investment stance is to stay the course.
- We expect that US equities will remain well-bid, although international markets are long overdue for a period of improved relative performance versus the US stock market.
- Markets around the globe experienced a sharp risk-off move in late March. Concerns about European economic growth were one cause of the setback.
- We believe that hints of economic revival in China, the likelihood of a trade agreement between the US and China, and a dovish turn in the monetary policies of the US Federal Reserve (Fed) will help global equities grind their way higher in the months ahead.
- On March 20, the Fed made some modest downward revisions in its latest projections of economic growth and inflation, and dramatically reduced its median forecast of the US federal-funds rate. In addition to easing off the interest-rate brake, the Fed signaled that quantitative tightening will end in September 2019. This should be a positive development for global equities and other risk assets.

- Emerging-market valuations remain attractive, in our opinion. There's no denying that a sustained improvement in emerging markets depends on better global growth. In our view, China is the linchpin; we are optimistic that the country's economic conditions will improve as it begins to feel the lagged impact of easier economic and monetary policies.
- Our near-term optimism, however, is tempered somewhat by strategic considerations for the longer run. It's quite likely that US-Chinese relations will remain tense as a result of the geopolitical competition that continues to build between the world's preeminent superpower and its up-and-coming competitor.
- History seems to be repeating itself on a weekly basis when it comes to the debate about Brexit. Over the course of three days in early March, the British Parliament: (1) voted against the current deal that Prime Minister Theresa May negotiated with the European Union; (2) voted against a "hard" (or "no-deal") Brexit; and (3) voted to delay Brexit, which was scheduled to occur at the end of March.
- The plunge in risk assets during the fourth quarter and subsequent bounce-back in the first quarter of this year is a reminder that one should always expect the unexpected when it comes to investing. In a world where the best- and worst-performing asset classes tend to dominate the headlines, it's easy to lose sight of the fact that a diversified investment portfolio is generally the most reliable approach for meeting long-term investment objectives.

Data source: SEI, as at 31 March 2019.

Accessing SEI

Platform and wrap availability

There are two clean, retail share classes of SEI's Strategic Portfolios - Sterling Wealth A Distributing and Sterling Wealth A Accumulating.

Both share classes are available on the following platforms
7IM
Aegon
AJ Bell Investcentre
Ascentric
Aviva
Elevate
Cofunds
FundsNetwork
James Hay
Novia
Nucleus
Old Mutual Wealth
Parmenion
Standard Life
Succession
Transact
Wealthtime
Zurich

SEI Strategic Portfolios

Sterling Wealth A Distributing Class

Fund Name	ISIN	Sedol
SEI Defensive Fund	IE00B6145K75	B6145K7
SEI Conservative Fund	IE00B616BM72	B616BM7
SEI Moderate Fund	IE00B61N2T25	B61N2T2
SEI Core Fund	IE00B62XK082	B62XK08
SEI Balanced Fund	IE00B60CGR62	B60CGR6
SEI Growth Fund	IE00B614TP06	B614TP0
SEI Aggressive Fund	IE00B6390G16	B6390G1

SEI Strategic Portfolios

Sterling Wealth A Accumulating Class

Fund Name	ISIN	Sedol
SEI Defensive Fund	IE00BYV1R427	BYV1R42
SEI Conservative Fund	IE00BYV1R534	BYV1R53
SEI Moderate Fund	IE00BYV1R641	BYV1R64
SEI Core Fund	IE00BYV1R757	BYV1R75
SEI Balanced Fund	IE00BYV1R864	BYV1R86
SEI Growth Fund	IE00BYV1R971	BYV1R97
SEI Aggressive Fund	IE00BYV1RB90	BYV1RB90

Data source: SEI, as at 31 March 2019.

Contact us

Nigel Brook-Walters
Head of UK Trust & Advisory
020 3810 7528
nbrookwalters@seic.com

Benjamin Cooper
Sales & Relationship Director
020 3810 7522
07810 891 435
bjcooper@seic.com

Matthew Miles
Sales Director
020 3810 7525
07398 222 946
mxmiles@seic.com

Sebastian Obracaj
Sales Director
020 3810 7523
07949 442 217
sobracaj@seic.com

Harriet Parker
Client Service Manager
020 3810 7524
07880 715 065
hparker@seic.com

Zoe Howard
Relationship Manager
020 3810 7664
07810 301 474
zhoward@seic.com

Contact us on 020 3810 8001

1st Floor Alphabeta 14-18 Finsbury Square, London EC2A 1BR
seic.com

For the most up-to-date market commentaries, fund updates and industry insights and white papers:

Visit seic.com/advisers

SEI New ways. New answers.®

IMPORTANT INFORMATION

This material is not directed to any persons where (by reason of that person's nationality, residence or otherwise) the publication or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not rely on this information in any respect whatsoever. Investment in the funds or products that are described herein are available only to intended recipients and this communication must not be relied upon or acted upon by anyone who is not an intended recipient.

While considerable care has been taken to ensure the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information and no liability is accepted for any errors or omissions in such information or any action taken on the basis of this information.

SEI Investments (Europe) Limited acts as distributor of collective investment schemes which are authorised in Ireland pursuant to the UCITS regulations and which are collectively referred to as the "SEI Funds" in these materials. These umbrella funds are incorporated in Ireland as limited liability investment companies and are managed by SEI Investments Global Limited, an affiliate of the distributor. SEI Investments (Europe) Limited utilises the SEI funds in its asset management programme to create asset allocation strategies for its clients. Any reference in this document to any SEI funds should not be construed as a recommendation to buy or sell these securities or to engage in any related investment management services. Recipients of this information who intend to apply for shares in any SEI fund are reminded that any such application must be made solely on the basis of the information contained in the prospectus (which includes a schedule of fees and charges and maximum commission available).

The SEI Strategic Portfolios are a series of the SEI Funds and may invest in a combination of other SEI and Third-Party Funds as well as in additional manager pools based on asset classes. These manager pools are pools of assets from the respective Strategic Portfolio separately managed by Portfolio Managers, which are monitored by SEI. One cannot directly invest in these manager pools.

Past performance is not a reliable indicator of future results. Standardised performance is available upon request. All data is as at 31 March 2019.

***Investments in SEI funds are generally medium to long-term investments. The value of an investment and any income from it can go down as well as up. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down**. Investors may get back less than the original amount invested.*

Asset class performance discussed is based on the majority SEI fund underlying the asset class. This does not include analysis of the manager pools, hedged share class investments within SEI Funds, additional SEI funds or any third-party funds within the Strategic Portfolios.

As a result, performance for the total asset class allocation may vary. Not all asset classes discussed are included in all Strategic Portfolios.

All asset class comparative performance is relative to the benchmark of the specific SEI fund representing the majority of the asset class investment. SEI sources data directly from FactSet, Lipper, and BlackRock, unless otherwise stated.

No offer of any security is made hereby. Recipients of this information who intend to apply for shares in any SEI Fund are reminded that any such application may be made solely on the basis of the information contained in the Prospectus. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the Funds or any stock in particular, nor should it be construed as a recommendation to purchase or sell a security, including futures contracts. Additionally, this investment may not be suitable for everyone. If you should have any doubt whether it is suitable for you, you should obtain expert advice.

- *The investment risks described below are not exhaustive and potential investors should carefully review the Prospectus prior to investing. The risks described below may apply to the underlying assets of the products into which the Strategic Portfolios invest.*
- *Investment in equity securities in general are subject to market risks that may cause their prices to fluctuate over time.*
- *Fixed Income securities are subject to credit risk and may also be subject to price volatility and may be sensitive to interest rate fluctuations.*
- *Absolute return investments utilise aggressive investment techniques which may increase the volatility of returns. If the correlation between absolute return investments and other asset classes within the fund increases, absolute return investments' expected diversification benefits may be decreased.*

In addition to the normal risks associated with investing, international investments may involve risk of capital loss from differences in generally accepted accounting principles or from economic or political instability in other nations. The Funds are denominated in one currency but may hold assets which are priced in other currencies. The performance of the Fund may therefore rise and fall as a result of exchange rate fluctuations. The Fund or some of its underlying assets may hold derivatives or borrow to invest. This can make the Fund more volatile and investors should expect above-average price increases or decreases.

The views and opinions shown in this brochure are of SEI only and are subject to change. They should not be construed as investment advice.

*This information is approved, issued and distributed by SEI Investments (Europe) Limited, 1st Floor, Alphabeta 14-18 Finsbury Square, London EC2A 1BR which is authorised and regulated by the Financial Conduct Authority. This document and its contents are directed only at **advisers of regulated intermediaries in accordance with all applicable laws and regulations.** Please refer to our latest Full Prospectus (which includes information in relation to the use of derivatives and the risks associated with the use of derivative instruments), Simplified Prospectus and latest Annual or Interim Short Reports for more information. This information can be obtained by contacting your Financial Adviser or using the contact details shown.*