

Asset Allocation Changes

SEI Strategic Portfolios

Third Quarter 2019

SEI New ways.
New answers.®

SEI's target strategic asset allocations are based on our long-term expectations for the global markets and are derived from our capital market assumptions. In the short-term, we may over- or underweight these positions as part of our tactical asset allocation, which aims to take advantage of short-term market opportunities.

The following change was made to the tactical asset allocations of the SEI Strategic Portfolios (the Funds) in the third quarter.

- Removed long high-yield bond/short emerging-market debt tilts in the Defensive, Conservative and Moderate Funds to neutralise emerging-market debt exposure.

Rationale

- As global markets have recovered from their late-2018 lows, emerging-market debt (EMD) has outperformed most other fixed-income asset classes. Real yields in many emerging economies have declined over the past year¹, making relative valuations among fixed-income markets appear more evenly balanced.
- While we still view the fundamental backdrop for emerging markets favourably, we expect EMD may have a bumpier ride than other fixed-income markets due to higher uncertainty around geopolitics and central-bank policies.
- Recent developments in the deepening US/China trade dispute—such as President Trump's recent threat of 10 percent tariffs on \$300 billion of Chinese consumer goods, followed by the threat of an additional five percent levy on a wide range of imports from China on 23 August—have raised concerns about a slowing global economy. Continued unrest in Hong Kong has introduced additional uncertainty to the US/China relationship and, while a high-profile crackdown from the mainland is not our base case, such an event would be a clear negative for any trade resolution.
- The dramatic turn on the federal funds rate by the US Federal Reserve (Fed) has ushered in a global easing cycle as other central banks look to add stimulus. However, the degree of stimulus remains uncertain, not least in the US, where markets continue to price in ever more aggressive rate cuts. If the Fed disappoints, it could lead to US dollar strength. Or, if China allows further weakening of the yuan, it could put pressure on other EM currencies. Both scenarios would present a challenge for EM currencies and EMD performance.
- With the prospects for trade resolution unclear, our expectation is that EMD should see more volatility. Combined with a narrowing of relative valuations, we believe closing the Funds' active overweights to EMD is warranted.

¹ Sources: Bloomberg, DataStream

The following tables provide a comparison of the Funds' target active weights relative to their strategic (long-term, neutral target) weights as at 30 September 2019:

	Defensive		Conservative		Moderate	
	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)
Equities						
Global Managed Volatility	8.00%	8.00%	17.74%	17.74%	27.34%	27.34%
UK			2.00%	2.00%	7.00%	7.00%
Fixed Interest						
Emerging Markets (half hedged)**	1.00%	1.00%	3.00%	3.00%	4.50%	4.50%
High Yield (hedged)*	1.00%	1.00%	3.00%	3.00%	4.50%	4.50%
Global Credit	4.00%	4.00%	5.50%	5.50%	6.50%	6.50%
Global Government	4.00%	4.00%	5.50%	5.50%	6.50%	6.50%
Passive Global Short Term	19.00%	19.00%	13.88%	13.88%	5.68%	5.68%
Global Short Duration	19.00%	19.00%	13.88%	13.88%	12.43%	12.43%
UK	5.00%	5.00%	8.50%	8.50%	10.00%	10.00%
Income						
Multi-Asset Income	5.00%	5.00%	7.00%	7.00%	5.50%	5.50%
Inflation Sensitive						
Inflation-Linked Bonds	1.50%	1.50%	2.50%	2.50%	2.50%	2.50%
Commodities	1.50%	1.50%	2.50%	2.50%	3.00%	3.00%
Absolute Return						
Liquid Alternatives	1.00%	1.00%	3.00%	3.00%	4.30%	4.30%
Liquidity						
Cash and Cash Equivalents	30.00%	30.00%	12.00%	12.00%	0.25%	0.25%

*Obtained by investing in a hedged sterling-denominated share class

**Obtained by investing the asset class's US dollar-denominated allocation in a hedged sterling-denominated share class

	Core		Balanced		Growth		Aggressive	
	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)
Equities								
Global Managed Volatility	8.00%	8.00%	5.00%	5.00%	3.00%	3.00%		
Global Equity	6.10%	6.10%	7.94%	7.94%	10.05%	10.05%	13.73%	13.73%
UK	13.44%	13.44%	17.37%	17.37%	21.84%	21.84%	28.99%	28.99%
Europe	1.21%	1.21%	2.51%	2.51%	3.52%	3.52%	4.87%	4.87%
Pan European Small Companies	1.26%	1.26%	1.88%	1.88%	2.52%	2.52%	3.00%	3.00%
US Large Companies	1.27%	1.27%	4.07%	4.07%	6.29%	6.29%	9.13%	9.13%
US Small Companies	2.43%	2.43%	2.63%	2.63%	3.07%	3.07%	3.63%	3.63%
Factor Allocation US Equity	3.70%	3.70%	6.70%	6.70%	9.35%	9.35%	12.75%	12.75%
Japan	1.10%	1.10%	2.00%	2.00%	2.80%	2.80%	3.80%	3.80%
Pacific Basin ex-Japan	0.63%	0.63%	1.31%	1.31%	1.84%	1.84%	2.55%	2.55%
Emerging Markets	3.86%	3.86%	4.59%	4.59%	5.72%	5.72%	7.30%	7.30%
Fixed Interest								
Emerging Markets (half hedged)**	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%		
High Yield (hedged)*	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%		
Global Credit	7.00%	7.00%	5.50%	5.50%	3.50%	3.50%		
Global Government	7.00%	7.00%	5.25%	5.25%	3.25%	3.25%		
Passive Global Short Term	2.00%	2.00%						
Global Short Duration	1.75%	1.75%						
UK	11.50%	11.50%	6.00%	6.00%				
Other								
Global Dynamic Asset Allocation	5.00%	5.00%	6.00%	6.00%	8.00%	8.00%	10.00%	10.00%
Income								
Multi-Asset Income	3.00%	3.00%	2.00%	2.00%				
Inflation Sensitive								
Inflation-Linked Bonds	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%		
Commodities	3.50%	3.50%	3.00%	3.00%	1.00%	1.00%		
Absolute Return								
Liquid Alternatives	2.00%	2.00%	2.00%	2.00%				
Liquidity								
Cash and Cash Equivalents	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%

*Obtained by investing in a hedged sterling-denominated share class

**Obtained by investing the asset class's US dollar-denominated allocation in a hedged sterling-denominated share class

Fund Risks

The investment risks described below are not exhaustive and potential investors should carefully review the Prospectus prior to investing. Diversification does not ensure a profit or guarantee against a loss. The risks described below may apply to the underlying assets of the products into which they 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.

Glossary

Fundamentals: Fundamentals refers to data that can be used to assess a country or company's financial health such as amount of debt, level of profitability, cash-flow, inventory size, etc.

Hedging: Hedging is an investment technique that attempts to limit potential losses due to swings in the market values (price changes) of stocks, bonds, commodities or currencies. This is generally achieved by purchasing equally weighted and opposite exposure in two different markets.

Long position: A long position is positioning to gain from future strength of a particular security or currency.

Real yield: Real yields have been adjusted to take into account the impact of inflation. Real yields are calculated by taking the nominal bond yield (interest rate stated on a bond when it is first issued) minus the current rate of inflation.

Short position: A short position is positioning to gain from future weakness of a particular security or currency.

Important Information

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.

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