SEI Strategic Portfolios:
Q3 2016 Quarterly Commentary

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SEI Growth-Focused Strategic Portfolios

Global markets show strength through Q3 2016, as investors shake off concerns around the impact of Brexit to global growth while central banks remain supportive

Executive Summary

- The third quarter of the year marked a period of good returns for investors as both fixed income and equity markets broadly delivered positive returns. The continued weakness in sterling provided a further boost to asset classes with exposures outside of the UK as well as to the returns of the FTSE 100, given its global nature.

- Overall, the Growth-Focused SEI Strategic Portfolios (the Core, Balanced, Growth, and Aggressive Funds), delivered strong absolute returns (Sterling Wealth A share class, in GBP, net of all fees) across the range over the quarter; performance against comparable market indexes as well as peer groups continued to be highly competitive.

- After a tricky start to the year in relative terms, many of the equity asset classes utilised in the SEI Growth Focused SEI Strategic Portfolios delivered a very robust quarter of performance, with the growing emphasis on valuation-focused strategies being the key driver of the underlying investments outperformance over the period. The exception to this over the quarter was in the smaller companies asset classes, which detracted over the period, but were significantly outweighted by the aforementioned dynamic.

- In periods of challenging markets, such as those seen in the second quarter, the asset allocation approach behind the SEI Strategic Portfolios has had a tendency to show its strength. As markets have moved into a more positive phase through the third quarter, the active management within the asset classes utilised has taken its turn to help boost returns for investors. In combination, these two facets have created a powerful long-term dynamic from which our investors have benefited.

Market Overview

- The third quarter began on a positive note as the post-Brexit-vote recovery rally continued in force across most stock markets around the globe. The trend levelled off by mid-quarter, with the S&P 500 index, hitting an all-time high on 15 August, before an early September selloff. The US Federal Reserve's decision to hold back from increasing rates was well-received, as stocks recovered and moved sideways through the end of the quarter.

- In fixed income markets, US Treasury yields increased during the quarter, while UK gilt yields generally declined. Short- and intermediate-term eurozone government bond yields declined, while long-term yields increased. Oil prices hit their lowest levels in early August since the depths of the first-quarter selloff, before mounting a choppy recovery that was boosted by a tentative OPEC production-cut agreement.

- In the UK, the BOE delivered a rate cut coupled with asset-purchase and term-funding programmes at its early-August meeting. UK manufacturing activity began the quarter in contraction, only to bounce back to healthy growth levels by September. Construction followed a similar trajectory, albeit starting from further behind and ending up with softer growth. Services growth mostly held firm in September, after volatile readings in July and August. Second-quarter economic growth expanded in its final estimate, reaching 0.7% for the period.

- The ECB joined the Fed in holding firm during the quarter. Eurozone consumer price growth continued to increase during September on a year-over-year basis, with price pressures rising in five of the past six months. The latest second-quarter eurozone GDP reading depicted 0.3% growth, half the first quarter's pace.

- The US labour-market continued to strengthen during the quarter. Jobless claims tied multi-decade record lows in the quarter. The US economy grew at an annualized 1.4% pace in the second quarter, slightly faster than initially estimated. Overall, however, expansion softened for the first six months of the year relative to the first half of 2015.

Selected Asset Class Commentary

- Global Developed Equity asset class: Spurred by the prospects of rising interest rates in the US, investors re-evaluated some of the more expensive defensive stocks, and rotated into riskier, but cheaper cyclicals. Having been positioned for value, the Funds' investments in the asset class participated in the rebound and continued recovering its Brexit-related losses from the prior quarter. Metropole Gestion was the top contributor, due to tailwinds from value and strong stock selection in materials. INTECH Investment Management was the biggest detractor, as their trend-following approach suffered in this market environment. Valuation dispersion between the cheapest and most expensive stocks in the market remains high; correspondingly the building block retains a strong preference for valuation-focused strategies.

- UK Equity asset class: The post-Brexit rebound continued through the latter half of the third quarter, and the risk mood remained "on" amid supportive central bank policy. The ongoing weakness exhibited by sterling also bolstered companies with foreign earnings. In this environment the asset class performed well, and the Funds' investments were driven by the ongoing value-driven preference for cyclicals over expensive defensives. Jupiter Asset Management was the top-contributing manager, given the outperformance of value, underweights to Energy and defensives, and overweight to cyclicals. Lindsell Train's lack of exposure to energy, and positive stock selection within information technology also helped performance.

- Emerging Markets Equity asset class: The Funds' investments in the asset class benefitted significantly during the month from its overweight to and strong stock selection within India, where markets continued to rally in concert with improving sentiment towards emerging markets. At the manager level, Delaware Investment Advisers was the top contributor, due to strong stock selection in China and Brazil. KBI Global Investors was the sole detractor due to poor stock selection within Asia.

Manager Changes

Note: Although this change was made in May, it was not announced until July.

- SEI removed Delaware Investment Advisers (Delaware) from the investment used to access the high yield fixed interest asset class as at 13 May 2016. This action is a result of a change in the investment philosophy and process within Delaware's high-yield portfolio management team. Delaware remains an investment manager in other SEI funds. SEI is confident in Delaware's abilities and does not anticipate additional changes.

Outlook

- There are many things over which investors can lose sleep: Brexit-related stresses, disenchantment with free trade, ineffective monetary policy, pressure on corporate profit margins, severe debt burdens, and intense political uncertainty. Despite these, the over-arching investment stance of the SEI Strategic Portfolios remains unchanged. As long as central banks pursue aggressively easy policies in a world mostly characterised by slow economic growth (not recession) and mild inflation pressures, any pullback in the price of riskier assets should be limited, thus supporting a continuation of the generally pro-growth, pro-cyclical and valuation-focused positioning across the underlying investments.

- In general, SEI continues to view market corrections as buy-on-the-dip opportunities. A core reason supporting this approach is the belief that the US economy is on fairly solid ground, supporting a reacceleration in overall US GDP into the 2.5%-to-3.0% range. Unquestionably, the US presidential election will have an impact on the economy and financial markets in the months and years ahead. SEI firmly believes that it would be a mistake to base even a short-term investment strategy on picking a winner in November; this would require accurate predictions on the policies proposed by the new president, whether they become laws, and how they would impact the economy and financial markets.

- With regard to the UK, many observers have been surprised by the resiliency of the economy, although it is far too soon to sound the all-clear. The BOE has pre-emptively cut its base rate to the lowest level in the multi-century history of the central bank, while restarting its quantitative-easing programme and previously successful funding-for-lending scheme. On the fiscal policy side, the new Chancellor of the Exchequer scrapped his predecessor's austerity plans. Overall, UK economic policy has shifted dramatically toward easing well before the negative effects of Brexit can be felt.

- Eurozone exports and imports are in decline. Household spending is growing faster than other areas of the economy, as is the case in the US and the UK, but Europe's consumer rebound remains considerably less robust in comparison with these two countries. SEI remains concerned that it's just a matter time before another crisis tests the cohesion of the eurozone. ECB President Draghi knows he has a potential problem on his hands. He continues to reassure investors that the central bank has the will, the tools and the ability to improve the eurozone's fortunes.

- Looking east, SEI believes China's economy will continue to reaccelerate in the near term. Although the country's growth rate remains below trend, there are the beginnings of an improving trajectory following two and a half years of slowdown. Importantly, the country continues to evolve into a services-oriented economy, with that sector now accounting for more than half of GDP. Housing activity also has picked up. Before the global financial crisis, the US and China were the primary growth engines of the world. SEI believes that India eventually will become a third major engine of global growth. In the past year, its GDP growth was greater than China's.

- The global growth dynamic continues to support cautiously optimistic positioning, favouring credit and higher yielding securities in fixed income asset classes, and valuation-focused and aggressive growth strategies in equity asset classes. Market volatility is likely to increase in the run-up to the US election; SEI believes that investors should focus decisions based on this volatility on staying the course and where possible buying through the inevitable dips that will occur in the quarter ahead.

- In summary, in SEI's view the likely overall scenario of global growth is one of continued moderate economic expansion, as always with pockets of strength and weakness, positive surprises and disappointments. In this context SEI firmly believes the asset allocation approach delivered through the SEI Strategic Portfolios remains a sound investment choice for investors. Aligned closely with a range of client goals, the SEI Strategic Portfolios strongly seek to deliver on 'doing what it says on the tin': asset allocation-based stability of returns at the defensive end of the spectrum and added value to returns from robust, multi-layered active management at the growth-focused end of the spectrum.

Important Information on Performance

Past Performance is not a guarantee of future performance. Standardised performance is available upon request. All data is as at 30 September 2016.

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.

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