

Asset Allocation Changes

SEI Strategic Portfolios

Second Quarter 2018

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 strategic asset allocation, which aims to take advantage of short-term market opportunities.

Changes were made to the target active asset allocations of the SEI Strategic Portfolios (the Funds) in the second quarter:

- Closed the European equity overweight and corresponding US large-company equity underweight in the Core, Balanced, Growth and Aggressive Funds
- Increased long commodity exposure in the Defensive, Conservative, Moderate, Core, Balanced and Growth Funds

Rationale

Closed European Equity Overweight and Corresponding US Large-Company Underweight

- Our original thesis rested on attractive valuations, earnings momentum, leveraged exposure to the global economic recovery and a reduction in political risks following the 2017 French election.
- While European equity markets remain cheap compared to the US, recent softness in both leading economic data and corporate earnings revisions have raised concerns over the short-term outlook. In addition, US fiscal stimulus has not only impacted forward US earnings to a significant degree, but also has the potential to spur additional stock buyback activity, which already dwarfs European share repurchases.
- Finally, while we do not expect a full-blown trade war, we do expect continued heated rhetoric as the US administration attempts to set a hard-line tone. While Europe and the US may have more modest economic ties, European equity markets remain significantly more exposed; therefore, we think they are likely to underperform on heightened trade uncertainty.

Increased Long Commodity Exposure

- We remain confident in the coordinated global economic expansion which, despite its later-stage nature in developed markets, should continue thanks to fiscal stimulus in the US and still-easy monetary policies in Europe and Japan. Although emerging markets have lagged the developed world in this cycle, recoveries in those economies could also add to the current demand tailwind for commodities. On the supply side, capital investment has fallen notably in commodity-related sectors. We expect this dynamic of strong demand growth and reduced short-term supply across many commodities to continue in the near-to-intermediate term.
- The broad and persistent presence of backwardation (or the market condition where current pricing exceeds the expected future pricing) supports our view of stronger demand exceeding current supply levels. This condition provides the added potential benefit of receiving an extra premium for maintaining long commodity exposure, assuming all else is equal.
- In an environment of high equity valuations and low bond yields, commodities can provide significant diversification benefits. In fact, late-market cycles typically experience high correlations between stocks and nominal bonds as economic growth fuels inflationary pressures which erode the value of nominal cash flows. This may be especially pertinent in the US, where substantial fiscal stimulus has been implemented despite an economy that may already be at full employment. Commodities typically benefit in those economic scenarios and therefore display a favourable correlation profile relative to both stocks and nominal bonds.

- Commodities may also benefit from geopolitical shocks, such as trade conflicts, the recent scuttling of the West's nuclear deal with Iran, intensifying military conflict in the Middle East and other risks that could negatively impact oil supplies and accelerate broader inflationary pressures.

The following tables provide a comparison of the Funds' target active weights relative to their strategic (long-term, neutral target) weights as at 30 June 2018:

	Defensive		Conservative		Moderate	
	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)
Equities						
Global Managed Volatility	7.30%	7.30%	16.80%	16.80%	23.56%	23.56%
Global Developed						
UK			4.20%	4.20%	10.70%	10.70%
Europe						
Pan European Small Companies						
US Large Companies						
US Small Companies						
Factor Allocation US Equity						
Japan						
Pacific Basin ex-Japan						
Emerging Markets						
Fixed Interest						
Emerging Markets		2.00%		2.00%	2.10%	5.10%
High Yield***	5.00%	3.00%	6.20%	4.20%	7.48%	4.48%
Global Credit	3.00%	3.00%	3.10%	3.10%	4.20%	4.20%
Global Government	3.00%	3.00%	3.10%	3.10%	4.20%	4.20%
Global Short Duration	19.00%	19.00%	15.40%	15.40%	15.61%	15.61%
Global Short Term	19.00%	19.00%	15.40%	15.40%	5.75%	5.60%
UK	6.10%	6.10%	8.20%	8.20%	10.60%	10.60%
Income						
Multi-Asset Income	5.10%	5.10%	7.20%	7.20%	5.30%	5.30%
Inflation Sensitive						
Inflation-Linked Bonds	2.00%	2.00%	2.10%	2.10%	2.10%	2.10%
Commodities	2.00%	2.50%	3.00%	3.50%	3.00%	4.00%
Absolute Return						
Liquid Alternatives	1.00%	1.00%	3.00%	3.00%	4.30%	4.30%
Liquidity						
Cash and Cash Equivalents	27.50%	27.00%	12.30%	11.80%	1.10%	0.25%
Currency						
GBP		2.00%		2.00%		3.00%
USD		-2.00%		-2.00%		-3.00%

A blue-shaded cell (white font) represents an overweight position; a grey-shaded cell (black font) represents an underweight position versus the strategic weight. Figures shown represent the total target active weight (i.e. strategic weight +/- overweight/underweight).

**Obtained by investing in a hedged sterling-denominated share class of the SEI Japan Equity Fund combined with a long US dollar/short sterling currency forward designed to neutralise unintended currency effects.

***Obtained by investing in a hedged sterling-denominated share class of the SEI High-Yield Fixed Income Fund combined with a long US dollar/short sterling currency forward designed to neutralise unintended currency effects.

	Core		Balanced		Growth		Aggressive	
	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)
Equities								
Global Managed Volatility								
Global Equity	7.40%	7.40%	8.10%	8.10%	10.00%	10.00%	13.00%	13.00%
UK	17.90%	17.90%	24.30%	24.30%	31.00%	31.00%	38.75%	38.75%
Europe	3.20%	3.20%	3.00%	3.00%	4.00%	4.00%	5.00%	5.00%
Pan European Small Companies	1.00%	1.00%	2.00%	2.00%	3.00%	3.00%	3.00%	3.00%
US Large Companies	5.90%	4.40%	5.30%	3.80%	6.40%	4.15%	7.60%	5.35%
US Small Companies	0.40%	0.40%	2.30%	2.30%	3.10%	3.10%	3.90%	3.90%
Factor Allocation US Equity	6.40%	6.40%	7.60%	7.60%	9.50%	9.50%	11.50%	11.50%
Japan	2.10%	2.10%	3.00%	3.00%	3.00%	3.00%	4.00%	4.00%
Japan Hedged**		1.50%		1.50%		2.25%		2.25%
Pacific Basin ex-Japan	1.00%	1.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%
Emerging Markets	2.10%	2.10%	5.10%	5.10%	8.00%	8.00%	10.00%	10.00%
Fixed Interest								
Emerging Markets	3.30%	7.30%	5.20%	9.20%	6.00%	11.00%		
High Yield***	7.70%	3.70%	6.30%	2.30%	6.00%	1.00%		
Global Credit	5.40%	5.40%	3.10%	3.10%	2.00%	1.50%		
Global Government	5.40%	5.40%	4.20%	4.20%	1.75%	1.25%		
Global Short Duration	2.70%	2.70%	1.05%	1.05%				
Global Short Term	2.70%	2.30%	1.05%	0.55%				
UK	13.00%	13.00%	6.20%	6.20%				
Income								
Multi-Asset Income	3.10%	3.10%	2.10%	2.10%				
Inflation Sensitive								
Inflation-Linked Bonds	2.20%	2.20%	2.10%	2.10%	2.00%	2.00%		
Commodities	4.00%	5.25%	3.00%	4.25%	2.00%	3.00%		
Absolute Return								
Liquid Alternatives	2.00%	2.00%	2.00%	2.00%				
Liquidity								
Cash and Cash Equivalents	1.10%	0.25%	1.00%	0.25%	0.25%	0.25%	0.25%	0.25%
Currency								
GBP		2.50%		2.50%		2.75%		-2.25%
USD		-2.50%		-2.50%		-2.75%		2.25%

**Obtained by investing in a hedged sterling-denominated share class of the SEI Japan Equity Fund combined with a long US dollar/short sterling currency forward designed to neutralise unintended currency effects.

***Obtained by investing in a hedged sterling-denominated share class of the SEI High-Yield Fixed Income Fund combined with a long US dollar/short sterling currency forward designed to neutralise unintended currency effects.

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

Hedging: Hedging is an investment technique that attempts to limit potential losses due to swings in market value (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.

Nominal bonds: A nominal bond is a bond that makes payments of a fixed amount, rather than a fixed real (inflation-adjusted) value.

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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nor should it be construed as a recommendation to purchase or sell a security, including futures contracts. 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. Investors may get back less than the original amount invested.

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.
- » International investments may involve risk of capital loss from unfavourable fluctuation in currency values, 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 priced in other currencies. The performance of the Fund may therefore rise and fall as a result of exchange rate fluctuations. Whilst 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.