

# Asset Allocation Changes

## SEI Strategic Portfolios

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

The following changes were made to the tactical and strategic asset allocations of the SEI Strategic Portfolios (the Funds) in the third quarter:

- Added global dynamic asset allocation in the Core, Balanced, Growth and Aggressive Funds
- Increased allocation to global managed volatility in the Conservative, Moderate, Core, Balanced and Growth Funds
- Reallocated high-yield and emerging-market fixed-interest exposure in the Conservative, Moderate, Core, Balanced and Growth Funds
- Reduced equity and fixed-interest UK bias in the Conservative, Moderate, Core, Balanced, Growth and Aggressive Funds
- Removed a tactical overweight to sterling-hedged Japanese equities and a corresponding underweight to US large-company equities in the Core, Balanced, Growth and Aggressive Funds

### Rationale

#### **Added Global Dynamic Asset Allocation in the Core, Balanced, Growth and Aggressive Funds**

- Global dynamic asset allocation seeks to provide beta exposure to global developed-market equities.
- This addition allows SEI to express its tactical trading views based on perceived market dislocations.

#### **Increased Allocation to Global Managed Volatility in the Conservative, Moderate, Core, Balanced and Growth Funds**

- The tendency of low-volatility stocks to exhibit higher risk-adjusted returns than their higher-volatility counterparts has been demonstrated extensively in literature.
- We have a long track record of management of managed volatility portfolios across the globe.

#### **Reallocation of High-Yield and Emerging-Market Fixed Interest in the Conservative, Moderate, Core, Balanced and Growth Funds**

- High-yield and emerging-market fixed interest exposures were brought into closer balance, given their similar equity/fixed-interest hybrid characteristics.
- The allocations to these riskier fixed-interest exposures were modestly reduced, with the proceeds invested in diversified combinations of equity and fixed interest.
- We believe this change will enhance the diversification of the Funds through a similar mixture of equity- and bond-like characteristics, but with more diversified allocations.
- Emerging-market fixed-interest exposure is now half-sterling-hedged, bringing it closer in line with our philosophy of hedging international fixed-interest exposures. This is intended to reduce the foreign exchange market exposure of the asset class and provide more direct exposure to the underlying fixed-interest holdings.

#### **Reduced Equity and Fixed-Interest UK Bias in the Conservative, Moderate, Core, Balanced, Growth and Aggressive Funds**

- While many investors favour investments listed in their own countries to those listed internationally, this preference generally impairs the diversification profile of the overall portfolio and can lead to lower risk-adjusted returns.
- Our changes reduce an existing bias toward UK equities and fixed interest with the goal of providing enhanced global diversification of our equity and fixed-interest exposures and improving the efficiency of the Funds.
- With a more global focus we have a significant opportunity to achieve greater diversification both in terms of sector exposures and in the number of securities held in the Funds.

**Removed Tactical Overweight to Currency-Hedged Japanese Equities and Corresponding Underweight to US Large Company Equities in the Core, Balanced, Growth and Aggressive Funds**

- The overweight to currency-hedged Japanese equities was based on favourable valuations, diverging central bank policies and positive fundamentals, including a globally-coordinated economic recovery and increasing adoption of shareholder-friendly policies by Japanese corporations.
- While most of these conditions remain in place, fiscal conditions in the US, a soft patch in the global recovery and intensifying trade-war concerns have prompted the elimination of this position.
- Tax reform in the US has provided a more sustained boost to earnings than expected. In contrast, the rest of the world (notably China and Europe) is experiencing a moderation in economic activity. This, together with higher-and-broader-than-expected tariffs becoming reality, has put pressure on export-heavy economies.
- In summary, while we remain constructive on Japanese equities, we prefer a more neutral stance on US equities given the fiscal stimulus-fuelled momentum in US corporate earnings as well as the overall US economy.

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 2018:

	Defensive		Conservative		Moderate	
	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)
<b>Equities</b>						
Global Managed Volatility	8.00%	8.00%	17.75%	17.75%	27.35%	27.35%
UK			2.00%	2.00%	7.00%	7.00%
<b>Fixed Interest</b>						
Emerging Markets (half hedged)***	1.00%	2.00%	3.00%	5.00%	4.50%	7.50%
High Yield (hedged)*	1.00%	0.00%	3.00%	1.00%	4.50%	1.50%
Global Credit (hedged)*	4.00%	4.00%	5.50%	5.50%	6.50%	6.50%
Global Government (hedged)*	4.00%	4.00%	5.50%	5.50%	6.50%	6.50%
Passive Global Short Term (hedged)*	19.00%	19.00%	13.88%	13.88%	5.68%	4.68%
Global Short Duration (hedged)*	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%
<b>Income</b>						
Multi-Asset Income (hedged)*	5.00%	5.00%	7.00%	7.00%	5.50%	5.50%
<b>Inflation Sensitive</b>						
Inflation-Linked Bonds	1.50%	1.50%	2.50%	2.50%	2.50%	2.50%
Commodities	1.50%	2.00%	2.50%	3.00%	3.00%	4.00%
<b>Absolute Return</b>						
Liquid Alternatives	1.00%	1.00%	3.00%	3.00%	4.30%	4.30%
<b>Liquidity</b>						
Cash and Cash Equivalents	30.00%	29.50%	12.00%	11.50%	0.25%	0.25%
<b>Currency</b>						
GBP**		0.50%		1.00%		1.50%
USD**		-0.50%		-1.00%		-1.50%

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).

	Core		Balanced		Growth		Aggressive	
	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)	Strategic (%)	Current (%)
<b>Equities</b>								
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%	17.36%	17.36%	21.84%	21.84%	29.00%	29.00%
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%
Global Dynamic Asset Allocation	5.00%	5.00%	6.00%	6.00%	8.00%	8.00%	10.00%	10.00%
Emerging Markets	3.86%	3.86%	4.59%	4.59%	5.72%	5.72%	7.30%	7.30%
<b>Fixed Interest</b>								
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 (hedged)*	7.00%	7.00%	5.50%	5.50%	3.50%	3.50%		
Global Government (hedged)*	7.00%	7.00%	5.25%	5.25%	3.25%	3.25%		
Passive Global Short Term (hedged)*	2.00%	2.00%						
Global Short Duration (hedged)*	1.75%	1.75%						
UK	11.50%	11.50%	6.00%	6.00%				
<b>Income</b>								
Multi-Asset Income (hedged)*	3.00%	3.00%	2.00%	2.00%				
<b>Inflation Sensitive</b>								
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%		
<b>Absolute Return</b>								
Liquid Alternatives	2.00%	2.00%	2.00%	2.00%				
<b>Liquidity</b>								
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

\*\*Implemented through a long sterling/short US dollar currency forward designed to neutralise unintended currency effects of the emerging-markets fixed interest overweight/high yield underweight

\*\*\*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**

**Beta:** Beta is a measure of sensitivity to movements in the market. High beta stocks are more sensitive to movements in the broad market. Low-beta stocks are less sensitive.

**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.

**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.

**\*\*\*Please place appropriate DISCLAIMER HERE from “Jurisdiction Disclaimers 2018-01-18.docx”\*\*\***