Financial Markets Transition from LIBOR to SONIA

December 2021

SEI New ways. New answers.®

- LIBOR has historically been the most commonly used reference rate for a variety of interest-rate products.
- GBP LIBOR will be replaced by SONIA as the risk-free rate for the majority of new financial instruments in the UK.
- To support the transition a "synthetic" GBP LIBOR rate will be published through 2022 for legacy contracts.

Since 1986, The London Interbank Offered Rate, or LIBOR as it's more commonly referred to, has historically been the cash benchmark rate for a broad range of financial instruments, including some cash, fixed income and alternatives funds. It provides an indication of the average rate at which a LIBOR panel bank can obtain unsecured funding in the London interbank market for a given period, in a given currency. LIBOR is often referenced in derivative, bond and loan documentation, as well as in a range of consumer lending instruments such as mortgages. Common use of LIBOR as a reference point for new business will be discontinued after 31 December 2021. The London Interbank Bid Rate (LIBID), LIBOR's opposite as it reflects the rate at which funding is sold (bid rate) vs. LIBOR's reflection of the purchase price (ask rate), will also be discontinued.

SONIA

In the UK, the Sterling Overnight Interbank Average (SONIA), published since 1997,will replace GBP LIBOR beginning 1 January 2022. SONIA is the weighted average rate of all actual transactions above £25 million in London by money market institutions between midnight and 3:30 pm. For term dates the SONIA rate is the cumulative overnight rates for that period, differing from LIBOR set for future time periods.

A closer look at the transition

The UK Financial Conduct Authority (FCA) and ICE Benchmark Administration (IBA) have announced that all calculations across GBP LIBOR, JPY LIBOR, CHF LIBOR and Euro-LIBOR will be discontinued after 31 December 2021, as well as 1-week and 2-month USD LIBOR calculations. Five additional USD LIBOR calculations will continue to be published until June 2023. These should not be used for new contracts subsequent to 31 December 2021.

Given the broad historical usage of LIBOR a "Fallback Rate" to GBP LIBOR will be published for the duration of 2022, after which it is currently expected to cease. This will be a spread to SONIA. The spread adjustment calculation methodology has been agreed upon and will be calculated and published daily for each tenor using a five-year historical median calculation. These fallback rates will be used for derivative transactions traded under the International Swaps and Derivatives Association (ISDA) as well as other financial instruments broadly.

Comparing GBP LIBOR and SONIA

	GBP LIBOR	SONIA
Administrator	IBA	Bank of England
Secured	No	No
Overnight Rate	No	Yes
Term Rate	Yes	No – compounded daily
Credit risk	Yes	No
Determination period	Forward looking determined in advance by panel banks	Backward looking after observed transactions, often lagged to facilitate settlement

Determining SONIA from observed transactions promotes its transparent setting. The potentially subjective contributions of panel banks to LIBOR can lead to greater opacity, which the transition to SONIA addresses.

How does this impact SEI portfolios?

GBP interest rate derivative (IRD) markets speedily embraced SONIA. Nearly 80% of DV01 traded in GBP referenced SONIA as reported by ISDA in November 2021. This level of adoption is key to a functioning market. Other markets have trailed this rate of adoption.

The “Fallback Rate” ensures a clear plan for transitioning these instruments.

SEI is operationally set up and has been trading financial instruments linked to SONIA across our fund range.

Where legacy contracts reference GBP LIBOR, SEI welcomes the published methodology and “Fallback Rates” and has established processes to apply these where necessary.

Important Information

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. Positioning and holdings are subject to change. All information as of the date indicated. There are risks involved with investing, including possible loss of principal. This information should not be relied upon by the reader as research or investment advice, (unless you have otherwise separately entered into a written agreement with SEI for the provision of investment advice) nor should it be construed as a recommendation to purchase or sell a security. The reader should consult with their financial professional for more information.

Statements that are not factual in nature, including opinions, projections and estimates, assume certain economic conditions and industry developments and constitute only current opinions that are subject to change without notice. Nothing herein is intended to be a forecast of future events, or a guarantee of future results.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such sources are believed to be reliable, neither SEI nor its affiliates assumes any responsibility for the accuracy or completeness of such information and such information has not been independently verified by SEI.

There are risks involved with investing, including loss of principal. 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. Returns may increase or decrease as a result of currency fluctuations. Past performance is not a reliable indicator of future results. Diversification may not protect against market risk.

Bonds and bond funds will decrease in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. TIPS can provide investors a hedge against inflation, as the inflation adjustment feature helps preserve the purchasing power of the investment. Because of this inflation adjustment feature, inflation protected bonds typically have lower yields than conventional fixed rate bonds. Commodity investments and derivatives may be more volatile and less liquid than direct investments in the underlying commodities themselves. Commodity-related equity returns can also be affected by the issuer's financial structure or the performance of unrelated businesses.

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.

The information contained herein is for general and educational information purposes only and is not intended to constitute legal, tax, accounting, securities, research or investment advice regarding the strategies or any security in particular, nor an opinion regarding the appropriateness of any investment. This information should not be construed as a recommendation to purchase or sell a security, derivative or futures contract. You should not act or rely on the information contained herein without obtaining specific legal, tax, accounting and investment advice from an investment professional.

Information issued in the UK 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. Investments in SEI Funds are generally medium- to long-term investments.

The offer or invitation to subscribe for or purchase shares of the Sub-Funds (the "Shares), which is the subject of this Information Memorandum, is an exempt offer made only: (i) to "institutional investors" pursuant to Section 304 of the Securities and Futures Act, Chapter 289 of Singapore (the "Act"), (ii) to "relevant persons" pursuant to Section 305(1) of the Act, (iii) to persons who meet the requirements of an offer made pursuant to Section 305(2) of the Act, or (iv) pursuant to, and in accordance with the conditions of, other applicable exemption provisions of the Act.

SIEL has appointed SEI Investments (Asia) Limited (SEIAL) of Suite 904, The Hong Kong Club Building, 3 Jackson Road, Central, Hong Kong as the sub-distributor of the SEI UCITS funds. SEIAL is licensed for Type 4 and 9 regulated activities under the Securities and Futures Commission ("SFC")

This information is being made available in Hong Kong by SEIAL. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This information is made available in Latin America FOR PROFESSIONAL (non-retail) USE ONLY by SIEL.

Any questions you may have in relation to its contents should solely be directed to your Distributor. If you do not know who your Distributor is, then you cannot rely on any part of this document in any respect whatsoever.

Issued in South Africa by SEI Investments (South Africa) (Pty) Limited FSP No. 13186 which is a financial services provider authorised and regulated by the Financial Sector Conduct Authority (FSCA). Registered office: 3 Melrose Boulevard, 1st Floor, Melrose Arch 2196, Johannesburg, South Africa.