SEI UK Strategic Portfolios

Quarterly Investment Review

Q3 2021

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Summary

Market Overview

- The global equity rally staged a modest retreat for the third quarter, with challenges accumulating as the clock ticked toward the final hours of September.
- Developed-market equities were mixed for the period, while their emerging-market counterparts sank on deep losses from China and Brazil.
- We believe that analysts are still underestimating the earnings strength of publicly traded companies, which remains robust around the world. This could allow for upward revisions in earnings estimates—assuming that the renormalisation of global economic growth gets back on track, as we suspect it will.

Stability Focused Funds

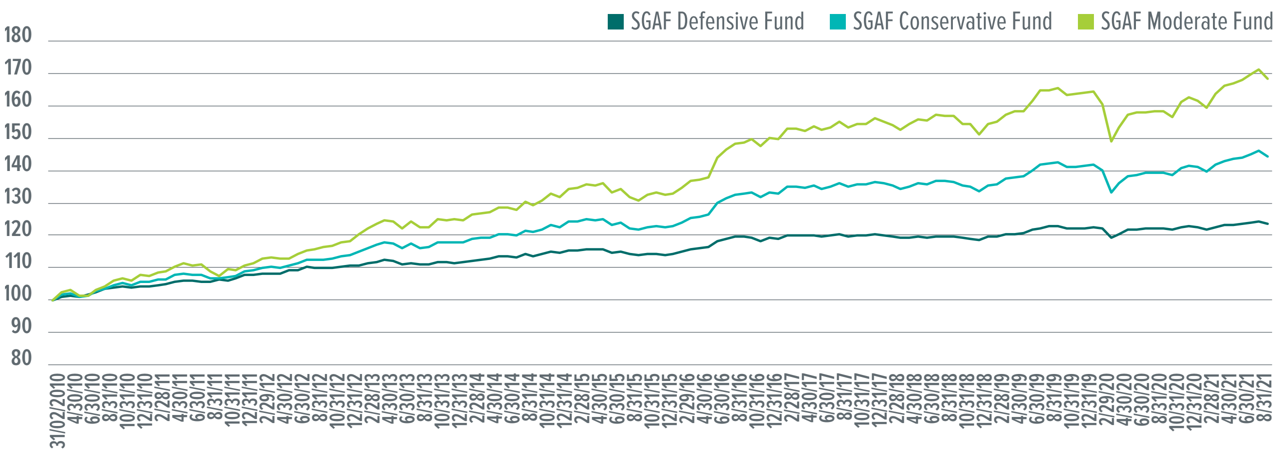
Performance

Figure 1 – Annualised performance of the Stability-Focused Strategic Portfolios

	3 month	Year-to-date	1 year	2 year*	3 year*	4 year*	5 year*
SEI Defensive Fund	-0.02%	0.45%	1.18%	0.28%	1.09%	0.78%	0.67%
SEI Conservative Fund	0.02%	1.85%	3.50%	0.51%	1.82%	1.67%	1.67%
SEI Moderate Fund	0.21%	3.69%	6.46%	0.88%	2.39%	2.40%	2.54%

Source: SEI, as at 30 September 2021. Net of fees, Sterling Wealth A Distributing share class. Past performance is not a reliable indicator of future results.
*Indicates annualised data.

Figure 2 – Long-term performance of the Stability-Focused Strategic Portfolios



Source: SEI, as at 30 September 2021. Net of fees, Sterling Wealth A Distributing share class. Net Asset Values rebased to 100 at start of period. Past performance is not a reliable indicator of future results.

Portfolio Contributions

Figure 3 – Portfolio performance drivers within the Stability-Focused Strategic Portfolios

Q3 Performance Drivers	Positioning	Key Asset Class(es)	Key Manager(s)
+ (Absolute)	Equity exposure Inflation sensitive assets	• Global Managed Volatility • Commodities, UK Inflation Linked Bonds	
– (Absolute)	High Grade Bonds Diversifying fixed income exposure into emerging markets	• UK Core Fixed Incomey • Emerging Market Debt, Global Multi Asset Income	
– (Relative)	Underweight to large oil companies, and poor stock selection within telecoms, industrials and consumer discretionary (Conservative, Moderate)	• UK Equity	• Jupiter, LA Capital
+ (Relative)	Underweight duration and yield curve positioning, overweight to asset backed and public sector bonds	• UK Core Fixed Income	• M&G, PIMCO

Figure 4 – Portfolio themes within the Stability-Focused Strategic Portfolios

Theme	Active Positioning	Rationale / Adjustment
Relative value in sovereign markets	Overweight select local currency emerging markets (Mexico, Colombia) Underweight duration in most core markets (US, Core Europe, UK) but with select overweights (Australia)	Emerging market yields remain attractive versus developed markets (in terms of real yield differentials and steeper local emerging market yield curves). EM currencies generally remain undervalued. Stubborn inflation likely to weight on duration sensitive assets. Fiscal and monetary policy remains highly accommodative despite imminent tapering by US Federal Reseve.
Environment remains supportive for credit assets	Conservatively overweight credit risk, with a lower quality and shorter maturity bias. Favouring sectors likely to benefit from a reflationary environment.	Preference for higher yielding, shorter dated credit as it provides a yield pickup with less interest rate risk. Preference for financials within corporate debt and modestly overweight to US non-agency residential mortgage backed securities and mortgage credit risk transfer securities given our constructive view on the US housing market.

These are the views and opinions of SEI which are subject to change. They should not be construed as investment advice.

Growth Focused Funds

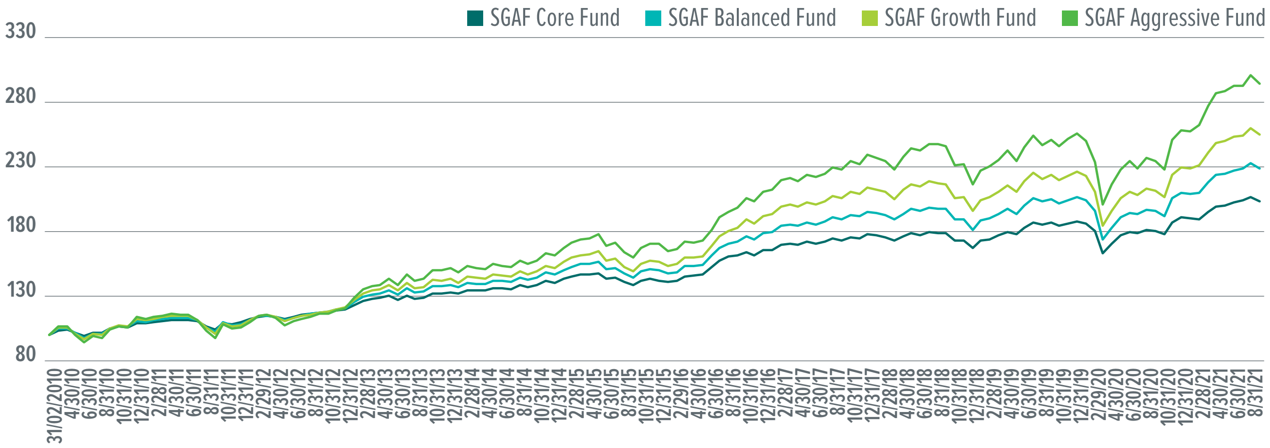
Performance

Figure 5 – Annualised performance of the Growth-Focused Strategic Portfolios

	3 month	Year-to-date	1 year	2 year*	3 year*	4 year*	5 year*
SEI Core Fund	0.30%	6.31%	12.60%	4.19%	4.34%	4.07%	4.69%
SEI Balanced Fund	0.50%	8.78%	16.78%	5.59%	5.04%	4.84%	5.78%
SEI Growth Fund	0.71%	11.02%	20.43%	6.77%	5.60%	5.47%	6.85%
SEI Aggressive Fund	0.76%	14.00%	25.46%	8.31%	6.15%	6.57%	8.24%

Source: SEI, as at 30 September 2021. Net of fees, Sterling Wealth A Distributing share class. Past performance is not a reliable indicator of future results.
*Indicates annualised data.

Figure 6 – Long-term performance of the Growth-Focused Strategic Portfolios



Source: SEI, as at 30 September 2021. Net of fees, Sterling Wealth A Distributing share class. Net Asset Values rebased to 100 at start of period. Past performance is not a reliable indicator of future results.

Portfolio Contributions

Figure 7 – Portfolio performance drivers within the Growth-Focused Strategic Portfolios

Q3 Performance Drivers	Positioning	Key Asset Class(es)	Key Manager(s)
+ (Strategic)	Inflation sensitive assets (Core, Balanced, Growth)	• UK Inflation Linked Bonds, Commodities	
– (Strategic)	Small Cap equity exposure Diversifying fixed income exposure through emerging market debt (Core, Balanced, Growth)	• US Small Companies • Emerging Market Debt	
– (Active)	Underweight to large oil companies, and poor stock selection within telecoms, industrials and consumer discretionary Value managers	• UK Equity • Global Equity • US Large Companies	• Jupiter, LA Capital • Poplar, Towle, Maj LSV
+ (Active)	Tactical overweight to commodities Good stock selection within Industrials, Healthcare and Consumer Discretionary. Avoiding lower quality cyclical companies Exposure to positive earnings momentum and value tilts within Europe	• Dynamic Asset Allocation • US Small Companies • Europe ex UK equities	• SEI • Hillsdale, Copeland • Wellington, Acadian, Metropole

Figure 8 – Portfolio themes within the Growth-Focused Strategic Portfolios

Theme	Active Positioning	Rationale / Adjustment
Reflation	Positioned to benefit from a rise in longer term US interest rates, US inflation expectations, commodities and equity markets..	While economic recovery from COVID has been uneven across sectors and geographies, we believe further progress on the vaccine front and still-supportive fiscal and monetary policies reinforces our confidence in the global recovery.
Environment remains supportive for credit assets	Modestly overweight credit risk, with a lower quality and shorter maturity bias. Favouring sectors likely to benefit from a reflationary environment.	Preference for higher yielding, shorter dated credit as it provides a yield pickup with less interest rate risk. Preference for financials within corporate debt and modestly overweight to US non-agency residential mortgage backed securities and mortgage credit risk transfer securities given our constructive view on the US housing market.
Outlook for value remains strong	Overweight Valuation focused managers	Drivers for a multi-year value rally remain in place, namely higher inflation, accelerating real economic growth and challenging valuation multiples for many fashionable growth stocks.

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Fund Commentary

While the global economic recovery continued over the third quarter, aided by the further easing of COVID-19 related restrictions by major developed economies, a number of rising concerns began to influence investor sentiment; the spread of the Delta variant, concerns around a crackdown on the private sector in China as well as the country's real estate sector, and severe global shortages of materials, transportation services and labour.

Developed equity markets produced small gains for the quarter as a whole, although UK investors experienced slightly better results thanks to a weaker currency. Emerging market developments were largely overshadowed by the Chinese government's regulatory clamp down on the for-profit education and technology sectors, which resulted in a broad sell-off in Chinese Technology stocks. Investor angst was further stoked by the imminent debt default of China's second largest property developer, Evergrande, as well as generally decelerating growth expectations across many developing economies. Deep losses from Chinese and Brazilian equity markets in particular dragged down emerging market equity returns for the third quarter, erasing the gains made earlier in the calendar year.

Across developed fixed income markets, government bond yields ended the quarter generally higher. Rates declined across the yield curve in July, before resurfacing inflation concerns and an increased hawkish tone from a number of Central Banks saw government yields rise across the major developed market economies, returning to levels last seen during late April and early May. From the Portfolios' perspective, UK inflation linked sovereign bonds were the top performing segment in fixed income markets this quarter, followed by high yield while emerging market debt and UK nominal (non-indexed) sovereign bonds experienced losses. Credit generally struggled as spreads widened from their mid-year lows, although higher yielding US corporate bonds ended the quarter marginally positive.

Returning to equity markets, from a factor perspective, Value marginally underperformed for the quarter as concerns around the COVID-19 Delta variant dragged down industrials and consumer discretionary stocks that are exposed to transportation and logistics.

Returns from Quality were muted for the quarter; Enterprise SaaS, Telecomms and Healthcare Equipment companies, largely undisrupted by Delta, performed well whilst Consumer Staples, Industrial Machinery and Beverages were impacted by margin pressures due to higher input costs and supply chain bottlenecks.

Finally, Momentum delivered marginal outperformance this quarter, with the main contributor being Earnings Revisions. Exposure to Financials, Information Technology and Health Care sectors helped the factor, specifically through companies whose growth prospects are viewed as more resilient to Delta variant uncertainties, and somewhat less encumbered by higher interest rates. This was partially offset by exposure Consumer Discretionary, where luxury names suffered due to China demand fears and automakers lagged the broad market.

Stability Focused Funds

Returns for the SEI Defensive, Conservative and Moderate Funds were flat over the third quarter.

The Funds' exposure to equities, mostly in the form of defensive, less volatile equities, as well as their exposure to inflation sensitive assets, in the form of Commodities and UK index linked bonds, positively impacted performance. However against a backdrop of rising UK gilt yields, exposure to high grade UK fixed income, and Emerging Market Debt moderated overall returns.

From an active management perspective, the SEI Moderate Portfolio's UK equity exposure was challenged during the quarter as a result of our underweight to mega-cap oil companies and poor stock selection within telecommunications, industrials and consumer discretionary. Our value tilt detracted, as did our underweight to the highest quality stocks although our exposure to Momentum provided a positive offset. We continue to avoid lower-risk, higher-quality names in the UK on valuation grounds and maintain an overweight position towards cyclical sectors (such as industrials, financials and media) and well as the more defensive telecoms sector.

Within high grade UK fixed income, the stability-focused Funds employ PIMCO for credit selection and sector rotation across credit sectors, and M&G to generate excess returns along the UK Gilt curve. Both managers had a positive impact on the Portfolios over the quarter; PIMCO benefitted from overweights to asset-backed and public-sector bonds that added additional yield while M&G's duration underweight and yield-curve positioning added value. Overall the Portfolios continue to express an underweight duration view in most core markets (US, Europe, UK) and modest overweight to credit risk, with a lower quality and shorter maturity bias.

Growth Focused Portfolios

The SEI Core, Balanced, Growth and Aggressive Portfolios produced small positive returns over the third quarter, ranging from 0.3% to 0.8%.

With the exception of the equity only SEI Aggressive Portfolio, the growth-focused Portfolios' strategic traits were accretive to performance over the quarter. While the Portfolios' allocations to US smaller companies and Emerging Market Debt proved to be headwinds to performance (large cap stocks in the US outperformed the smaller-cap complex over the quarter while the combination of rising emerging market government bond yields and weaker currencies weighed on Emerging Market Debt), our allocations to inflation sensitive assets, in the form of Commodities and UK inflation linked bonds, more than offset this.

In terms of the active management decisions taken within the equity components of these Portfolios, results were mixed. This is predominately due to our overweight to Value, which, despite a comeback in the last few weeks of the quarter, remained marginally behind for the overall period. The Portfolios' UK equity exposure was challenged during the quarter as a result of our underweight to mega-cap oil companies, which partially reflects their concentration in the UK equity market, and poor stock selection within telecommunications, industrials and consumer discretionary.

Globally, our Momentum and Quality managers enjoyed more favourable market conditions for their processes and outperformed. The Portfolios' also benefitted from their success in US smaller companies, where good stock selection within industrials and the avoidance of lower-quality cyclical companies in this sector aided returns, and European (excluding UK) equities, where our exposure to companies with positive earnings momentum aided returns as well as our value orientated manager, Metropole Gestion, who benefitted from the rotation into Value in September.

Tactical Asset Allocation

The Portfolios' tactical asset allocation positions contributed positively to the growth-focused Portfolios over the quarter. Our exposure to broad commodities was the strongest contributor, largely driven by the strength in the energy sector, while our US inflation swaps also had a positive impact. Our pro-cyclical equity exposure was a modest detractor over the quarter.

In terms of our overall positioning, we continue to express a diversified 'reflation' theme in the Portfolios. During the quarter, a position designed to benefit from a steeper US yield curve expired in the money. The position, initiated 3 years ago, made a positive contribution to performance since its inception. We also increased an existing position designed to benefit from higher long term interest rates in the US.

Finally, we initiated a put spread to partially hedge against a modest decline in the US equity market, providing downside protection within a certain range of returns. While we believe there is a low likelihood of a severe decline in the US equity market, we do believe there are a number of factors that support a position at this time. First and most importantly, pricing for this type of downside protection is attractive relative to history. Second, there are a number of factors at work, including the potential impact of COVID variants on economic activity, fiscal uncertainty, and stretched equity valuations that have raised the risk of a pullback. We therefore believes a moderate reduction in risk implemented through options allows us to maintain our favourable long-term outlook while adding some short-term protection.

Outlook and Positioning

While supply chain disruption, lingering inflation and political dysfunction all present potential short-term headwinds, we believe that global economic growth will continue at a rate that significantly exceeds the sluggish pace that prevailed following the 2007-2009 global financial crisis over the next year or two.

Globally, the earnings of publicly traded companies also remain robust, and we believe analysts are still underestimating their strength. With the exception of Japan, earnings estimates for 2021 have been raised dramatically versus just six months ago. Forecasts for 2022, on the other hand, have been cut in half from where they were six months ago, but earnings still are expected to show mid-to-high single-digit gains.*

This lowering of the bar for next year could allow for upward revisions in earnings estimates, assuming - as we do - that the renormalisation of global economic growth gets back on track with wider vaccine distribution and a declining Delta wave.

Across the Portfolios, our positioning remains fairly consistent. In global fixed-income markets, we remain pro-cyclically positioned for the potential of a global reflationary environment. Yields are still low, and we expect inflation to be sticky for the foreseeable future. In this environment, we believe credit-sensitive assets have the potential to outperform. Within government bonds markets we remain underweight duration in the core markets (US, core Europe and UK). Within corporate credit, we have a preference for lower-quality and shorter-maturity issues, which limits our sensitivity to interest rate moves.

Within equities, the Portfolios target strategic allocations to Value, Momentum and Quality as our key alpha sources while maintaining a tilt towards Value. While Value has started to perform this year, it has been in an uneven and choppy manner. Indicators such as valuation dispersion, hovering at levels close to the peak of the internet bubble of the late 1990s, continue to signal an attractive outlook for this factor while our expectations for the cyclical recovery and higher inflation further support this positioning.

Manager Changes

Wellington Management International Limited was removed from the UK Core Fixed Interest building block during the quarter. We believe the removal of Wellington and addition of M&G will allow the Fund to put focus on the inefficiencies in UK rates going forward, and balances PIMCO Europe Ltd.'s credit selection and sector rotation across spread assets in the Fund.

M&G Investments Management Ltd was added to the UK Core Fixed Interest building block during the quarter. M&G's strategy aims to generate excess return along the UK Gilt curve, and reduces the amount of active risk the Fund takes in currency and other global rates curves.

*Source: I/B/E/S, MSCI, Yardeni Research Inc., SEI. Growth rates are given in local-currency terms. Data as at 21/9/2021

Global Market Performance

Representative market indices

Figure 9 – Major Market Data

Equity Indices	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
MSCI World Index (Net) (Hedged) (GBP)	0.5%	14.8%	28.6%	17.2%	11.7%	11.6%	12.6%
Russell 1000 Index (Net 30%) (USD)	0.1%	14.8%	30.4%	22.7%	15.8%	16.1%	16.5%
MSCI Europe ex UK Index (Net) (EUR)	0.4%	15.6%	27.6%	11.3%	9.7%	7.3%	9.6%
MSCI Pacific ex-Japan Index (Net) (USD)	-4.4%	4.8%	25.8%	8.7%	6.8%	6.1%	7.7%
Tokyo Stock Exchange TOPIX (JPY)	5.3%	14.7%	27.5%	15.6%	6.2%	7.4%	11.4%
MSCI Emerging Markets Index (Net) (GBP)	-5.8%	0.1%	13.3%	9.3%	7.4%	6.0%	8.4%
MSCI Emerging Markets Index (Net) (GBP)	-5.8%	0.1%	13.3%	9.3%	7.4%	6.0%	8.4%

Fixed Income	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
ICE BofA UK Gilts All Stocks Index (GBP)	-1.8%	-7.4%	-6.9%	-1.8%	3.0%	2.4%	1.2%
Bloomberg Global Treasury Index (GBP Hedged)	0.0%	-2.1%	-1.9%	0.4%	3.3%	2.4%	1.4%
Bloomberg Global Aggregate Index (GBP Hedged)	0.0%	-1.5%	-0.8%	1.2%	3.7%	2.6%	1.8%
Bloomberg Global Aggregate ex-Treasury Index (GBP Hedged)	0.1%	-0.9%	0.5%	2.1%	4.1%	2.8%	2.2%
ICE BofA US High Yield Constrained Index, Hedged (GBP)	0.9%	4.6%	11.1%	5.7%	5.2%	4.2%	4.9%
50/50 JPM EMBI Glob Div (H) & GBI EM Glob Div(GBP)	-0.7%	-3.3%	1.2%	-1.0%	3.5%	1.6%	2.0%

Cash	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
ICE LIBOR 3 Month GBP (TR) (GBP)	0.0%	0.1%	0.1%	0.3%	0.5%	0.5%	0.5%

Commodities	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
Oil (ICE Brent Crude)	8.2%	54.3%	71.9%	18.9%	3.6%	9.0%	5.2%
Gold ($/oz)	-0.7%	-7.4%	-6.8%	9.2%	13.8%	8.2%	6.0%
Bloomberg Commodity Index (USD)	6.6%	29.1%	42.3%	14.3%	6.9%	5.8%	4.5%

Commodities	9/30/21	6/30/21	12/31/20	9/30/20	9/30/19	9/30/18	9/30/17	9/30/16
Oil (ICE Brent Crude)	$78.31	$72.37	$50.75	$45.55	$55.42	$70.34	$55.47	$60.68
Gold ($/oz)	$1,756.95	$1,770.11	$1,898.36	$1,885.82	$1,472.49	$1,190.88	$1,279.75	$1,315.87
Bloomberg Commodity Index (USD)	215.1673	201.8662	166.631	151.2189	164.7214	176.3125	171.8648	172.3635

Source: IMU Data Portal, Bloomberg. Data to 30 September 2021.
*Periods greater than 1 year are annualised.
Data refers to past performance. Past performance is not a reliable indicator of future results.

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To speak with an SEI specialist, contact:

sei_intermediaries@seic.com
+44 (0)20 3810 8001

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