SEI UK Strategic Portfolios

Quarterly Investment Review

Q4 2020

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Summary

Market Outlook

- The fourth quarter of 2020 began at a crossroad: September delivered the first monthly loss for risk assets since the start of a rally in March, and a recovery stumbled in mid-October as a new wave of COVID-19 cases accumulated around the globe. A sharp early-November advance coincided with the U.S. presidential election, with the market then propelled higher through the end of the calendar year by a series of constructive announcements relating to the effectiveness, approval, and distribution of COVID-19 vaccines.
- Emerging-market equities outpaced developed markets for the fourth quarter, pushing their full-year performance ahead as well. UK shares led among major developed markets during the quarter, but still ended up with a sizeable loss for the calendar year. European and Japanese shares followed the UK for the quarter; both delivered positive returns for the full year, but Japan fared much better than Europe
- Meanwhile, US shares had a comparably modest quarter (albeit with a double-digit gain), but had the top major developed-market performance in 2020. Sector-level performance was shaken up during the final three months of the year: energy and financials—the top performers by a wide margin—lagged for most of 2020 and turned in full-year losses despite their huge fourth-quarter rallies.
- UK and Eurozone government-bond rates declined for the full fourth quarter. UK rates climbed through October and November, before dropping sharply across the yield curve in December. Eurozone rates tumbled across the curve in October, before bouncing higher during November; mixed movements in December resulting in a steeper overall curve.1 US Treasury rates generally increased throughout the fourth quarter, with the 10-year Treasury rate rising by more than any other maturity

Market Overview

The end of the year forced a scramble of deal-making on both sides of the Atlantic. EU and UK negotiators attained a measure of resolution on Christmas Eve with an agreement governing some terms of their ongoing relationship.

- Trade in services, which includes the financial industry, was not addressed under the scope of the deal, and each party's citizens will once again be subject to visa restrictions when working or travelling for an extended period in the other party's jurisdiction.
- The Bank of England's Monetary Policy Committee expanded its quantitative-easing programme at its early-November meeting, committing a fresh £150 billion toward bond purchases for a total of £895 billion. There were no additional policy changes at its mid-December meeting. The Committee's latest quarterly report projected that the UK economy could contract by 11% in 2020, 2a deterioration from the 5.4% contraction estimated a quarter earlier.
- UK manufacturing activity continued to grow at a healthy rate throughout October and November before accelerating in December. The UK services sector started the fourth quarter with strong growth, which gave way to an outright contraction by November, and activity essentially maintained pace in December. The overall UK economy grew by 16% during the third quarter after falling by 19.8% in the second quarter; the economy had shrunk by 8.6% year over year through the end of the third quarter. (Source: SEI)
- The European Central Bank (ECB) made no new changes to monetary policy at its late-October meeting. Its December meeting produced a decision to increase the scale of asset purchases associated with its Pandemic Emergency Purchase Programme (PEPP) by €500 billion, for a programme total of €1.85 trillion. PEPP purchases were also extended through at least early 2022. Additionally, the ECB planned to expand the use of its Pandemic Emergency Longer-Term Refinancing Operations (PELTRO) programme, which is designed to promote bank lending through subsidised loans. (Source: SEI)

Stability Focused Funds

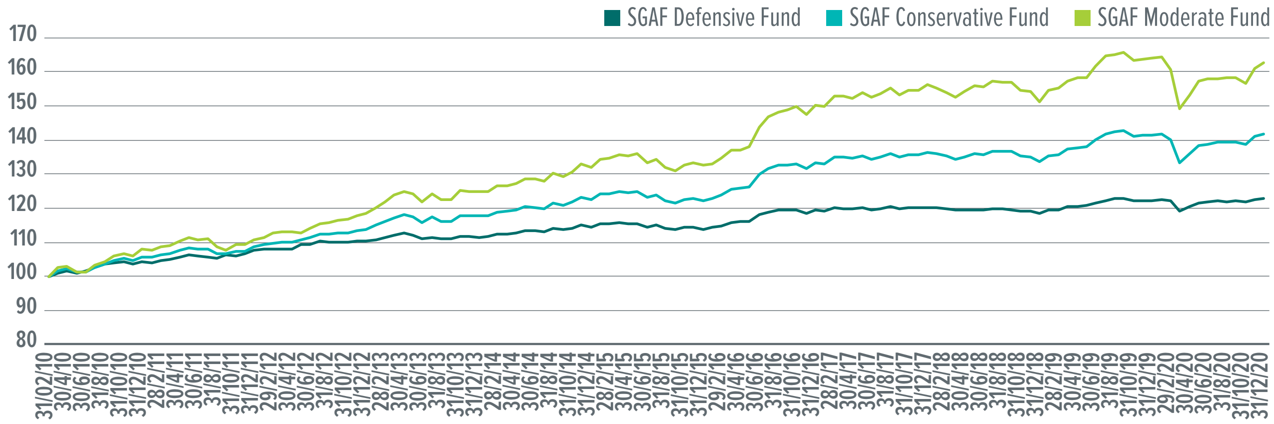
Performance

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	0.72%	0.64%	0.64%	1.83%	0.75%	0.75%	1.55%
SEI Conservative Fund	1.62%	0.16%	0.16%	2.90%	1.23%	1.50%	2.97%
SEI Moderate Fund	2.67%	-1.01%	-1.01%	3.63%	1.35%	1.98%	4.14%

Source: SEI, as at 31 December 2020. 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 31 December 2020. 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

Q4 Performance Drivers	Positioning	Key Asset Class(es)	Key Manager(s)
– (Absolute)	Low volatility equities	• Global Managed Volatility	• Wells Fargo
+ (Absolute)	Credit Inflation sensitive assets	• High Yield • Inflation Linked Bonds, Commodities	
+ (Relative)	Overweight off-index credit, select emerging markets, overweight Italian Sovereign bonds and US inflation linked bonds Overweight local currency bonds and currencies. Overweight hard currency corporate debt.	• Global Fixed Income • Global Opportunistic Fixed Income • Emerging Market Debt	• Brandywine, Colchester, AllianceBernstein • Colchester, Ninety One

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, Indonesia) Underweight duration in core markets (US, Germany, UK)	Emerging market yields remain attractive versus developed markets as do emerging market currencies. Vaccine roll out and gradual normalisation of economic activity in 2021 could see yields rise
Environment remains supportive for credit assets	Modest overweight credit risk within investment grade, overweight select local currency emerging bonds	Credit should continue to benefit from favourable technical support, including low or negative yields on government bonds and central bank asset purchase programmes.

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

Growth Focused Funds

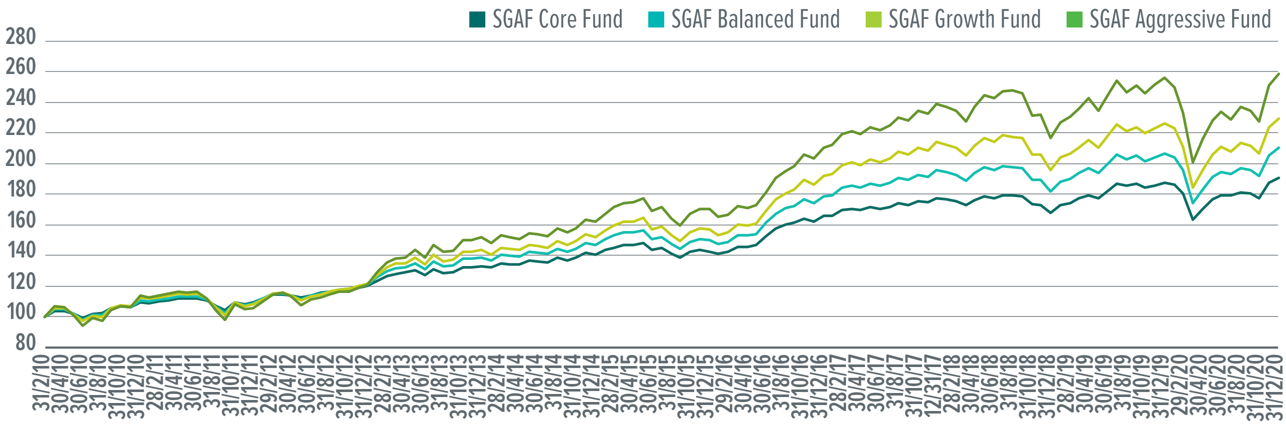
Performance

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	5.92%	1.89%	1.89%	6.70%	2.44%	3.59%	6.04%
SEI Balanced Fund	7.35%	1.76%	1.76%	7.56%	2.44%	4.10%	7.00%
SEI Growth Fund	8.48%	1.43%	1.43%	8.31%	2.40%	4.57%	7.93%
SEI Aggressive Fund	10.05%	0.95%	0.95%	9.15%	2.63%	5.27%	8.70%

Source: SEI, as at 31 December 2020. 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 31 December 2020. 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

Q4 Performance Drivers	Positioning	Key Asset Class(es)	Key Manager(s)
− (Strategic)	Low volatility equities (Core)	• Global Managed Volatility	• Wells Fargo
+ (Strategic)	US and European Smaller Companies High Yield (Core, Balanced, Growth) Commodities (Core, Balanced)		
+ (Active)	Value managers Overweight off-index credit, select emerging markets, overweight Italian Sovereign bonds Overweight local currency bonds and currencies. Overweight hard currency corporate debt.	• Global Equity, Europe ex UK • Global Fixed Income • Emerging Market Debt	• Metropole, Poplar, Towle, Jupiter • AllianceBernstein, Brandywine, Colchester • Colchester, Ninety One
− (Active)	Defensive, higher quality positioning	• US Small Companies	• Copeland

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.	A global reflationary environment will result from unprecedented levels of coordinated fiscal and monetary policies and positive developments relating to COVID-19
Environment remains supportive for credit assets	Modest overweight credit risk within investment grade, overweight select local currency emerging bonds	Credit should continue to benefit from favourable technical support, including low or negative yields on government bonds and central bank asset purchase programmes.
Significant dispersion between 'disruptors' embracing new technology and challenged industries	Overweight Valuation focused managers, underweight Stability	Wide dispersions between cheap and expensive stocks signal a positive outlook for Value. Stimulus policies likely to benefit Value.
Risks remain	Gold	Gold is a potential store of value and a portfolio diversifier

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Portfolio Commentary

Fund Commentary

It was a rocky start to the final quarter of 2020 as a new wave of COVID-19 cases around the global gave investors cause for concern. However a series of constructive announcements relating to the effectiveness, approval and distribution of a number of COVID-19 vaccines along with clarity on the political front, in terms of the U.S. presidential elections and the successful conclusion of a Brexit deal, boosted investor optimism and pushed risk assets higher over the quarter.

Economically sensitive stocks, hit hardest by COVID lockdowns, led the final quarter charge as investors switched out of defensives and highly rated growth stocks. Smaller companies, Energy and Financials were amongst the strongest performing sectors while emerging market equities outpaced developed market equities.

Looked at through an alpha source lens, the scale and pace of this rotation in equity markets, out of the recent winners into cheaper laggards caused momentum orientated strategies to underperform significantly (as they always do at inflection points), higher quality, lower risk stability stocks to lag, and cheaper, higher risk, more cyclical value stocks to outperform strongly.

Within fixed income markets, global government bond yields were range bound through the fourth quarter, as markets appeared conflicted between an anticipated economic recovery in 2021 and the prospect of continued central bank support through asset purchase programmes. However, there was some notable dispersion across advanced economies, with US government bonds lagging and European peripherals, led by Italy, posted the strongest performance.

Outside of safe haven government bonds, the market exhibited an unambiguous risk-on tone: credit spreads tightened, inflation breakevens rose and emerging market yields fell, with the USD's continued slide providing a powerful total return kicker for local currency emerging debt.

For the quarter as a whole, the Stability Focused funds returned between 0.7% and 2.7%, while the Growth Focused funds generated between 5.9% and 10.1%.

Stability Focused Portfolios

The SEI Defensive, Conservative and Moderate portfolios performed in line with expectations over the quarter.

While the risk on rally would not have favoured the lower risk portfolios' sizable allocation to defensive, lower volatility, equities, this was largely offset by the portfolios' strategic allocation to higher yielding credit and commodities and outperformance from the fixed income components.

From an active management perspective, the portfolios' global fixed income component benefitted from select positions in emerging markets, a modest overweight to credit risk, Italian sovereigns and off-index positions in US inflation-protected securities. Brandywine, Colchester and AllianceBernstein were our top contributing managers in the high grade government and credit area of the portfolio.

The emerging market debt component of the portfolios also performed well over the quarter. Colchester and Ninety One, the portfolio's local currency emerging market debt specialists, were the top contributors over the period.

Growth Focused Portfolios

Performance across the SEI Core, Balanced, Growth and Aggressive funds for the fourth quarter was strong, aided by a number of strategic allocations as well as outperformance across the fixed income strategies while results within the funds' equity components were more mixed.

From a strategy perspective, the portfolios' allocations to US and European smaller companies, higher yielding credit and commodities boosted returns for the quarter, although this was damped somewhat by the use of defensive, lower volatility equities within the SEI Core portfolio in particular.

Within equities, our higher quality positioning in US smaller companies, through managers like Copeland, and stock selection decisions within UK equities worked against the portfolios over the final quarter.

However within global developed market equities, the portfolios' benefited from their pro-cyclical, contrarian positioning with an overweight to fundamental value managers, through the likes of Metropole (Europe), Poplar and Towle (US) and Jupiter (UK), who benefited from the rotation into cyclically sensitive areas of the market over the quarter.

Finally, the portfolios' emerging market equity managers, in aggregate, made a positive contribution over the quarter. RWC was a notable outperformer, benefitting from good stock selection across Asian consumer discretionary stocks.

Active Asset Allocation

We believe that a global reflationary environment will emerge from the unprecedented levels of coordinated fiscal and monetary policies, as well as the positive development relating to the COVID-19 pandemic.

Central bank rhetoric continues to indicate that policy rates are on hold for the foreseeable future and that higher inflation would be welcomed. Fiscal responses to the pandemic have been significantly more concerted than they were during the global financial crisis of 2007-2009, including direct-to-consumer payments, unemployment insurance extensions, and grants and loans to small businesses, hospitals and local governments. We also expect additional rounds of fiscal measures to help address the more recent lockdown efforts.

Towards the end of the quarter, we added to, and diversified, our reflation theme within the portfolios. Specifically we have added long exposure to 1) 10-year US breakevens (which will benefit the portfolios should the market's expectation for future inflation in the US over the next 10 years increase), 2) commodities, 3) US equities and 4) non-US equities.

We have retained our positon in gold. We continue to view gold as a safe haven asset during periods of market volatility, a portfolio diversifier and, with soaring global debt levels, increasingly likely to be seen as a store of value.

Positioning

The SEI Strategic Portfolios are positioned for a pro-cyclical economic rebound in 2021, in anticipation of vaccine roll-out programmes and normalisation of economic activity. Notwithstanding the very large output gaps that have resulted from the demand destruction caused by the pandemic, we are also positioned to take advantage of a pick-up in longer term inflation expectations.

With the fixed income components, positioning remains broadly unchanged. While we recognise that most of the capital gains from spread-compression are now largely behind us, we still think that the medium-term outlook for credit remains supportive, helped by vaccine optimism, ultra-loose monetary policy and the low (including negative) yields available on government bonds.

Within equities, we are maintaining our overall positioning in value orientated strategies. Indicators such as valuation dispersion forecast an extremely attractive outlook for value. Additionally our views are implemented through active managers, whose stock selection is expected to deliver additional returns in excess of the market over the long term.

Manager Changes

Acadian Asset Management replaced AJO's momentum strategy in the portfolio's US Large Companies sleeve in November. Acadian, with its well-resourced and well-experienced team, have a process that is quantitative in nature, focusing on the drivers of outperformance for the momentum alpha source.

In December, we have replaced Lazard with Robeco within the Emerging Market Equity sleeve of the portfolios. Lazard's strategy provided various degrees of exposure to factors at various times, depending on market conditions. However, based on our current manager line-up and the market environment, we have replaced Lazard with Robeco that is expected to provide consistent value exposure over time.

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)*	12.0%	11.7%	11.7%	18.4%	8.7%	10.9%	10.3%
FTSE UK Series All Share Index *(GBP)*	12.6%	-9.8%	-9.8%	3.7%	-0.9%	2.4%	5.1%
Russell 1000 Index *(Net 30%) (USD)*	13.6%	20.3%	20.3%	25.4%	14.2%	15.9%	14.9%
MSCI Europe ex UK Index *(Net) (EUR)*	10.5%	1.8%	1.8%	13.7%	4.9%	6.5%	5.6%
MSCI Pacific ex Japan Index *(Net) (USD)*	20.1%	6.6%	6.6%	12.3%	4.2%	9.2%	9.0%
Tokyo Stock Exchange TOPIX *(JPY)*	11.2%	7.4%	7.4%	12.6%	2.2%	6.8%	5.5%
MSCI Emerging Markets Index *(Net) (GBP)*	13.2%	14.7%	14.7%	14.3%	5.8%	10.4%	14.5%

Fixed Income	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
Bank of America Merrill Lynch UK Gilts All Stocks Index *(GBP)*	0.6%	8.3%	8.3%	7.6%	5.2%	4.4%	5.5%
Bloomberg Barclays Global Treasury Index *(Hedged) (GBP)*	0.2%	4.6%	4.6%	5.1%	3.8%	3.1%	3.2%
Bloomberg Barclays Global Aggregate Index, Hedged *(GBP)*	0.8%	5.0%	5.0%	5.7%	3.8%	3.3%	3.4%
Bloomberg Barclays Global Aggregate ex-Treasury Index *(Hedged) (GBP)*	1.4%	5.3%	5.3%	6.4%	3.8%	3.6%	3.6%
Bank of America Merrill Lynch US High Yield Constrained Index, Hedged *(GBP)*	6.2%	4.6%	4.6%	8.3%	4.1%	4.6%	6.9%
50/50 JP Morgan EMBI Global Dividend & JP Morgan GBI-EM Global Dividend *(GBP)*	3.1%	-1.3%	0.2%	4.0%	2.7%	3.5%	6.5%

Cash	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
LIBOR 3 Month GBP *(TR) (GBP)*	0.0%	0.3%	0.3%	0.6%	0.6%	0.6%	0.5%

Commodities	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
Oil *(ICE Brent Crude)*	18.4%	-13.6%	-13.6%	-4.4%	-3.7%	-3.0%	-2.1%
Gold *($/oz)*	0.7%	25.1%	25.1%	21.7%	13.4%	13.4%	12.3%
Bloomberg Commodity Index *(USD)*	10.2%	-3.1%	-3.1%	2.1%	-2.5%	-1.5%	1.0%

Commodities	12/31/20	9/30/20	12/31/19	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Oil *(ICE Brent Crude)*	$51.82	$43.78	$59.96	$59.96	$56.72	$58.08	$58.49	$57.60
Gold *($/oz)*	$1,898.36	$1,885.82	$1,517.27	$1,517.27	$1,282.49	$1,302.80	$1,147.50	$1,061.10
Bloomberg Commodity Index *(USD)*	166.631	151.2189	172.0042	172.0042	159.7202	179.9572	176.9417	158.3135

Source: Bloomberg. Data to 31 December 2020.
*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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