SEI Strategic Portfolios:

April 2020 Monthly Commentary

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Global markets shrug off Corona-virus fears, peering through the crisis to a vision where company revenues rebound quickly and there is limited economic impact

Executive Summary

- Stock markets around the world continued to face off against COVID-19 throughout April as both equities and infection rates underwent near-relentless expansions. Nevertheless, shares advanced globally almost without exception during the month as forward-looking investors seemed to identify sources of encouragement, including plans to slowly reopen economic activity in some regions and developments in the race for COVID-19 treatments and vaccinations.

- US and UK government-bond rates fell across all maturities during month. In the eurozone, long-term rates fell as shorter- and intermediate-term rates increased somewhat. The West-Texas Intermediate (WTI) spot oil price plummeted below zero US dollars per barrel for the first time in history – briefly touching -$40 per barrel in April as its contract for May delivery neared expiration; the June contract traded between $10 and $20 per barrel through the end of April. Despite a 23-nation agreement led by the US, Saudi Arabia and Russia to cut production by nearly 10 million barrels per day, oil inventories were projected to reach full storage capacity at some point in 2020.

- Considering the stability-focused Strategic Portfolios, absolute returns benefited from falling rates around the world, while relative returns were boosted by a combination of beneficial duration positioning and overweights to economically sensitive debt. Consistent with its design, the Global Managed Volatility Equities fund lagged in a rising equity market but was able to provide meaningful risk reduction.

- For the growth-focused Strategic Portfolios, some of the challenges faced by value managers in recent quarters eased somewhat in April, particularly in the US. Our core investment case for our overweight to this area remains the same: relative valuations compared to parts of the market where multiples seemingly are based on investor's hopes of certain companies doubling or tripling their revenues in the next few years, despite or perhaps because of the conditions. SEI believes this is speculation and not investing. To add to the rationale, SEI believes that the post-crisis environment may provide further support for this positioning, given that the huge stimulus being provided may drive inflation higher, which historically has been very positive for Value stocks.

- SEI believes checking your portfolio's balance every day can be about as helpful as watching the news these days - it will not do anything to ease your nerves. At a portfolio level, we encourage investors to stay diversified and avoid short-term trading in these volatile markets. If you are a goals-based investor and your portfolio is aligned with your goals, time horizon and risk tolerance: be patient. Time should be on your side.

Market Overview

- US shares outperformed other major developed markets in April as the S&P 500 Index generated its highest one-month return since 1987 and volatility was nearly halved (according to the CBOE Volatility Index, or ‘VIX’ Index). While the UK, along with most European countries, Japan, and emerging-market giant China lagged the US, each finished high above their respective average one-month returns (according to country-level components of the MSCI ACWI Index).

- In the US, the $349 billion in stimulus funds allotted for small businesses through the Paycheck Protection Program (PPP) in late March was depleted in a matter of weeks, requiring Congress to authorise an additional $321 billion in funding by mid-April to keep the programme in place.

- US jobless claims climbed to approximately 30 million from mid-March through the end of April, representing that roughly 20% of the US labour force has applied for unemployment insurance. Overall economic activity contracted by an annualised 4.8% rate during the first quarter for the lowest reading since the fourth quarter of 2008.

- The US Federal Open Market Committee met in late April and announced no new changes. In a post-meeting press conference, Federal Reserve (Fed) Chair Jerome Powell pressed lawmakers to “use the great fiscal power of the United States to do what we can to support the economy.”

- President Donald Trump issued an executive order in April to suspend immigration for 90 days, denying work visas for most types of jobs. He also invoked the Defense Production Act of 1950 in an effort to force meat-processing plants to remain open, despite labour unions’ concerns about the danger of working in close quarters during the pandemic.

- Elsewhere, Germany began reopening on 20 April, with plans for a phased return to schools starting in May, and clear benchmarks for returning to lockdown in the event of resurgent spread of COVID-19. Overall eurozone economic activity contracted by 3.8% during the first quarter—the worst decline since the EU began keeping records for euro area gross domestic product (GDP) in 1995.

- The European Central Bank (ECB) lowered the rate on its targeted long-term refinancing operation (TLTRO III) further into negative territory following its end-of-April meeting, effectively paying banks to lend. The ECB also announced a new programme called the pandemic emergency longer-term refinancing operations (PELTROs) to help facilitate proper functioning of money markets.

- The UK government continued to build out its Coronavirus Job Retention Scheme during April, extending the programme by another month until the end of June. It also increased the ceiling on a loan-guarantee programme.

- The Bank of England’s (BoE) Monetary Policy Committee did not meet during April. BoE Governor Andrew Bailey sought to reaffirm the central bank’s commitment to avoiding monetary financing (that is, purchasing government debt to fund deficits) by assuring that any expansion in the government’s overdraft would be repaid by the end of 2020.

- Manufacturing activity collapsed during April across the UK, eurozone and US after contracting at a relatively mild pace in March. Retail sales plummeted 5.1% in the UK during March and 5.8% year over year.

- In stark contrast to the market’s behaviour, the International Monetary Fund (IMF) forecasted the worst recession since the Great Depression as a result of COVID-19 containment measures, and announced that half of all member countries have requested a bailout from the lender of last resort.

Key Asset Class Reviews

- **Global Opportunistic Fixed Income:** The building block's credit beta was gradually increased throughout the month, which helped performance as credit spreads tightened. AllianceBernstein's government-related mandate gained on off-benchmark exposure to corporates and US Treasury inflation-protected securities ("TIPS"). Schroder Investment Management benefited from an overweight to credit beta. Wellington's global government-related mandate struggled on a duration underweight in the euro, a currency underweight to the yuan and selection within agency-backed securities.

- **Global Managed Volatility Equities:** The building block achieved meaningful risk reduction in April, but struggled on the back of pronounced style headwinds to low-volatility names during a strong market rebound. Its value bias and underweight to the US also detracted. Acadian Asset Management's multi-factor model performed well thanks to a more balanced allocation to low-volatility names. The manager also benefited from selection within US insurance names and some exposure to gold, which recovered in Canada and Australia. Wells Fargo Asset Management struggled due to its deeper low-volatility exposure, particularly a large overweight to consumer staples and underweight to US names.

- **Global Equities:** A strong risk rebound indirectly helped the building block's deep value US managers, who held on to their oversold holdings. In a month dominated by a risk rebound, relative positioning was a key determinant of performance. LSV's Managed Volatility strategy was the largest detractor as investors shifted into risk-on positioning. US value managers Poplar and Towle outperformed mostly due to holding their nerve and retaining the same cheap, volatile, but also oversold positions from earlier in the year. Towle's results were particularly strong as the risk rebound was most concentrated within the US small cap segment of the market.

Manager Changes

- N/A

Outlook

- The sudden and widespread stop in economic activity by government fiat is something that has never before been experienced on such a scale. The ultimate impact on GDP is truly anybody's guess, and the second quarter will likely be one for the record books. Wall Street economists forecasted a quarter-to-quarter annualised decline ranging from an average of about -25% to as low as -42% as of l early May.

- National governments have been quick to respond. All central banks are in crisis-fighting mode, having learned valuable lessons during the 2008-to-2009 great financial crisis, re-establishing unconventional bond-buying programmes, and creating some new facilities to expand the types of accepted collateral in order to extend cash to companies that need it.

- The Fed and other leading central banks have moved with an alacrity and forcefulness that we find commendable. But central banks cannot single-handedly support this economic shutdown. In SEI's view, fiscal policy, in the form of direct income support, tax deferrals, loan guarantees and outright bailouts of industries badly damaged by the halt of economic activity, must be the prime tool used to conduct the response to this crisis.

- The fiscal response is occurring with a speed and decisiveness that has seldom been seen. The U.S. Congress has passed into law a fiscal response that should top 10% of GDP, meaning that the overall deficit this year in the US could approach 15% of GDP. Even before the ink dried on the latest package, there already is talk of the need for another funding package for states and local governments.

- Other developed countries are looking to pursue a similar strategy of massive income support and liquidity injections. Germany, a country that typically keeps its wallet closed, is setting the example for Europe. The government has proposed a package equivalent to a whopping 30% of the country's GDP, counting contingencies.

- Few other countries in Europe have the fiscal strength of Germany. Italy, the European epicentre of the virus, will be particularly hard-pressed to do all that will be needed to stabilise its economy. Italy's government debt-to-GDP ratio is already well above other major European countries.

- Commentators have cited that the only way a financial crisis can be averted is through the ECB backing up the debt. This is now-or-never time for the EU and Eurozone. There are arguments that the stronger countries should come to the aid of the weaker, or face an intensified popular backlash that could threaten the unity of the economic zone.

- If there is a belief that the fiscal and monetary measures taken in the past two weeks will successfully prop up the global economy, then markets should prove resilient. SEI believes that a great deal of volatility is still ahead of us; investors should also steel themselves for a potential meaningful decline in markets, should the economic news become overwhelming and a resurgence in infection rates in key countries become evident. In this event, SEI's message will be the same: investors should avoid the pitfalls of market timing and stay the course.

- During periods of chaos in financial markets, investors often picture professional portfolio managers frantically trading in an effort to avoid the worst of the carnage while seeking opportunities to profit. At SEI, that reality could not be further from the truth.

- SEI is remaining steadfast to our investment philosophy and process, remaining disciplined in our positioning, maintaining our view that diversification is a sound approach over full market cycles, which include bull markets (some of which last for more than a decade) and bear markets (which can vary in terms of length and severity).

- SEIs builds and maintains long-term-oriented portfolios by being attuned to the evolving correlations, or relationships, between asset classes. SEI continues to believe our multi-asset, diversified strategies are robust and built to handle environments just like this.

A copy of the Prospectus can be obtained by contacting your Financial Advisor, SEI Relationship Manager or using the contact details below.

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.

Fluctuations or movements in exchange rates may cause the value of underlying internal investments to go up or down. Investors may not get back the original amount invested. SEI Funds may use derivative instruments which may be used for hedging purposes and/or investment purposes.

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.

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- 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.
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