SEI UK Strategic Portfolios

Quarterly Investment Review

Q2 2021

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Summary

Market Overview

A path to a strong restart

- It looks to be full-steam ahead for the global economy and the rally in risk assets (equities, commodities, high-yield bonds, real estate and currencies).
- Equity and equity-like fixed income markets delivered gains in Q2 2021, while concerns over the state of the pandemic partially reversed the 'great rotation/reopening' trade.
- The big question is whether the inflationary pressures seen this year are as transitory as central bankers claim.
- Potential stock market movers include global central-bank actions on interest rates, US political support for fiscal stimulus/tax hikes and COVID-19.

Stability Focused Funds

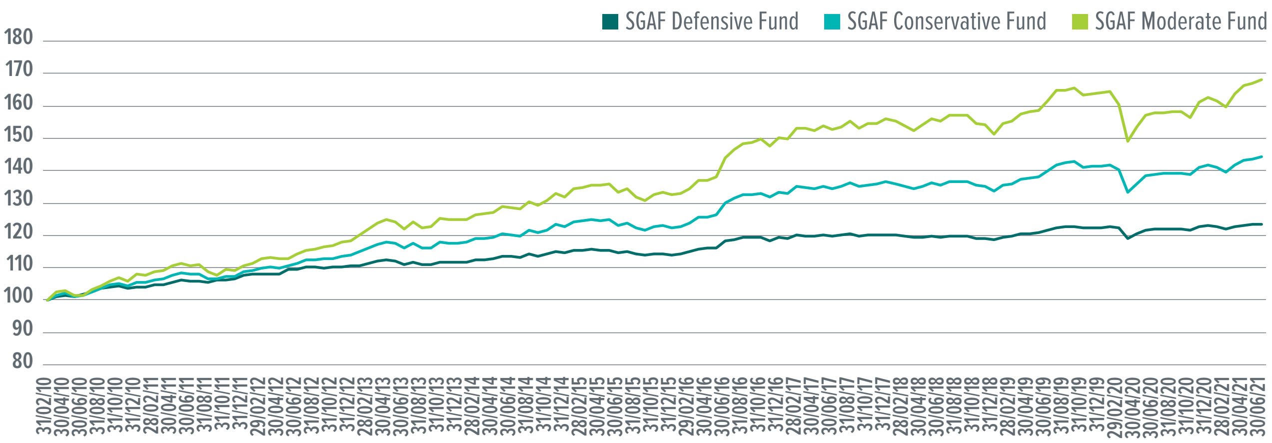
Performance

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	0.77%	0.47%	1.42%	0.78%	1.15%	0.81%	0.89%
SEI Conservative Fund	1.72%	1.82%	3.92%	1.50%	2.05%	1.76%	2.10%
SEI Moderate Fund	2.74%	3.47%	6.52%	2.02%	2.65%	2.47%	3.17%

Source: SEI, as at 30 June 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 June 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

Q2 Performance Drivers	Positioning	Key Asset Class(es)	Key Manager(s)
+ (Absolute)	Equity exposure Higher yielding fixed income Inflation sensitive assets	• Global Managed Volatility, UK equities • High Yield, Emerging Market Debt • UK Inflation Linked Bonds, Commodities	
+ (Relative)	Exposure to higher quality UK companies and positive selection within UK retail (Moderate) Positive selection within energy, chemicals and media in the high yield bond market (Conservative, Moderate) Risk on positioning in lower quality EM countries and longer duration positions that outperformed in the rally (Conservative, Moderate)	• UK Equity • High Yield • Emerging Market Debt	• Lindsell Train • Brigade, T.Rowe, JP Morgan • Colchester, Neuberger Berman, 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, Core Europe, UK)	Emerging market yields remain attractive versus developed markets as do emerging market currencies. Coordinated monetary and fiscal policies support a reflationary outcome.
Environment remains supportive for credit assets	Conservatively overweight credit risk, with a lower quality 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

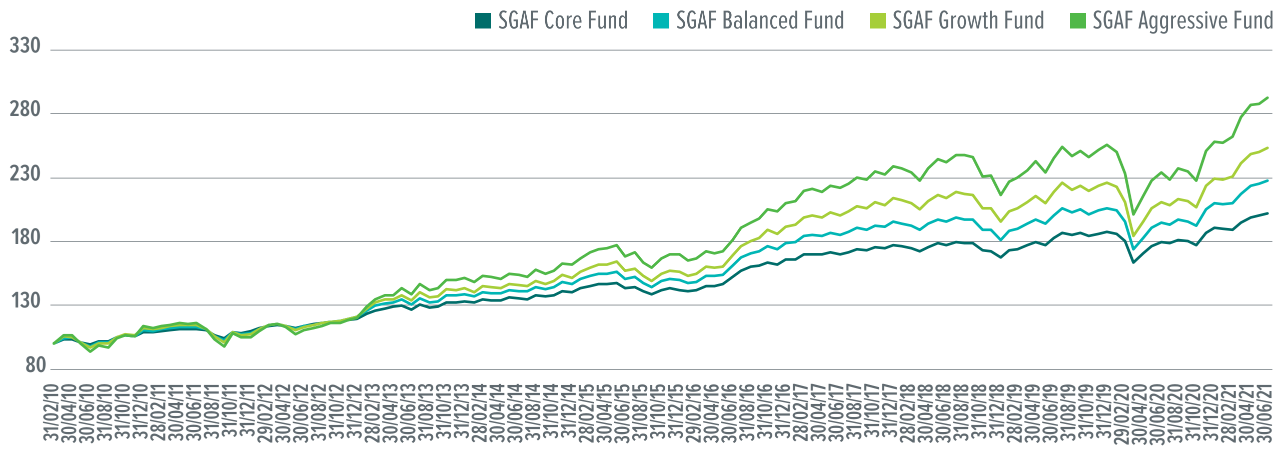
Performance

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	3.90%	5.99%	12.83%	5.26%	4.52%	4.40%	5.78%
SEI Balanced Fund	4.50%	8.24%	16.91%	6.57%	5.16%	5.24%	7.11%
SEI Growth Fund	4.94%	10.24%	20.14%	7.62%	5.68%	5.95%	8.42%
SEI Aggressive Fund	5.43%	13.14%	24.90%	9.19%	6.41%	7.13%	10.04%

Source: SEI, as at 30 June 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 June 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

Q2 Performance Drivers	Positioning	Key Asset Class(es)	Key Manager(s)
– (Strategic)	Small Cap equity exposure Diversifying into higher yielding credit (Core, Balanced, Growth)	• US Small Companies • High Yield and Emerging Market Debt	
+ (Strategic)	Inflation sensitive assets (Core, Balanced, Growth)	• UK Inflation Linked Bonds, Commodities	
– (Active)	Value managers Exposure to US all cap value and stability factors	• Global Equity, US Large Companies, European ex UK, Asia Pacific ex Japan • Factor Allocation U.S. Equity	• Maj, LSV, Metropole, Maple-Brown Abbott

+ (Active)	Exposure to higher quality UK companies and positive selection within UK retail Underweight expensive European small cap stocks Positive selection within energy, chemicals and media in the high yield bond market (Core, Balanced, Growth) Risk on positioning in lower quality EM countries and longer duration positions that outperformed in the rally (Core, Balanced, Growth)	• UK Equity • Pan European Small Companies • High Yield • Emerging Market Debt	• Lindsell Train • Quoniam • Brigade, T.Rowe, JP Morgan • Colchester, Neuberger Berman, Ninety One

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-19 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	Conservatively overweight credit risk, with a lower quality 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

Risk assets – equities, commodities and higher yielding corporate credit - achieved solid gains over the second quarter as the global economic recovery continued to gather pace. Global equity markets, having long anticipated the economic improvement we are now seeing, for the most part delivered strong and rather uniform performance.

While equity markets continued to display a strong upward trajectory this quarter, the dynamics within markets were notably different. The reflation trade that had characterised the end of last year and the start of this year took a pause over the second quarter as investors digested recent gains and took on board falling inflation expectations and bond yields. This was compounded by a slightly more hawkish tone on inflation from the US Federal Reserve and an indication that interest rate hikes and a tapering of asset purchases may occur sooner than initially anticipated, calling into question the Fed's tolerance for periods of higher inflation.

As a result, within equity markets, leadership rotated from non-US to US, and within the US in particular, from smaller companies to larger companies, from value to growth. Value stocks, expected to benefit from faster economic growth, rising yields and price increase, sold off sharply in June. By contrast, growth and mega-cap technology stocks strongly rebounded on lower anticipated inflation and lower interest rates. High quality and profitable companies also outperformed over the second quarter, while low volatility names lagged. Results across Momentum were mixed; the rotation away from cyclicals was a headwind for Price Momentum that had begun to gravitate towards this segment of the market, while the Earnings Revision component of Momentum was able to adjust more swiftly and generally made a positive contribution over this quarter.

Within bond markets, the quarter proved to be a relatively benign environment for government bonds and credit. Yield of development market government bonds broadly tracked sideways or slightly lower, yield curves flattened, inflation expectations receded and credit spreads continued to grid tighter. Range-bound government bond yields at an aggregate level did mask some regional differences though. After being one of the main casualties of the first quarter bond market sell-off, US Treasuries recovered somewhat this quarter, while European government bonds took their turn to feel the pressure as Europe's vaccine rollout programme gathered pace.

Despite the slight shift in Fed rhetoric, credit spreads continued to rally against a backdrop of strong and improving credit fundamentals, abundant liquidity and persistently strong investor appetite for yield. Emerging market debt produced the strongest returns this quarter, followed closely by higher yielding corporate debt.

Stability Focused Portfolios

Against this backdrop, the SEI Defensive, Conservative and Moderate Funds returned between 0.77% and 2.74% this quarter.

The Funds' exposure to equities, mostly in the form of defensive, low volatility equities, had the largest positive impact on performance. While defensive equities did not keep pace with the broad market in what was a constructive environment for global equities, they continued to provide meaningful risk reduction while posting solid positive total returns.

The Funds' were also positively impacted by exposure to commodities as well as allocations to High Yield and Emerging Market Debt.

From an active management perspective, the Portfolios' High Yield component benefitted from good security selection within the energy, chemicals and media sectors. Brigade, T.Rowe Price and JPMorgan were our top performing high yield managers over the quarter. Within Emerging Market Debt, the Portfolios' benefitted from a general risk-on positioning and as well as longer duration positioning in those countries that performed strongly over the quarter. Colchester and Ninety One, both local currency mandates, and Neuberger Berman, who manage a blended hard and local currency mandate, were our top contributing managers.

Finally the SEI Moderate Portfolio, with a higher weight to UK equities, benefitted from its quality exposure through Lindsell Train, and positive stock selection within the retail sector.

Growth Focused Portfolios

Results for the SEI Core, Balanced, Growth and Aggressive Portfolios ranged from 3.9% to 5.43% over the second quarter.

With the change in equity market leadership this quarter, the Portfolios' strategic allocations to smaller capitalisation stocks and diversification across higher yielding credit (with the exception of SEI Aggressive) were relative headwinds. Although in most cases was offset by the Funds' allocation to inflation sensitive assets, most notably Commodities.

From an active management perspective, results were mixed. For those Portfolios' with fixed income exposure, active positioning was modestly beneficial, aided by our managers' positioning within High Yield (positive security selection within energy, chemicals and media) and emerging market debt (general risk-on positioning as well as longer duration positions in those countries that outperformed this quarter).

Within equities, and echoing the market environment from much of last year, higher risk value stocks in sectors such as Financials underperformed. The Portfolios' pro-value positioning, as well as increased diversity by being underweight the mega-cap stocks, limited their participation in this quarter's big-tech bounce. Those style headwinds were reflected in the portfolio of the Portfolio's Value managers, who lagged over the quarter in line with the performance of the alpha source and diversity stance.

Small cap equity though, with its lack of exposure to mega-cap technology names, experienced contrasting style outcomes this quarter with Value extending its recent outperformance. Quoniam, the Portfolios' Pan European Small Cap manager, benefitted by being underweight expensive European small cap stocks.

The Portfolios' also experienced some modest outperformance from its UK equity sleeve, with strong results from our quality orientated manager, Lindsell Train, who performed well as a result of their core holdings in established consumer franchises.

Tactical Asset Allocation

The Portfolios' various tactical asset allocation positions experienced mixed results over the quarter, although in aggregate added value over the period. The strongest performing position was our exposure to broad commodities. All major commodity sectors produced positive returns over the quarter, led by the energy sector. Our pro-cyclical equity tilt and inflation swaps also contributed, while our positions designed to benefit from steeper yield curves and higher long term interest rates in the US detracted.

Our tactical position in Gold, which was initiated in March 2020 and reduced more recently, was closed out at the end of the quarter on the view that current prices reflect much of our original rationale for holding the position.

Outlook and Positioning

It remains our contention that the global recovery and expansion have a long way to go, sustained by the continued progress on the vaccine front as well as supportive fiscal and monetary policies. With economies around the world slowly opening up and interest rates hovering at extraordinary low levels, the dominant trend signals further gains over the next year or two.

Across the Portfolios' fixed income exposures, positioning remains largely unchanged. The low spread, low volatility and low dispersion environment we currently face can be a challenging environment, and in the pursuit of excess returns it would be tempting to increase exposure to credit and/or migrate down in credit quality. However, we are also price-conscious and believe that current valuations warrant caution, notwithstanding the improving fundamental backdrop. We are therefore running fairly conservative credit overweights as abundant supply and full valuations mean that further spread compression will be a much slower grind from here.

Within equities, we maintain our strategic focus on Value, Momentum and Stability (Profitability) as our key alpha source pillars, implemented by active managers. After two strong quarters for Value, a correction was inevitable. Although it is impossible to tell how long it would last, we believe that the fundamental drivers for a multi-year value rally remain in place, namely higher inflation, accelerating real economy and challenging valuation multiples for many fashionable growth stocks.

Manager Changes

Principal Global Investors, LLC was removed from the Asia Pacific (ex-Japan) Equity building block during the quarter. We decided to remove the strategy due to organizational changes that have occurred at Principal, which caused turnover in the strategy's senior portfolio management team. Additionally, Principal's staffing resources have been reduced over time. The assets in Principal's strategy have been transferred to the newly-added Sophus Capital's Asia Pacific ex-Japan strategy.

Sophus Capital was added to the Asia Pacific (Ex-Japan) Equity building block during the quarter. The strategy has a bias towards momentum-oriented stocks, or those whose prices are expected to keep moving in the same direction (either up or down) and are not likely to change direction in the short term. We believe the combination of quantitative and fundamental inputs results in a resilient and repeatable process, enabling the team to identify opportunities quickly, while adapting and avoiding potential risks.

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)*	7.7%	14.2%	35.9%	17.7%	13.3%	12.4%	13.6%
FTSE UK Series All Share Index *(TR) (GBP)*	5.6%	11.1%	21.5%	2.8%	2.1%	3.8%	6.5%
Russell 1000 Index *(Net 30%) (USD)*	8.4%	14.7%	42.4%	23.4%	18.5%	17.4%	17.3%
MSCI Europe ex UK Index *(Net) (EUR)*	6.9%	15.1%	29.0%	12.7%	10.4%	8.0%	10.5%
MSCI Pacific ex Japan Index *(Net) (USD)*	4.8%	9.6%	34.2%	8.2%	8.2%	8.3%	10.4%
Tokyo Stock Exchange TOPIX *(JPY)*	-0.3%	8.9%	27.3%	14.6%	6.4%	7.2%	11.8%
MSCI Emerging Markets Index *(Net) (GBP)*	4.9%	6.3%	26.0%	12.0%	9.6%	8.8%	12.3%

Fixed Income	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
ICE BofA UK Gilts All Stocks Index *(GBP)*	1.7%	-5.7%	-6.3%	2.1%	3.1%	2.8%	2.0%
Bloomberg Barclays Global Treasury Index *(Hedged) (GBP)*	0.6%	-2.1%	-1.5%	1.7%	3.0%	2.5%	1.4%
Bloomberg Barclays Global Aggregate Index, Hedged *(GBP)*	1.0%	-1.6%	-0.2%	2.3%	3.5%	2.7%	1.9%
Bloomberg Barclays Global Aggregate ex-Treasury Index *(Hedged) (GBP)*	1.3%	-1.0%	1.3%	3.0%	4.1%	2.9%	2.4%
ICE BofA US High Yield Constrained Index, Hedged *(GBP)*	2.8%	3.6%	14.8%	5.7%	5.6%	4.4%	5.9%
50/50 JPM EMBI Glob Div (H) & GBI EM Glob Div *(GBP)*	3.7%	-2.6%	1.0%	0.3%	4.0%	2.1%	3.1%

Cash	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
ICE LIBOR 3 Month GBP *(TR) (GBP)*	0.0%	0.0%	0.1%	0.4%	0.5%	0.5%	0.5%

Commodities	3 month	YTD	1 year	2 year*	3 year*	4 year*	5 year*
Oil *(ICE Brent Crude)*	21.4%	45.7%	71.0%	11.1%	4.2%	7.9%	4.2%
Gold *($/oz)*	3.7%	-6.8%	-0.6%	12.1%	12.2%	9.3%	6.0%
Bloomberg Commodity Index *(USD)*	13.3%	21.1%	45.6%	9.7%	3.9%	4.8%	2.4%

Commodities	30/6/21	31/3/21	31/12/20	30/6/20	30/6/19	30/6/18	30/6/17	30/6/16
Oil *(ICE Brent Crude)*	$74.62	$61.49	$51.20	$43.63	$60.48	$65.91	$55.14	$60.87
Gold *($/oz)*	$1,770.11	$1,707.71	$1,898.36	$1,780.96	$1,409.55	$1,252.60	$1,241.61	$1,321.90
Bloomberg Commodity Index *(USD)*	201.8662	178.1622	166.631	138.6382	167.8037	179.9539	167.6399	179.2913

Source: IMU Data Portal, Bloomberg. Data to 30 June 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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- *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.*

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