SEI Strategic Portfolios:
Q4 2017 Quarterly Commentary

GROWTH-FOCUSED

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Global equities finish the year with new highs in many markets, supported by news of US tax reform and a continued strengthening of economic indicators

Executive Summary

- Global fixed-income yield curves flattened in the last quarter of 2017, spread sectors outperformed government debt and emerging markets fixed income continued their strong run. Within equities, many markets touched new highs in the last month of the year. Emerging markets outperformed developed markets, while small companies delivered mixed results, outperforming in Europe but underperforming in the US.
- The US dollar found some support off of the back of stronger US growth expectations, providing a boost to hard currency emerging markets debt. Strategic portfolio returns were boosted by asset classes with overweight positions in corporate debt. With the exception of US High Yield Fixed Income, all fixed-income asset classes finished ahead of their benchmarks in 2017.
- On the equity side of the asset allocation, valuation-focused managers performed well in the last quarter; however, relative returns were offset by weaker performance in managers deploying a trend-following approach, most notably INTECH Investment Management within the Global Equities asset classes.
- The Growth-focused Strategic Portfolios (the Core, Balanced, Growth and Aggressive Funds, collectively "the Funds", Sterling Wealth A share class, in GBP, net of all fees) returns ranged between 7.12% and 13.59% in 2017, comparing favourably to the 13.10% return from the FTSE All-Share Index as well as the 11.80% return delivered by MSCI World (net) Index over the same time period.
- Performance from the Growth-Focused Strategic Portfolios continued to be highly competitive over the medium term (5 years to 31 December 2017), maintaining these Fund's positions near the top of their respective peer groups.

Market Overview

UK stocks rallied sharply in December after a lacklustre October and an even weaker November, while European stocks cooled off at the end of the year following a short-lived climb in late October. US stocks charged into year end with sustained strength, while Japanese markets hit new highs at year-end. In fixed-income markets, long-term UK gilt rates slid and short-term rates held firm, while eurozone rates broadly increased. The US treasury yield curve flattened as short-term rates increased and long-term rates declined.

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The BOE voted unanimously to abstain from making changes in December after increasing the bank rate in November. UK construction growth proceeded at a slower pace as 2017 came to a close; manufacturing growth also came off a bit, but from admittedly strong levels. Labour-market conditions were mostly unchanged in November's report, with generally low unemployment, although average year-over-year earnings growth increased for the August-to-October period. The last reading of overall third-quarter economic growth was unrevised at 0.4%, yet the year-over-year figure increased to 1.7%.

The ECB also held firm in December and reiterated its October announcement that monthly asset purchases will be reduced and that rate hikes will only take place once these purchases conclude in September 2018. Eurozone manufacturing conditions remained in high-growth territory, marking the highest new-order levels in more than 17 years. Services sector growth also firmed, while consumer confidence also reflected buoyant conditions, advancing for the fifth consecutive month in December. The final third-quarter economic growth report remained at 0.6%, but increased to 2.6% in the year-over-year ending 30 September 2017.

The US Fed increased its funds rate as expected in December and maintained projections for three additional hikes in 2018. Its latest quarterly forecast showed a more optimistic economic outlook over the next few years. A major tax overhaul was passed by the US Congress and was signed into law by President Donald Trump, to take effect in 2018. Further supporting a more positive outlook, the pace of growth for US manufacturing conditions continued to accelerate. Joblessness remained low, suggesting another robust employment report for December, while consumer confidence fell only slightly in December from recent 17-year highs. The third reading of overall economic growth edged down to a 3.2% annualised rate.

Selected Asset Class Commentary

Global Equities Asset Class: Global results were dominated by INTECH Investment Management: the manager's stock selection within IT and overweight to low beta stocks weighed on performance. Value and stability oriented manager Maj Invest benefited from both the tailwind to valuation-focused strategies and strong stock selection. LSV Asset Management benefited from US tax reform dynamics and a strong holiday season for US retailers. METROPOLE Gestion disappointed with poor stock selection within financials, healthcare and consumer discretionary.

US Small Companies Equities Building Block: US small companies markets were driven higher by US tax reform and speculation that companies will have fatter bottom lines and the ability to spend more on wages, capital expenditures, dividends and buybacks. All three of the asset class' growth-oriented managers, and six of the seven managers overall, outperformed. Rice Hall James & Associates, the top contributing manager, benefited from strong style tailwinds, and merger and acquisition activity; selection within healthcare and consumer discretionary was also strong. AQR Capital Management detracted due to the headwind to value and defensive exposure that did not work well in the bull market.

UK Equities Asset Class: The asset class advanced during the quarter as the UK market fluctuated within a narrow range as a robust corporate operating environment and bullish earnings profile jostled with ongoing political uncertainty and sterling volatility; in the end the market ended the year at new highs. The asset class' underweight to healthcare, an expensive low volatility segment of the market was beneficial. Lindsell Train's concentrated portfolio benefited from positive stock selection within consumer staples and financials.

Emerging Markets Equities Asset Class: The asset class was in modestly negative territory during the quarter and underperformed the benchmark. Neuberger Berman, the top contributing manager, benefited from strong stock selection within Chinese pharmaceutical and insurance companies. Macquarie Investment Management detracted due to poor stock selection and style headwinds; selection in Chinese technology companies was challenged due to the headwind from the technology sell-off. Additionally, Macquarie's overweight to Mexico and underweight to South Africa also hurt performance.

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Manager Changes

SEI has made the decision to remove Integrity Asset Management from the US Small Companies asset class as at 16 November 2017. Integrity was removed from the asset class as part of a portfolio restructuring. Contributions from Integrity's value orientation overlapped with those from other managers within the building block, so SEI chose to eliminate the manager to improve the efficiency of the overall portfolio's construction.

Lazard Asset Management has been added to the Global Equity asset class as at 1 November 2017. Lazard believes that equity-price inefficiencies stemming from investor emotion and bias can create investment opportunities as a result of the market mispricing a combination of a company's intrinsic worth or value, growth potential, market sentiment and financial-quality investment factors.

Outlook

2017 can be summed up with the exclamation that the global financial crisis finally appears to be in the rear-view mirror. In its place is synchronised expansion across most developed and emerging economies. However, developed economies continued to run at a rather sluggish pace of around

2.5% GDP growth, an average level of performance in the context of the past five decades. Emerging market economies continued to expand at a clip well below that of the past 20 years.

Looking out over the next year, SEI believes global growth can still be vibrant enough to allow risk assets to perform well. Supporting this thesis is the recent US tax legislation; SEI believes it will not be as stimulative as advertised since tax cuts are skewed towards upper-income taxpayers. Nevertheless, the permanent corporate tax changes, repatriation holiday and the full expensing of capital equipment purchases over the next five years are positive developments for economic growth and investment.

Security analysts, always an optimistic lot, are calling for an 11% rise in S&P 500 Index per-share operating earnings in 2018. Although earnings estimates tend to fade through the year as estimates adjust to reality, this time may be an exception because tax cuts have not yet been taken fully into account.

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The major worry for investors comes down to the stock market's valuation. However, elevated valuations can be justified by the low level of bond yields and the strong trend in profits growth. SEI will closely monitor for a more aggressive swing in Fed policy towards monetary tightness, something that isn't anticipated in the coming year. Meanwhile, it is possible that the US will see inflation pressures finally begin to build in the New Year, but so far US companies have proven able to maintain profit margins without resorting to price increases.

As a second major ongoing contributor to global growth, Europe continues to have strong potential. According to the World Economic Forum's annual report on global competitiveness, the high-income countries of Western Europe have made important strides in improving labour-market efficiency over the last five years.

Thus the way is clear for further growth in economic activity during the year ahead. We should see a continuation of the past year's strong revival in corporate revenues and earnings, and the MSCI European Economic and Monetary Union Index (Total Return) forward P/E ratio is no higher as of 31 December 2017, than it was at the start that year. Solid economic growth and cheap equity valuations are usually a good combination for investors.

Lastly, the strength in emerging markets performance in 2017 masked an even stronger contribution by China. While some of the macro statistics need to be taken with a grain of salt, it appears that China's growth has accelerated significantly from two years ago and is advancing at its fastest clip since the 2012 to 2013 period. This would support emerging markets overall and provides a fourth support to continued global economic expansion.

As a result, SEI's overall view and positioning remains consistent. For the growth-focused SEI Strategic Portfolios, SEI remains positioned for further cyclical improvement around the world. Asset class positioning continues to have a smaller company and value bias versus their benchmarks. Additionally, SEI is favouring momentum-oriented strategies at the expense of allocations to quality-focused approaches. SEI's view remains that this is a 'new goldilocks' environment for risk assets, which are benefiting from a combination of broad-based global economic growth, benign inflation, continued central bank support (albeit at a reduced pace) and strong investor appetite for yield.

Important Information on Performance

Past Performance is not an indicator of future performance. Standardised performance is available upon request. All data is as at 31 December 2017.

Asset class performance discussed is based on the majority SEI fund underlying the asset class. This does not include analysis of the manager pools, hedged share class investments within SEI Funds, additional SEI funds or any third-party funds within the Strategic Portfolios. As a result, performance for the total asset class allocation may vary. Not all asset classes discussed are included in all Strategic Portfolios. All asset class comparative performance is relative to the benchmark of the specific SEI fund representing the majority of the asset class investment.

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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.
- International investments may involve risk of capital loss from unfavourable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

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SEI sources data directly from FactSet, Lipper, and BlackRock, unless otherwise stated.

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