SEI Strategic Portfolios:
Q4 2017 Quarterly Commentary

STABILITY-FOCUSED

SEI New ways. New answers.®

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. Yield curve flattening positions were supportive of returns in the SEI Stability-Focused Strategic Portfolios, as were underlying 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.
- The Stability-Focused Strategic Portfolios (the Defensive, Conservative, and Moderate Funds, collectively "the Funds", Sterling Wealth A share class, in GBP, net of all fees) returns ranged between 0.77% and 3.90% in 2017, compared to the 2.64% BofA Merrill Lynch Sterling Broad Market index over the same time period, which can be seen as a representation of the UK fixed-income market. Crucially, each of the funds achieved their returns with a higher level of risk-adjusted return than the above-mentioned benchmark, consistent with their unique asset allocation design.
- SEI manages the Stability-Focused Strategic Portfolios to specific maximum drawdown targets, which tend to result in an asset allocation structure that seeks to deliver a smoother investment journey for investors. Evidence of the success of this approach can be found in the 5-year volatility data of the Stability Focused Strategic Portfolios, with respective values of 1.71%, 2.84%, 4.08% for the Defensive, Conservative, and Moderate Funds, again comparing favourably against the fixed-income only BofA Merrill Lynch Sterling Broad Market index volatility number of 6.59%.

©2018 SEI

For Professional Client Use Only – Not for Distribution to Retail Clients

Market Overview

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. 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.

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%.

Further supporting a more positive outlook, the pace of growth for US manufacturing conditions continued to accelerate.

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 Short Duration Asset Class: US treasuries and German government debt lagged both Japanese Government Bond (JGB) and particularly UK gilts, which benefited from a duration tailwind. AllianceBernstein, the top contributing manager, benefited from overweights to Canada, Australia, and New Zealand, a US yield curve flattening bias, and off-benchmark corporate bond exposure. Colchester Global Investors detracted due to overweights to Mexico and the Norwegian krone, and short euro exposure.

UK Core Fixed Income Asset Class: The UK was the notable exception to the enjoyment seen by many countries with regard to growth, subdued inflation and political risks. The asset class benefited from an overweight to corporate bonds on expectations of steeper yield curves, better macroeconomic data and discussions on European Central Bank tapering. PIMCO Europe, the top contributing manager, benefited from exposure to spread sectors, namely financials. Schroder Investment Management detracted due to short sterling and long Norwegian krone.

The asset class advanced in what was another positive quarter for the asset class.

Emerging Markets Fixed Income Asset Class: The asset class advanced in what was another positive quarter for the asset class. Security selection within hard currency debt, which the asset class was underweight, was a top contributor to performance. Neuberger Berman, the top contributing manager, benefited from selection within Argentina local debt and Indonesia local rates; exposure to Turkey local debt detracted. Stone Harbor Investment Partners benefited from selection within Argentina external debt, while exposure to Mexico and Venezuela detracted.

Global Managed Volatility Equities Asset Class: Markets advanced in the fourth quarter, which was a headwind to low volatility investing. The asset class did deliver meaningful risk reduction for the quarter, as much as 14% as measured by standard deviation weekly returns. All managers had positive absolute returns for the quarter. Acadian Asset Management outperformed slightly due to momentum positioning in healthcare, materials and utilities. LSV Asset Management and Analytic Investors detracted due to the headwinds to low volatility.

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.

Manager Changes

There were no manager changes in Q4 2017.

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.

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.

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; the expectation remains that yields will slowly move higher as global growth continues to become more entrenched and central banks begin to remove extraordinary stimulative measures. Fixed-income asset classes positioning is generally short-duration versus benchmarks, favours credit-spread strategies and is positioned for a further narrowing and flattening of the yield curve, especially in the US. SEI continues to implement its stability-focused strategies with downside protection potential in the event of a market correction, for example through allocations to Global Short Duration Fixed Income and Global Managed Volatility Equities, consistent with the potentially shorter time horizon of investors in these risk profiles.

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.

IMPORTANT INFORMATION

This document and its contents are directed only at persons who have been classified by SEI Investments (Europe) Limited as a Professional Client for the purposes of the FCA Conduct of Business Sourcebook.

This information is issued by SEI Investments (Europe) Limited, 1st Floor, Alphabeta, 14-18 Finsbury Square, London EC2A 1BR, which is authorised and regulated by the Financial Conduct Authority. The SEI Strategic Portfolios are a series of the SEI Funds and may invest in a combination of other SEI and Third-Party Funds as well as in additional manager pools based on asset classes. These manager pools are pools of assets from the respective Strategic Portfolio separately managed by Portfolio Managers which are monitored by SEI. One cannot directly invest in these manager pools.

No offer of any security is made hereby. Recipients of this information who intend to apply for shares in any SEI Fund are reminded that any such application may be made solely on the basis of the information contained in the Prospectus.

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, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any stock in particular, nor should it be construed as a recommendation to purchase or sell a security, including futures contracts.

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. Investors may get back less than the original amount invested.**

The risks described below may apply to the underlying assets of the products into which the Strategic Portfolios invest:

- Investment in equity securities in general are subject to market risks that may cause their prices to fluctuate over time.
- 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.
- 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.

The Funds are denominated in one currency but may hold assets priced in other currencies. The performance of the Fund may therefore rise and fall as a result of exchange rate fluctuations. Whilst considerable care has been taken to ensure the information contained within this document is accurate and up to date, no warranty is given as to the accuracy or completeness of any information and no liability is accepted for any errors or omissions in such information or any action taken on the basis of this information.

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

©2018 SEI

18c6fb-AMD-UK 98371 (02/18)