

A Flexible Approach to Fixed Income: SEI's Multi-Asset Credit Strategy

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Snapshot

- The combination of low absolute yields and potential interest-rate hikes by central banks (as they contemplate policy normalisation) is widely expected to result in a less hospitable environment for traditional fixed-income strategies.
- We developed the SEI Multi-Asset Credit (MAC) Strategy to help investors boost the odds of performing well across different economic environments relative to traditional, long-only fixed-income strategies.
- MAC combines a core long/short global absolute-return fixed-income strategy with complementary satellite exposures to actively managed long-only fixed-income strategies.

The past decade has been supportive of traditional fixed-income strategies, with bond yields declining to historic lows amid a period of concerted expansionary monetary policy. But today, these kinds of strategies are expected face a less hospitable environment due to the combination of low absolute yields and potential interest-rate increases by central banks as they contemplate policy normalisation.

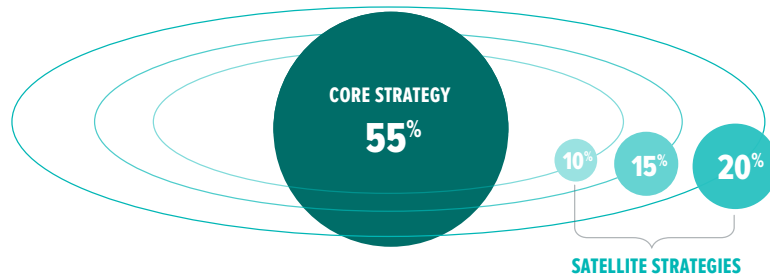
A Flexible Approach to Fixed Income

SEI developed the Multi-Asset Credit strategy (MAC) for investors seeking to increase the likelihood of performing well across different economic environments relative to a traditional long-only fixed-income portfolio. The strategy seeks to efficiently generate steady income and total returns over a cash benchmark rather than a typical fixed-income market benchmark.

We aim to satisfy this objective in a way that capitalises on SEI's competitive strengths via a core-satellite approach. Specifically, we employ a diversified, multi-manager construct that combines a core fund—which is top-down and absolute-return-orientated—with satellite funds, which are differentiated across a number of credit asset classes. Exhibit 1 depicts a breakdown of MAC's combined target allocation.

Exhibit 1: MAC Core-Satellite Target Allocation

■ Global Absolute Return Fixed Income ■ Global Opportunistic Fixed Income ■ High Yield ■ Emerging-Market Debt



SOURCE: SEI

The core strategy, which accounts for a majority of MAC’s target allocation, is a long/short global absolute-return fixed-income fund (GARFI) focused primarily on the sovereign bond and currency markets. It aims to capitalise on a global opportunity set, with less reliance on broad market returns than a long-only fixed-income strategy. Having a core allocation to this flexible, less directional strategy is expected to support the goal of delivering smoother performance across varying economic environments by exhibiting lower correlations with the overall direction of interest rates and credit spreads. We believe that affording a core allocation to GARFI will enable it to satisfy this key performance-balancing role and serve as a portfolio diversifier with the satellite exposures.

The satellite strategies, which constitute the balance of MAC’s target allocation, comprise long-only exposures to complementary fixed-income asset classes. Actively managed strategies in global investment-grade credit, high yield, and emerging-market debt serve as satellite allocations, while MAC retains the flexibility to add global investment-grade government and short-duration fixed-interest exposures depending on economic conditions.

MAC at a Glance

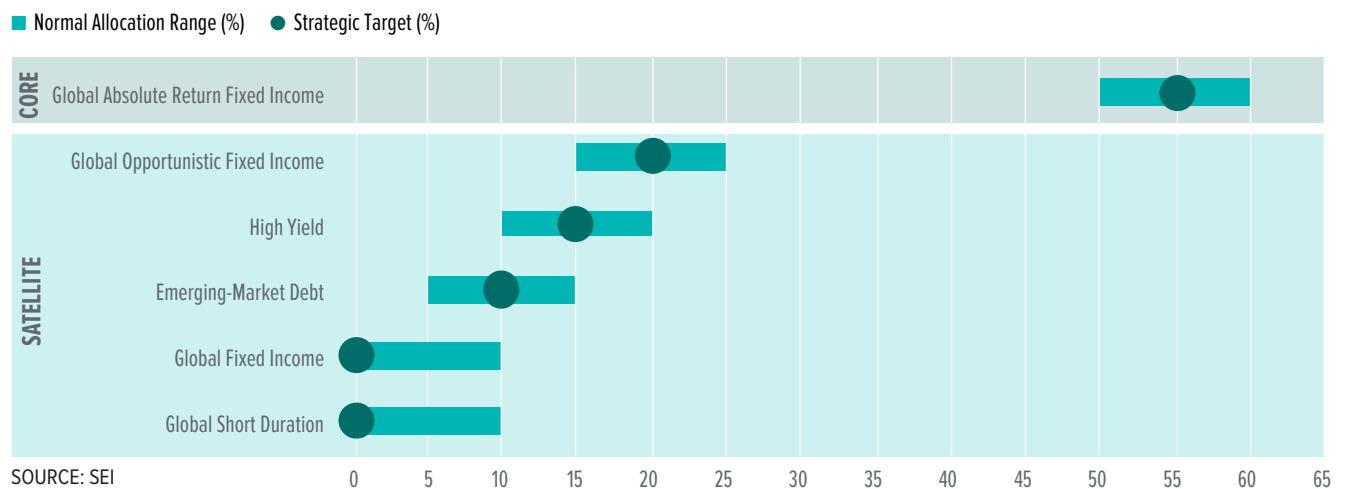
SEI’s Multi-Asset Credit strategy aims to:

- Actively draw on a global opportunity set of fixed-income returns, with less reliance on broad market returns, driven by a core GARFI strategy designed to exhibit low correlations with both equity and credit markets
- Achieve smoother performance—relative to traditional, long-only, fixed-income portfolios—across different economic environments
- Return 3% in excess of cash over a full market cycle with an overall duration in the range of zero to five years

The guiding principle of MAC’s design centres on efficient construction. Allocations among the satellite exposures seek a balance between generating excess returns over US Treasuries while remaining as diversified as possible. The core strategy—which is focused mostly on opportunities in global-government and currency markets—also has the latitude to pursue opportunities in credit markets as a secondary opportunity set only to be used judiciously. This design feature is intended to minimise overlap with the satellite exposures and improve efficiency of the overall strategy.

MAC’s allocations, particularly among the satellites, can be adjusted at SEI’s discretion in consideration of changing economic environments, which we expect will support the overall strategy’s objective of achieving positive absolute returns over the medium-to-long-term. In the absence of any adjustments, allocations can be expected to reflect their long-term strategic targets. Exhibit 2 shows MAC’s typical allocation ranges for core and satellite exposures.

Exhibit 2: MAC Allocation Range



Getting to the Core: Global Absolute Return Fixed Income (GARFI)

GARFI—the core component of the MAC strategy—is a long/short, absolute-return fund with a global orientation toward opportunities in sovereign bonds and currencies. Credit exposures represent a secondary opportunity set for GARFI, to be used more judiciously, with the intent of minimising overlap with the satellite exposures and improving efficiency of the overall MAC strategy.

GARFI seeks to capitalise on the disconnect between global macroeconomic themes and market prices. Focusing on the broad global picture provides a framework for identifying mispriced yield curves, currencies and related derivatives—primarily within major developed markets, but also on a less-frequent opportunistic basis in spread assets (non-government fixed income) and emerging-market debt.

Positions are typically relative value in nature—seeking exposure to select market dynamics while limiting exposure to others. GARFI also prioritises the minimisation of directional market exposure, or beta. This approach seeks to generate returns through consistent application of two principal disciplines:

- › Identifying opportunities that can be expected to mean revert and
- › Amending price targets through rigorous bottom-up and top-down fundamental analysis.

The process through which we seek to capitalise on mean reversion is conducted with careful analysis of the technical and structural headwinds that could delay or prevent realising potential opportunities.

Trade ideas are scrutinised through bottom-up, real-time analysis within the context of GARFI's macro-thematic framework and sized with rigid discipline according to the expected volatility of each opportunity.

SEI's Competitive Strengths

As an organisation, SEI has several decades of expertise in the construction and maintenance of diversified multi-manager fixed-income investment strategies. We favour the multi-manager approach in large part due to our confidence in its ability to deliver return consistency.

The particular objectives of our Multi-Asset Credit strategy extend naturally from this foundation of work. We believe MAC's nimble and adaptive structure should help position investors for long-term success as the dynamics of global fixed-income markets continue to evolve.

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