<u>**Growth-Focused SEI Strategic Portfolios**</u>

SEI Strategic Portfolios:

Q2 2017 Quarterly Commentary

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Global equities markets continued to push higher in Q2 as political risks receded, global economic data stayed robust and inflation remained benign

Executive Summary

- Despite a softening outlook for the UK and US economies as well as ongoing delays with the Trump administration's policy agenda, global economic data continued to strengthen in the second quarter, supporting an outlook for a continuation of globally-synchronised growth across most developed and emerging economies.
- With the exception of the UK, global bond yields again largely finished the quarter modestly lower, with US high-yield fixed income and emerging markets debt posting strong returns; a bias towards economically sensitive fixed income was also again supportive of relative returns.
- Equity markets modestly rose over the quarter; non-US markets continued the recent trend of outperforming the US (in GBP terms). Emerging markets allocations supported returns, while smaller company contributions were mixed given variations in outlook between US and European economic growth.
- Valuation-focused strategies generally detracted, however this was offset through the increasing allocations to trend-following strategies within the Growth-Focused Strategic Portfolios. In contrast to much of 2016, global diversification generally detracted in Q2 2017 as the US dollar weakened, lowering the value of US dollar-denominated investments. SEI's view is that this dynamic tends to ebb and flow and that strategic global diversification over the long term tends to be beneficial to long-term risk-adjusted returns.
- 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 -0.08% and 0.22% in Q2, less than the 1.42% return from the FTSE All-Share Index but slightly more than the 0.14% 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 (3 years to 30 June 2017), maintaining these Fund's positions near the top of their respective peer groups.

Market Overview

- Political developments abounded during the second quarter: UK Conservatives lost their parliamentary majority; Emmanuel Macron was elected to the French presidency; US President Donald Trump scolded NATO and sidestepped a mutual-defence endorsement, and faced the appointment of a special prosecutor to investigate whether his campaign colluded with Russia during last year's election.

- Despite this turbulent backdrop, stocks climbed globally, but the results were uneven. US stocks advanced after strong first-quarter earnings reports. Equity markets were roughly flat in Europe and the UK after early quarter weakness, followed by a rally, before sliding into quarter end. In fixed income markets, the US treasury yield curve flattened at an accelerating pace, with short-term interest rates increasing and intermediate- and long-term interest rates declining. Oil prices tumbled to a late-June low of $42.53 per barrel, before bouncing slightly higher by quarter end.

- In the UK, the BoE made no changes during the quarter; but more hawkish votes were cast for a rate hike, as the latest quarterly data showed the rate of inflation above the central bank's 2% target. The UK services sector ended below its March level, while UK manufacturing finished the second quarter roughly flat. Construction activity peaked in May, yet still improved overall for the period. Labour-market conditions softened, with an uptick in claimant-count unemployment.

- The ECB also held firm, continuing asset purchases as anticipated, yet betrayed optimism by changing statement language to suggest that members don't expect benchmark rates to move lower, in an acknowledgement of firming economic conditions. Eurozone manufacturing activity crept higher for the tenth straight month through June. Services growth moderated during the quarter, but held at robust levels amid increasing new orders and backlogs. The unemployment rate continued to edge lower.

- The US dollar continued a slide that began in the New Year; US dollar weakness is particularly notable in the context of the US Fed's monetary policy tightening endeavours, including a second benchmark hike, which would normally be expected to support US dollar strength. US manufacturers expanded only modestly through May, while the services sector ended the quarter where it began. The unemployment rate fell through April and May to 4.3%.

Selected Asset Class Commentary

- Emerging Markets Fixed Interest Asset Class**:** The second quarter was a continuation of the first quarters' strong start with both hard and local currency indices posting solid returns. Neuberger Berman, the top contributing manager, benefited from exposure to Mexico local debt and Indonesia external debt. Selection within Brazil local debt, and in Russia, detracted. Stone Harbor Investment Partners detracted due an overweight to Brazil local debt, and an underweight to Hungary local debt.

- UK Equities Asset Class: The UK Equity market largely shrugged off the results of the June general election and tracked sideways for much of the quarter, fluctuating with Brexit headlines and movements in sterling. There was no clear cyclical versus defensive sector divide while style drivers were also very mixed. As such, the asset class' underperformance was primarily due to stock selection, particularly in IT and industrials where earnings downgrades weighed on a number of holdings. Lindsell Train, the top contributing manager, benefited from underweights to materials and energy. Jupiter Asset Management was the main detracting manager.

- Emerging Market Equities Asset Class: Improving economic and earnings data in international markets are helping drive equity markets upward, and attractive valuations relative to the US add to the prospect of better future returns abroad. Emerging Asia was the best performing region, but the asset class' underweight and stock selection detracted. Neuberger Berman, the top contributing manager, benefited from solid results across all three regions. KBI Global Investors detracted due to weakness in emerging Asia, in particular China, India, and Korea.

Manager Changes

- Arrowpoint Asset Management has been rebranded as ArrowMark Partners.

- Delaware Investment Advisers has been rebranded as Macquarie Investment Management.

- Coho Partners and Fiera Capital Corporation have been added to the US Large Companies Equities asset class as at 5 April 2017.

- SEI removed Waddell & Reed Investment Management Company and Brown Advisory from the US Large Companies Equities asset class as at 10 May 2017.

Outlook

- At the start of this year, SEI held an optimistic view regarding the path of the US economy, corporate profits and, by extension, the stock market. There seemed to be great opportunity for the passage of business-friendly tax and regulatory reforms; but hopes on legislative policy now appear too optimistic. Trump's unpopularity has emboldened the opposition to put up a unified resistance. Although the optimism is being tested, SEI is sticking to its expectation that a major tax bill will be pushed through Congress. Original hopes of a big cut in US corporate tax rates will most likely be replaced by a smaller cut. This fiscal stimulus should still boost economic growth prospects, but could eventually add to inflationary pressures since the country's economy is edging closer to full employment.

- Fed Chair Janet Yellen and a majority of her colleagues might be coming to the same conclusion, as evidenced by the second federal funds rate hike this year and apparent intentions to reduce the size of Fed's balance sheet. The pace of quantitative tightening should not be exceptionally disruptive to the bond market, at least during its ramp-up phase. But the Fed's selling could aggravate upward pressure on bond yields if investors become more concerned about the inflation outlook. With the 10-year treasury bond currently yielding just 2.25%, however, it is obvious that inflation concerns are not yet paramount.

- In Europe, Economic sentiment in the region has risen to the highest level since 2007, suggesting that economic growth may soon accelerate. Perhaps more important for investors, eurozone earnings were beginning to pick up in a recovery that appears to have momentum. The ECB's expansion efforts seem to have finally had a positive impact. Loan growth accelerated to its best pace in six years, an encouraging-yet-slow expansion that argues strongly in favour of ECB President Mario Draghi's long-standing preference to maintain the current pace of quantitative easing at least through 2017.

- The recent UK election result means the country is now far more likely to move toward a "soft" Brexit. In SEI's view, UK services industries and the City of London have more to gain from a hybrid relationship with the European Union than from a complete sundering of the relationship. This latest political surprise comes at a time when the UK economy was showing mixed economic results. Inflation has been accelerating over the past year, which can be traced to sterling's 20% decline since August 2015.

- Overall, this economic backdrop warrants little change in SEI's recent positioning; in fixed income, a modest short-duration bias remains, while SEI is actively looking to de-risk the fixed income building blocks, especially those with a greater bias towards credit markets. However, a general pro-cyclical bias remains in place. On the equity side, SEI expects to continue to gradual shift from valuation-focused managers to those deploying a trend-following strategy.

- Markets have made significant progress already this year and while it would be unreasonable to expect a similar trajectory for the second half of the year, overall SEI believes markets can continue to move forward on the basis of continuing economic growth, accommodative central banks, benign inflation and increasing levels of fiscal stimulus.

<u>Important Information on Performance</u>

Past Performance is not an indicator of future performance. Standardised performance is available upon request. All data is as at 30 June 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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