

Dynamic Asset Allocation Fund: Five Years of SEI's Tactical Views

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Snapshot

- › The SGMF Dynamic Asset Allocation Fund has established a strong five-year track record while managing risk since SEI began implementing its tactical views.
- › The Fund's flexible mandate has allowed it to capitalise on market dislocations globally.
- › The Fund has provided a diversifying source of alpha for portfolios heavily reliant on security selection.

Since SEI first began in-house management of SEI's SGMF Dynamic Asset Allocation (DAA or the Fund) Fund for institutional clients in 2012, it has delivered strong absolute and risk-adjusted returns.¹ While the Fund has maintained a passive strategic exposure to equities, its tactical trades have been diverse and varied over time. From developed-market currency trades to a position in U.S. Consumer Price Index (CPI) swaps, the DAA Fund has demonstrated the ability to capitalise on mispricings regardless of market or asset class. This flexibility has allowed DAA to add value in environments that may be challenging to more traditional forms of active management.

The Original Concept

Although DAA changed its beta from the FTSE 100 Index to the MSCI World Index on 15 March 2018, the concept of the Fund still holds as does the discussion of tactical trades. The DAA Fund seeks to implement SEI's "house views" on the global capital markets—without altering an investor's long-term strategic allocation. To do this, the Fund consists of two portions: beta, a basket of MSCI World Index stocks intended to be representative of the global stock market; and alpha, represented by various active, relative value positions (typically through derivatives). This is illustrated in Exhibit 1.

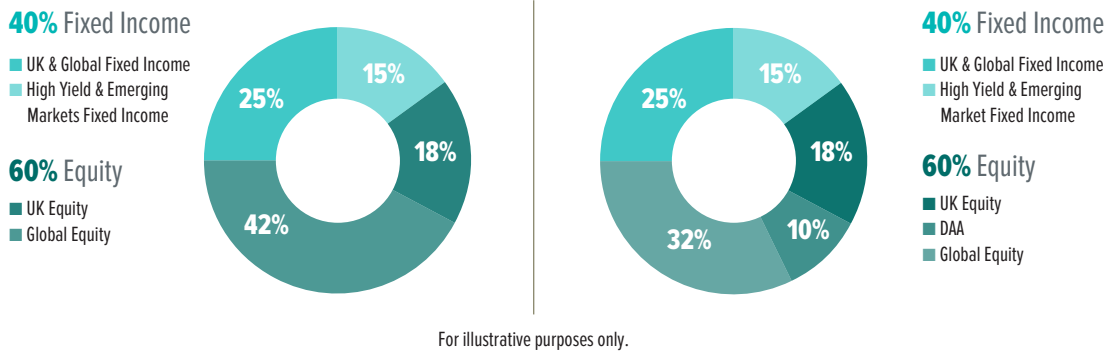
Exhibit 1: DAA Fund Structure



Because the Fund uses the MSCI World Index as its source of beta exposure, investors can simply substitute a portion of their global equity exposure with the Dynamic Asset Allocation Fund. As a result, their strategic asset allocation to global equities is maintained while also providing exposure to SEI's house views. Exhibit 2 illustrates how the DAA Fund can be seamlessly integrated into a traditional asset allocation model.

¹Formerly the SGMF U.K. Dynamic Asset Allocation Fund.

Exhibit 2: Substitution



We designed the DAA Fund to seek meaningful exposures to high-conviction opportunities. Unlike typical global tactical asset allocation (GTAA) funds (which trade frequently, often with short time horizons), we enter a limited number of active trades at a time (typically four to eight) and only consider those that we believe offer a compelling potential payoff. Our typical time horizon for a trade is between 12 to 24 months, whereas GTAA funds may have a daily time horizon. Exhibit 3 summarizes the differences between the DAA fund and typical GTAA funds.

Exhibit 3: SEI's Approach to Dynamic Asset Allocation

	Dynamic Asset Allocation	Global Tactical AA
Investment Horizon	Rolling 12-24 months	Daily
Trade Frequency	Opportunistically	Daily
Primary Objective	Total Portfolio Improvement	Absolute Return
Approach	Focused on a modest number of high confidence, asymmetric themes overlaying a market beta	High frequency, high number of positions, heavy momentum weight, cash benchmark

DAA also seeks to provide a diversifying source of alpha or active return. By sourcing our value-add from various markets such as regional equity, credit, currency and volatility (options), to name a few, we aim to offer a different source of alpha than traditional sources (such as security selection and sector allocation).

The Process

The DAA Fund is managed by a committee of subject-matter experts from different areas of SEI's Investment Management Unit. Members of the committee leverage not only their personal viewpoints, but also the collective insights of underlying managers within SEI's funds. In taking these aggregate views, they formulate robust assessments of market expectations and valuations that ultimately inform their trade ideas.

The committee meets at least weekly to discuss current positioning and new trade ideas. New trade ideas are subject to rigorous debate and are often vetted over the course of several meetings. This process evaluates an idea on its own merits and in consideration of how it would fit in the overall portfolio. After a trade idea is determined to be appropriate, practical considerations are addressed (such as sizing and implementation vehicle). The committee continuously monitors the trade once it's established in the Fund to ensure the thesis remains intact.

The Results

The DAA Fund has performed well in absolute terms and on a risk-adjusted basis since SEI began implementing its tactical views. It has also met other important objectives, in terms of breadth of market views, diversification and risk management.

Varied Source of Ideas

Since inception in December 2010, the DAA Fund has been diverse in its sources of active opportunities. It has used currencies (both developed and emerging), volatility (through options), regional equities, and inflation markets. Exhibit 4 illustrates the Fund's various sources of excess return since SEI began managing the active portion of the Fund. We believe that diversification across asset classes, regions and time provides a more robust portfolio and gives us greater breadth to pursue the Fund's performance objectives without being overly reliant on a single return source.

Exhibit 4: SEI's Historical Trades in DAA

	2012*	2013	2014	2015	2016	2017
Regional/Sector Equity	US vs Europe US Quality vs Europe	Japan vs Europe ex-UK EME vs US Large Cap	EME vs US Large Cap	Japan vs US Europe ex UK vs US	Japan vs US Europe ex UK vs US	Japan vs US Europe ex UK vs US US Large Value vs Large Growth
Credit	US HY vs Global Gov't					
Currency	USD vs EUR	USD vs EUR USD vs JPY	USD vs EUR INR vs EUR	USD vs EUR INR vs GBP/EUR/KRW	USD vs EUR USD vs SAR INR vs KRW	USD vs EUR USD vs SAR MXN vs CAD INR vs SGD/TWD/KRW
Directional Cross Asset/Other				US vs UK Inflation	US vs UK Inflation US Inflation US Equities vs US Bonds S&P 500 Options	
Hedges	S&P 500 Puts	EURO Puts TBT Puts S&P 500 Puts	EURO Puts US VIX Calls	Bund Calls US VIX Options	EURO Puts US VIX Options	S&P 500 Puts

*14/8/12 - 31/12/12

USD = U.S. Dollar, EUR = Euro, JPY = Japanese Yen, INR = Indian Rupee, GBP = British Pound Sterling, KRW = Korean Won, SAR = Saudi Arabian Riyal, SGD = Singapore Dollar, TWD = Taiwan Dollar, MXN = Mexican Peso, CAD = Canadian Dollar

Diversification of Active Returns

Over the past five years, the DAA Fund's excess returns have exhibited relatively little correlation with the excess returns of other SEI Funds. This low (or, in some cases, slightly negative) correlation shows the potential diversification benefits of adding DAA to a portfolio; many of SEI's other Funds have traditional alpha sources (such as stock selection in equities and credit in fixed income), which tend to be more cyclical in nature.

Exhibit 5: Five-Year Excess Return Correlations with DAA

	SGMF DAA	SGMF Gbl FI	SGMF Gbl Eq	SGMF EME	SGMF HY	SGMF EMD
SGMF DAA	1.00					
SGMF Gbl FI	0.29	1.00				
SGMF Gbl Eq	0.32	-0.02	1.00			
SGMF EME	-0.10	0.10	0.08	1.00		
SGMF HY	0.24	-0.04	0.05	0.05	1.00	
SGMF EMD	-0.02	-0.31	0.06	-0.26	0.51	1.00

Source: SEI, Fund returns from SEI Data Portal, as at 31/12/17. Performance for SGMF Dynamic Asset Allocation Fund is for GBP Inst shares, performance for all other Funds is for USD Inst shares. All performance is net of fees. Excess returns are calculated versus stated Fund benchmarks.

Performance and Risk

While our goal is to provide diversification through different alpha sources we also seek to deliver strong risk-adjusted returns over time. While DAA takes a small number of high conviction positions, we can see meaningful swings in relative short-term performance. Over the long-term, however, we believe these high conviction positions should accrue to meaningful outperformance on both an absolute and risk-adjusted basis.

While it is arguable whether five-years is considered “long-term” the Fund’s risk-adjusted performance has met our expectations through thoughtful positioning and risk management. We believe we have a process in place to provide a unique source of alpha in different market environments.

Outlook

We believe the ability to capitalise on market dislocations or value opportunities may be more important over the next five years than it has been over the previous five years. Recent history has been a period of relative calm in the capital markets due in part to accommodative global monetary policy, low geopolitical risks and strong fundamentals in both the equity and fixed income markets. As major central banks move to tighten policy to more “normal” levels we expect to see greater levels of volatility and hence better opportunities for market dislocations. We continually monitor the different markets and seek to be proactive as markets are forward-looking. Through our disciplined approach we believe we can add value throughout the market cycle and provide a differentiated source of return.

Fund Performance as of 31 December 2017

Periodic Returns	Share Class	Annualised Return (%)				
		31/12/16 -31/12/17	31/12/15 -31/12/16	31/12/14 -31/12/15	31/12/13 -31/12/14	31/12/12 -31/12/13
SGMF Dynamic Asset Allocation Fund	GBP Inst	9.96%	18.25%	0.87%	5.18%	17.25%
SGMF Global Fixed Income Fund	USD Inst	7.85%	2.10%	-4.67%	0.18%	-4.25%
SGMF Global Equity Fund	USD Inst	23.94%	8.65%	0.93%	2.53%	25.80%
SGMF Emerging Markets Equity Fund	USD Inst	38.89%	13.85%	-13.79%	-3.70%	1.46%
SGMF High Yield Fixed Income Fund	USD Inst	7.43%	16.78%	-3.63%	2.42%	6.95%
SGMF Emerging Markets Debt Fund	USD Inst	15.15%	10.76%	-7.72%	-0.33%	-8.60%

The data refers to past performance. Past performance is not a reliable indicator of future results. Performance for SGMF Dynamic Asset Allocation Fund is in GBP, performance for all other Funds is in USD. All performance is net of fees.

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