SEI New ways. New answers.®

Concerned About Rising Rates?

SEPTEMBER 2018

Snapshot

- Short-term interest rates have been on the rise and are expected to move higher.
- It's understandable that investors are fearful of a corresponding rise in longer-term rates given the negative impact that may have on their bond values.
- SEI is not advocating a shift to short-duration investments; however, we have a number of short-duration solutions for investors who believe that such a shift would be appropriate for them.

Interest rates have been on the rise and are expected to go higher given the possibility of up to two more rate hikes from the Federal Reserve (Fed) this year and three more next year. With short-term rates rising more quickly than long-term rates, many fixed-income investors are concerned about the returns on their longer-term bonds and the impact rising rates will have on their value (interest rates and bonds prices move in opposite directions). Accordingly, even savvy investors are often tempted to reduce their strategic, long-term allocations to fixed income when interest rates start to rise.

The Case Against Short Duration

While we understand this sentiment, given the inverse relationship that interest rates and yields have with bond prices, we do not believe the abandonment of a diversified bond portfolio in favor of short-duration bonds is a sound long-term investment strategy. In fact, we believe the SIMT Core Fixed Income Fund, which is the primary investment-grade fixed income allocation in most of SEI's strategies, remains a prudent choice in most market environments. The Fund is currently positioned for yield-curve flattening, primarily between the 2- and 30-year portions of the curve (underweight shorter-term bonds and overweight longer-term bonds). Such flattening is expected to continue as a result of the previously noted expectation that short-term interest rates will rise more quickly that long-term rates. Long-term rates have remained largely anchored due to tame inflation expectations, while the shorter-end of the curve has risen sharply following the lead of the Fed. This positioning has benefitted the Fund, and we believe yield-curve positioning is potentially a more consistent source of relative performance than duration management. Still, the Fund employs Western Asset Management Company, which focuses a portion of its investment strategy on tactical duration management.

Short-Duration Solutions

For clients with circumstances in which a short-duration portfolio would be appropriate, SEI offers a number of solutions.

Traditional Mutual Funds

Short-term bonds generally pay a higher rate of interest than a money-market account. Their short-term nature can be appealing in a rising-rate environment because proceeds from maturing bonds can be reinvested in newly issued bonds that offer a higher rate of interest, and thus the effects of rising rates can be more muted.

Taxable Mutual Funds

SDIT Short-Duration Government Fund

- Seeks to preserve principal value, maintain liquidity, and provide current income
- Primarily invests in U.S. Treasury bonds and U.S. government agencies bonds
- Expects to maintain a weighted-average duration of between one and three years

SIMT Conservative Income Fund

- Seeks to preserve principal value, maintain liquidity, and provide current income
- Primarily invests in U.S. dollar-denominated debt with expected minimal credit risk
- Expects to maintain a weighted-average maturity of 90 days or less

SIMT Enhanced Income Fund

- Seeks to provide capital appreciation and income
- Invests in a diversified portfolio of investment-grade and non-investment-grade securities with either fixed or variable rates
- Expects to maintain a weighted-average duration of two years or less

SDIT Ultra Short Duration Bond Fund

- Seeks to provide current income and liquidity
- Invests primarily in investment-grade U.S. dollar-denominated debt
- Expects to maintain a weighted-average duration of 18 months or less

SIMT Multi-Asset Capital Stability Fund

- Seeks to manage the risk of loss while still generating positive returns
- Diversified, a risk-balanced approach
- Expected to have exposure to U.S. debt obligations, foreign sovereign-debt securities, investment-grade bonds and, to a lesser extent, riskier asset classes, such as equities and non-investment-grade fixed-income securities

Tax-Free Mutual Funds

SIMT Tax-Free Conservative Income Fund

- Seeks to preserve principal value, maintain liquidity, and provide federal tax-exempt current income
- Primarily invests in U.S. dollar-denominated municipal debt with expected minimal credit risk
- Expects to maintain a weighted-average maturity of 90 days or less

STET Short Duration Municipal Fund

- Seeks to provide federal tax-exempt income and capital preservation
- Invests primarily in investment-grade municipal securities
- Expects to maintain a weighted-average duration of three years or less

Traditional Separately Managed Accounts: Laddered Bonds

SEI's Managed Account Solutions offers high-net-worth investors a limited-duration strategy and a laddered-bond option.

Nuveen Asset Management, LLC. Limited Maturity Municipal Bond Strategy

- Seeks to avoid severe fluctuations in capital while generating tax-free income
- Invests in bonds with maturities of three to seven years
- Typically holds only investment-grade bonds

SEI Fixed Income Portfolio Management Laddered Bonds

- Buys a series of individual bonds (Treasury, municipal or investment-grade corporate) across a variety of maturity dates
- As each bond matures, the proceeds are used to buy a new bond at the far end of the maturity spectrum, extending the ladder
- In a rising-rate environment, this enables investors to reinvest a portion of their assets at higher rates

SEI Fixed Income Portfolio Management Floating Rate Notes

- Offers holdings with variable rates
- As interest rates move higher (or lower) the rates on these bonds reset at the current rate
- Expected to have a short duration profile

To Learn More

For additional information about any of these strategies, contact your SEI representative.

Definitions

Duration is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.

Important Information

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 and is intended for educational purposes only.

There are risks involved with investing, including loss of principal. Diversification may not protect against market risk. Bonds and bond funds will decrease in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. There is no guarantee that the Fund's income will be exempt from federal or state income taxes or the federal alternative minimum tax. Capital gains, if any, are subject to capital gains tax. Bonds and bond funds will decrease in value as interest rates rise.

Investing in the Funds is subject to the risks of the underlying funds. Asset allocation may not protect against market risk. Bonds and bond funds will decrease in value as interest rates rise. Due to their investment strategies, the Funds may buy and sell securities frequently. The use of leverage can amplify the effects of market volatility on the Fund's share price and may also cause the Fund to liquidate portfolio positions when it would not otherwise be advantageous to do so in order to satisfy its obligations. Commodity investments and derivatives may be more volatile and less liquid than direct investments in the underlying commodities themselves. Commodity-related equity returns can also be affected by the issuer's financial structure or the performance of unrelated businesses. The Fund's use of futures contracts, forward contracts, options and swaps is subject to market risk, leverage risk, correlation risk and liquidity risk.

For those SEI Funds which employ the 'manager of managers' structure, SEI Investments Management Corporation (SIMC) has ultimate responsibility for the investment performance of the Funds due to its responsibility to oversee the sub-advisers and recommend their hiring, termination and replacement.

SEI Investments Management Corporation (SIMC) is the adviser to the SEI Funds, which are distributed by SEI Investments Distribution Co. (SIDCo). SIMC and SIDCo are wholly owned subsidiaries of SEI Investments Company (SEI).

For those portfolios of individually managed securities, SEI Investments Management Corporation (SIMC) makes recommendations as to which manager will manage each asset class. SIMC may recommend the termination or replacement of a money manager and the investor has the option to move the account assets to another custodian or to change the manager as recommended. SIMC is a wholly owned subsidiary of SEI Investments Company.

Please see SIMC's Form ADV Part 2A (or the appropriate wrap brochure) for a full disclosure of the fee schedule for the Managed Account Solutions program.

SEI Fixed Income Portfolio Management is a team within SEI Investments Management Corporation (SIMC).

To determine if the Funds are an appropriate investment for you, carefully consider the investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Funds' summary and full prospectuses, which may be obtained by calling 1-800-DIAL-SEI. Read it carefully before investing.

183658-IMU 180907 (08/18)