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QUARTERLY MARKET COMMENTARY | Q2 2017

The Tide Continued to Rise in the Second Quarter

Quarterly Snapshot

- Political developments abounded in the U.S., continental Europe and the U.K., as markets continued to signal optimistic expectations.
- Global fixed-income markets had another strong showing, and global equity markets continued to rally (albeit to a lesser degree than during the previous quarter). Emerging markets outpaced developed markets.
- Emerging stock markets remain attractive on a valuation basis relative to developed markets. Investors have also been drawn to the region on improving global economic fundamentals.

Economic Backdrop

Political developments abounded during the second quarter: U.S. President Donald Trump scolded NATO and sidestepped a mutual-defense endorsement, and faced the appointment of a special prosecutor to investigate whether his campaign colluded with Russia during last year's election; Emmanuel Macron was elected to the French presidency and secured a congressional majority for his centrist En Marche! Party; U.K. Conservatives lost their parliamentary majority after calling an election; and ISIS was weakened in Syria as well as in Iraq, which regained control of Mosul in a near-total victory.

Stocks climbed globally, but the results were uneven. U.S. stocks advanced after strong first-quarter earnings reports. Equity markets were roughly flat in Europe and the U.K. after early-quarter weakness, followed by a rally, before sliding into quarter end. Japanese stocks had an impressive quarter, as did Chinese equity markets. Brazil suffered a major setback midway through the quarter, when President Michel Temer was implicated in a sweeping corruption scandal; this squandered an equity rally, which failed to recover and ended down for the period. The U.S. Treasury yield curve flattened at an accelerating pace, with short-term interest rates increasing and intermediate- and long-term interest rates declining (yields move inversely to prices). Oil prices tumbled from an early-April high of $53.40 per barrel of West Texas Intermediate crude to a late-June low of $42.53 per barrel, before bouncing slightly higher by quarter end.

The U.S. dollar continued a slide that began in the New Year; its value has declined in the first half of 2017 by more than 5% versus a broad trade-weighted basket of foreign currencies. The euro appreciated by 7.3% against the greenback in the second quarter alone. U.S. dollar weakness is particularly notable in the context of the Federal Reserve's (Fed) monetary-policy tightening endeavors, which would normally be expected to support U.S. dollar strength. The Fed attracted renewed attention this quarter—not just for its second benchmark rate hike of the year, but also for looking beyond rates and focusing on quantitative tightening via balance-sheet reduction.

Key Measures: Q2 2017

Equity	
Dow Jones Industrial Average	3.95% ↑
S&P 500 Index	3.09% ↑
NASDAQ Composite Index	4.16% ↑
MSCI ACWI Index (Net)	4.27% ↑
Bond	
Bloomberg Barclays Global Aggregate Index	2.60% ↑
Volatility	
Chicago Board Options Exchange Volatility Index PRIOR: 12.37	11.18 ↓
Oil	
WTI Cushing crude oil prices PRIOR: $50.60	$46.04 ↓
Currencies	
Sterling vs. U.S. dollar	$1.30 ↑
Euro vs. U.S. dollar	$1.14 ↑
U.S. dollar vs. yen	¥112.36 ↑

Sources: Bloomberg, FactSet, Lipper

The Bank of England's Monetary Policy Committee 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 European Central Bank (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. The Bank of Japan (BOJ) maintained its "Quantitative and Qualitative Easing (QQE) with Yield Curve Control" program.

U.S. manufacturers across the board expanded only modestly through May, at which point some began to see a sharp jump in activity while others maintained a moderate pace of growth. The services sector ended the quarter where it began, according to preliminary June data depicting middling growth. The unemployment rate fell through April and May, to 4.3%; although year-over-year average hourly earnings growth moderated in the first two months of the quarter.

The U.K. services sector started the quarter with a jump, slowed through May and June, and ended below its March level. Manufacturing followed a similar arc, but finished the second quarter roughly flat. Construction activity peaked in May, yet still improved overall for the period. Labor-market conditions softened, with an uptick in claimant-count unemployment and a downtick in average year-over-year earnings growth.

Eurozone manufacturing activity crept higher for the tenth straight month through June, hitting its highest growth level in more than six years. Services growth moderated during the quarter, but held at robust levels amid increasing new orders and backlogs. The unemployment rate continued to edge lower, holding at 9.3% in May.

Portfolio Review

U.S. large-cap strategies performed well during the quarter, in an advancing market that favored growth sectors over value. Performance was supported primarily by stock selection and sector positioning in healthcare and energy; growth-focused managers earned a style tailwind that was only partially offset by the headwind to value managers. Small-cap strategies were challenged in an environment that favored larger companies, despite gains across the capitalization spectrum. Selection within consumer discretionary and technology hindered performance, as did an overweight to the energy sector. The value-growth dynamic was less favorable among small-cap managers. International strategies performed in line with their respective benchmarks, as foreign markets outperformed U.S. equities. Regionally, a steep underweight to Asia Pacific—particularly Japan and Australia—contributed, but was partially offset by North American holdings. Emerging-market equities outpaced developed markets; although our strategies were held back in large part by an underweight to and positioning within the Asia Pacific region. An overweight to Russia also detracted, while an underweight to Qatar contributed. Selection in Greece—the top-performing country for the quarter—was also beneficial. An overweight to Brazil hurt performance as the country was once again upended by a presidential corruption scandal.

Core fixed-income strategies performed well during the second quarter, as non-government sectors generated excess returns relative to comparable U.S. Treasurys. Duration was neutral throughout most of the quarter and had little impact on performance, while a yield-curve-flattening bias was additive as short-term rates increased and intermediate-to-long-term rates declined. Within corporates, an overweight to financials contributed; but conservative exposure to industrials detracted as the sub-sector posted strong returns. An overweight to non-agency mortgage-backed securities (MBS) was beneficial, and an underweight to agency MBS was modestly beneficial. Selection within asset-backed securities (ABS) helped, as an underweight to sub-prime auto loans was positive amid rising delinquency rates and positioning within student loans contributed. High-yield strategies performed in line with their respective benchmarks, benefitting chiefly from an allocation to collateralized loan obligations (CLOs) and positioning within healthcare and leisure. Selection within energy, technology and electronics detracted, as did an underweight to and positioning within banking. Emerging-market debt strategies also performed in line with their respective benchmarks during a period when local-currency debt was the top-performing segment of the global fixed-income market. Eastern European markets saw their currencies rally on the outcome of the French election—which supported an overweight to the Polish zloty but weighed on an underweight to the Hungarian forint. Argentinian holdings benefited via euro-denominated sovereigns, which outperformed their U.S. dollar-denominated counterparts. As with equities, exposure to Brazil was the greatest country-level detractor from emerging-market debt strategies.

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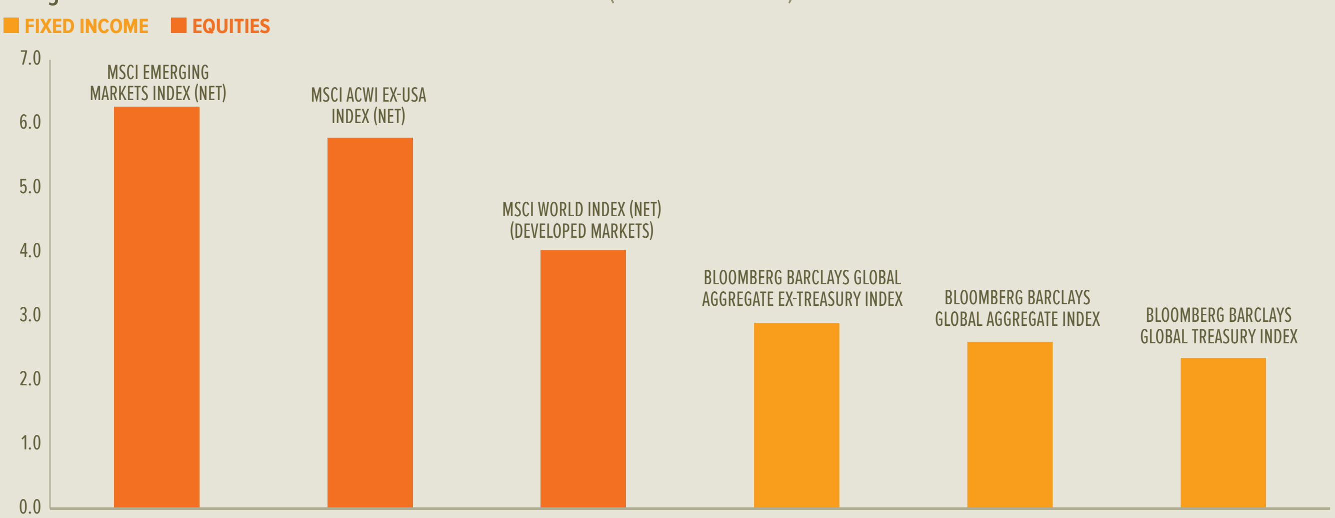
Major Index Performance in Q2 2017 (Percent Return)



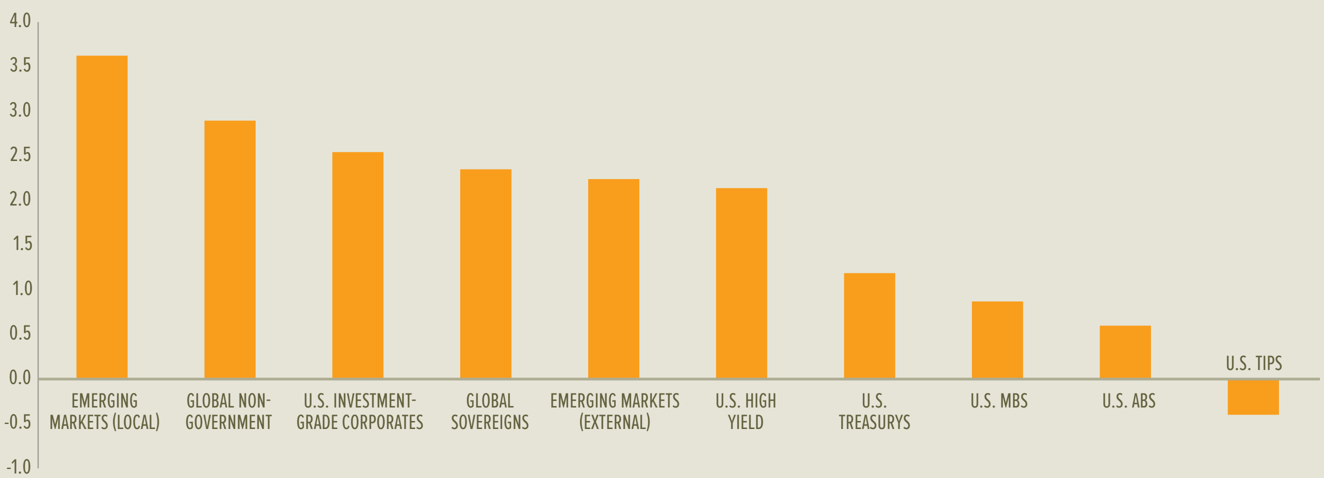
Sources: FactSet, Lipper

Manager Positioning and Opportunities

U.S. market sentiment, better-than-expected earnings reports and continued, albeit measured, optimism regarding the Trump administration's pro-growth tax and spending policies have sustained the market rally and stretched valuations. As such, we continued to favor stability-oriented managers within U.S. large- and small-cap strategies, and added to momentum while reducing exposure to value. Overseas, developed-market strategies remained oriented toward high-growth opportunities, namely companies in the technology and industrial sectors that are levered to the global economy. Financials remained underweight amid persistently low interest rates. Defensive sectors (telecommunications, utilities, consumer staples) were also underweight given their lofty valuations and minimal growth opportunities. Emerging-market positioning continued to de-emphasize Asia in benchmark-relative terms (although it represented a majority exposure in absolute terms). We moved from a slight overweight in India to a slight underweight as it digested a new nationwide Goods and Services Tax beginning in July. We cut an overweight to Russia given weak energy prices and unfavorable geopolitical dynamics, but retained an overweight to Turkey as fiscal stimulus and monetary policy drive a more positive outlook. Latin America remained in our favor, particularly Brazil, where we retained a slight overweight despite its resurgent—and hopefully short-lived—troubles. We also maintained a slight overweight to Mexico and ex-benchmark exposure to Argentina.

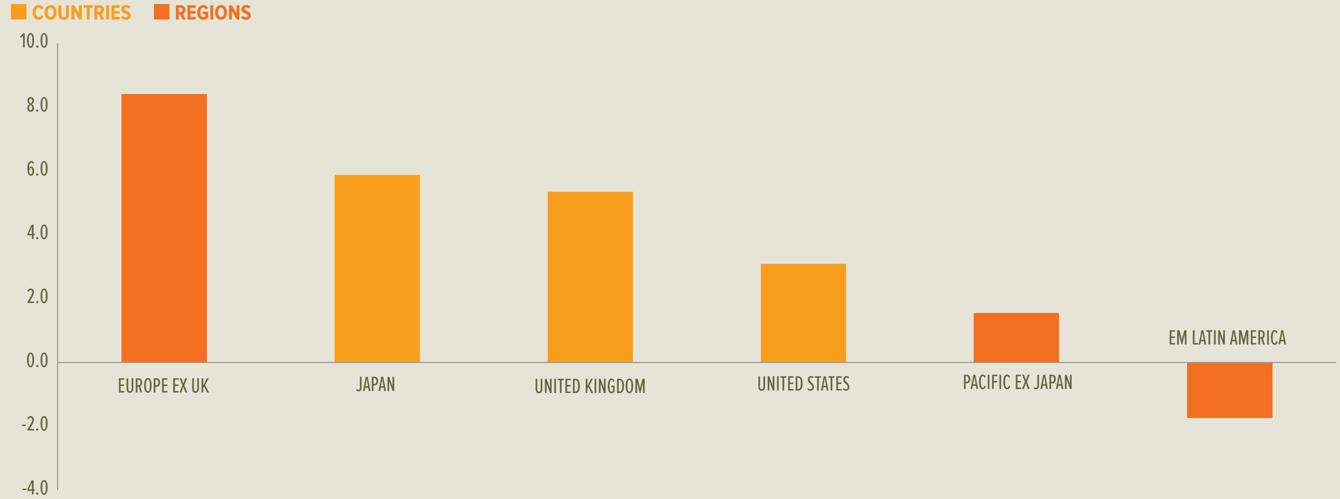
Core fixed-income managers have been reducing exposure to bonds that exceed valuation targets amid opportunities in heavy new issuance to add back exposures at more attractive valuations. We maintained a yield-curve-flattening bias, although it has been reduced gradually as the curve flattened in the first half of the year. We will likely add exposure to banks as their outlook improves and capital positions remain strong, but

Fixed-Income Performance in Q2 2017 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

Regional Equity Performance in Q2 2017 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

we are less inclined to take on excess exposure to industrials. Selective overweights to ABS and commercial MBS remained given their competitive risk-adjusted yields, as did an allocation to non-agency MBS, with an eye on any potential impact on the housing market from rising interest rates. Within high-yield strategies, we retained a significant allocation to CLOs at the expense of sizeable underweights to basic industry, capital goods, telecommunications, energy and banking. Emerging-market positioning continued to favor local-currency debt, with an expanded overweight there (as well as within corporates) and corresponding larger underweight to external debt. Argentina and Indonesia were the largest country overweights, and the Philippines was the largest underweight. Colombian exposure swung from an overweight to an underweight, while Chilean exposure did the opposite. A Mexican overweight was reduced quite a bit.

Our View

At the start of this year, SEI held an optimistic view regarding the path of the U.S. economy, corporate profits and, by extension, the stock market. We saw a great opportunity for the passage of business-friendly tax and regulatory reforms; but our hopes on legislative policy now appear too optimistic. Trump's unpopularity has emboldened the opposition to put up a unified resistance.

U.S. stock-market sectors that did well immediately following the election have corrected sharply or lagged the overall market meaningfully in the year to date. By contrast, post-election laggards have bounced back sharply. Throughout these gyrations, the U.S. equity market has managed to climb to new record highs. The lack of volatility has brought the widely-watched Chicago Board Options Exchange Market Volatility Index to extremely low levels, which we would argue increases the odds of at least a garden-variety correction.

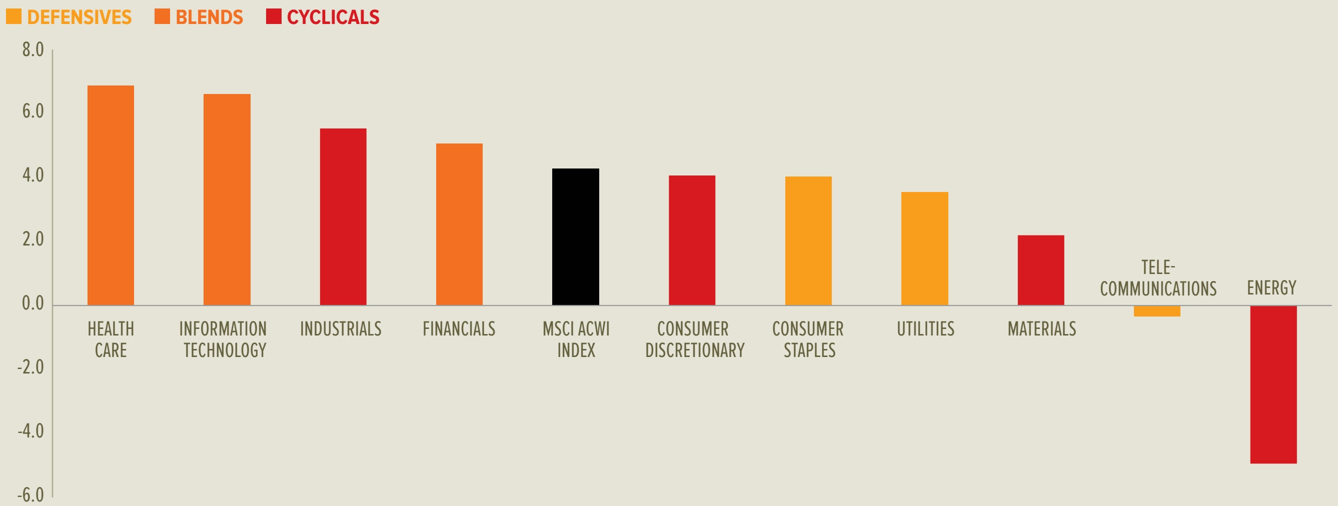
Although our optimism is being tested, we are gamely sticking to our expectation that a major tax bill will be pushed through Congress. Original hopes of a big cut in U.S. corporate tax rates will most likely be replaced by a smaller cut. This fiscal stimulus should still boost economic growth prospects, 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.

One of the great puzzles is the lack of upward pressure on the U.S. inflation rate despite a tightening labor market. Wages and salaries continued to rise at a sedate pace, so corporate profit margins remained unusually robust despite the aging economic expansion. The connection between tight labor markets and wage inflation has seemingly been severed by slow economic growth; little visible progress on tax reform and fiscal policy stimulus; weak oil pricing; and the secular disinflationary forces of demographics and disruptive technological change.

We believe this is why investors have returned to strategies emphasizing yield and stability. Unfortunately, it's hard to see the value in fixed-income yields that are so low in absolute terms and credit spreads that are tight relative to Treasury bonds. We do not think this lack of appeal portends imminent danger since inflation also is still low—but it does increase the vulnerability of fixed-income assets to a negative surprise (as is the case with the VIX and U.S. equities).

Global Equity Sector Performance in Q2 2017 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

The European equity bounce has been strong thus far in 2017, with the MSCI European Economic and Monetary Union Index (Total Return) gaining 20% in U.S. dollar terms—reflecting the strength of the euro against the greenback. 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 favor of ECB President Mario Draghi's long-standing preference to maintain the current pace of quantitative easing at least through 2017.

The recent U.K. election result means the country is now far more likely to move toward a "soft" Brexit. In our view, U.K 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 (as is the wish of more hardline Brexiteers).

This latest political surprise comes at a time when the U.K. 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. This has not been matched by rising incomes—U.K. households are falling behind, even though the unemployment rate has dropped to its lowest level in 40 years.

If a trophy were given out for the most underrated stock market, we would give our vote to Japan. It is no secret that its economy faces serious demographic issues. Yet Japanese equity prices have outperformed both the U.S. and Europe since 2012, when Prime Minister Shinzo Abe entered office. Governance of large, publicly traded companies in Japan has improved quite a bit. The government has been working hard to open markets that have been protected from competition.

Another factor behind the strong performance of Japanese equities stems from the liquidity infusion into the economy provided by the BOJ through its QQE program. As a percentage of gross domestic product, the BOJ's securities holdings are almost as large as the economy itself.

As rates in the U.S. move up and the differential versus Japanese yields widens, we look for a resumption of the weakening trend in the yen against the U.S. dollar. This should serve as a tailwind for additional price appreciation in Japanese equities.

Developing-market equities have been on a tear this year, with the MSCI Emerging Markets Index climbing almost 19% in U.S. dollar terms in the year to date, and a still-substantial 15% when measured in local-currency terms. To be sure, we have seen previous episodes of U.S. equities lagging during this long bull market—but those were typically brief stumbles, lasting a mere few months. Perhaps the current bout of underperformance will prove transitory too. But we no longer view U.S. equities as the best game in town.

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At this point, we expect current trends to hold—moderate global economic growth, rising inflation that leads to commodity-price gains, and a stable or slightly weaker U.S. dollar—all of which provide a favorable macroeconomic backdrop for emerging-market economies and financial markets.

Despite the gains, emerging stock markets have remained attractive on a valuation basis relative to developed markets. Investors have also been drawn to the region due to improving global economic fundamentals, with China leading the way and Brazil recording a sharp recovery from recession.

We still have concerns about the sharp increase in debt across developing economies—mostly within the corporate sector, especially in China. But at this point, we expect current trends to hold—moderate global economic growth, rising inflation that leads to commodity-price gains, and a stable or slightly weaker U.S. dollar—all of which provide a favorable macroeconomic backdrop for emerging-market economies and financial markets.

Index Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The Bloomberg Barclays 1-10 Year U.S. TIPS Index measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of one to ten years.

The Bloomberg Barclays U.S. Asset Backed Securities (ABS) Index measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

The Bloomberg Barclays Global Aggregate Bond Index is an unmanaged market-capitalization-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total return performance of ex-Treasury major world bond markets.

The Bloomberg Barclays Global Treasury Bond Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Bond Index that are Treasury securities.

The Bloomberg Barclays U.S. Corporate Investment Grade Index is a broad-based benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market.

The Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index measures the performance of investment-grade, fixed-rate, mortgage-backed, pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC).

The Bloomberg Barclays U.S. Treasury Index is an unmanaged index composed of U.S. Treasurys.

The BofA Merrill Lynch U.S. High Yield Constrained Index contains all securities in The BofA Merrill Lynch US High Yield Index but caps exposure to individual issuers at 2%. The BofA Merrill Lynch US High Yield Index tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of The Wall Street Journal.

The FTSE All-Share Index represents 98-99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indexes.

The JPMorgan EMBI Global Diversified Index tracks the performance of external debt instruments (including U.S. dollar-denominated and other external-currency-denominated Brady bonds, loans, Eurobonds and local market instruments) in the emerging markets.

JPMorgan GBI-EM Global Diversified Index tracks the performance of debt instruments issued in domestic currencies by emerging-market governments.

The MSCI ACWI Index is a market-capitalization-weighted index composed of over 2,000 companies, and is representative of the market structure of 46 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

The MSCI ACWI ex-USA Index includes both developed and emerging-market countries, excluding the U.S.

The MSCI Emerging Markets Index is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

The MSCI Emerging Markets Latin America Index captures large- and mid-cap representation across five emerging-market countries in Latin America.

The MSCI EMU Index (European Economic and Monetary Union) Index is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of countries within EMU. The MSCI EMU Index consists of the following 10 developed-market country indexes: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal and Spain.

The MSCI Europe ex-UK Index is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across 14 developed markets countries in Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland). The Index covers approximately 85% of the free float-adjusted market capitalization across European developed markets, excluding the U.K.

The MSCI Pacific ex Japan Index captures large- and mid-cap representation across four of five developed-market countries in the Pacific region (excluding Japan).

The MSCI World Index is a free float-adjusted market-capitalization weighted index designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

The NASDAQ Composite Index is a market value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

The S&P 500 Index is a capitalization-weighted index made up of 500 widely held U.S. large-cap companies.

The TOPIX, also known as the Tokyo Stock Price Index, is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Index is supplemented by the subindexes of the 33 industry sectors. The index calculation excludes temporary issues and preferred stocks, and has a base value of 100 as of January 4, 1968.

Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	BofA Merrill Lynch U.S. High Yield Master II Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury Bond Index
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index
U.S. Treasurys	Bloomberg Barclays U.S. Treasury Index
U..S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index
U.S. Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex UK	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

Disclosures

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There are risks involved with investing, including loss of principal. Current and future portfolio holdings are subject to risks as well. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. 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.

Diversification may not protect against market risk. There is no assurance the objectives discussed will be met. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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