Markets Maintained Modest Momentum

Monthly Snapshot

- President Trump drew criticism for his reaction to violent protests, distracting from his tax-reform push; two weeks later, a major hurricane affected millions of Americans and hobbled an energy-sector hub.
- Global equity and fixed-income markets continued to climb, albeit with moderating momentum.
- We expect current trends to hold, providing a favorable backdrop for emerging economies and financial markets.

Economic Backdrop

Top-level White House departures continued amid President Donald Trump's controversial reaction to violent protests in Virginia. His statements fanned already-heated racial tensions, caused members of his business council to resign in opposition, and drew rebukes from senior advisors, cabinet officials and congressional leaders—all of which distracted from the administration's agenda to push for tax reform. The month also brought historic hurricane rainfalls that affected millions of Americans and hobbled a crucial energy-sector hub; new revelations in the U.S. Justice Department's investigation into whether the Trump campaign colluded with Russia; willingness of Mexico to end trade negotiations if the U.S. rescinds the North American Free Trade Agreement; and escalating provocations from North Korea.

Overseas, a late-August Brexit summit yielded little fruit, betraying a fixation by negotiators on the U.K.'s financial obligations to the European Union (EU). Yet the U.K.'s desired roadmap became clearer as summer progressed; the transitional post-divorce period could maintain the status quo in order to avoid (or at least delay) the economic pain that would come from a hard break or multiple recalibrations. The U.K. consensus appears to favor a multi-year transition period that retains single-market access—in return for partial EU institutional dominance (with no British votes), ongoing financial support by the U.K. and a grace period for the continued free movement of people. Elsewhere, French President Emmanuel Macron unveiled labor-market reforms at the end of the month that delivered on a cornerstone of his agenda; German polls depicted President Angela Merkel's firm lead in upcoming elections; and monsoon rains flooded parts of the South Asian subcontinent, killing scores.

Equity markets were more directionally mixed than they've been in some time: the U.K. was down, the U.S., Japan and Europe were essentially flat, while China and Brazil advanced along with other emerging markets. The weak U.S. dollar trend that has remained intact for much of 2017 moderated, as the dollar strengthened against sterling and weakened only modestly versus the euro and Japanese yen. Sovereign yield curves flattened in the U.K., eurozone and U.S. as long-term government-bond

Key Measures: August 2017

EQUITY	
Dow Jones Industrial Average	0.65% ↑
S&P 500 Index	0.31% ↑
NASDAQ Composite Index	1.43% ↑
MSCI ACWI Index (Net)	0.38% ↑
BOND	
Bloomberg Barclays Global Aggregate Index	0.99% ↑
VOLATILITY	
Chicago Board Options Exchange Volatility Index PRIOR: 10.26	10.59 ↑
OIL	
WTI Cushing crude oil prices PRIOR: $50.17	$47.23 ↓
CURRENCIES	
Sterling vs. U.S. dollar	$1.29 ↓
Euro vs. U.S. dollar	$1.19 ↑
U.S. dollar vs. yen	¥110.10 ↓

Sources: Bloomberg, FactSet, Lipper

rates fell by more than short-term rates. The 10-year U.S. Treasury yield, which serves as a global reference for long-term sovereign rates, fell to its lowest level of 2017 on the last day of the month.

Major central banks were primarily on holiday during August, with the U.S. Federal Reserve (Fed), European Central Bank (ECB) and Bank of Japan (BOJ) reconvening their respective monetary policy councils in September. The Bank of England's Monetary Policy Committee voted in early August to maintain its current bank rate and stock of purchased assets. The Fed hosted the annual Jackson Hole Economic Policy Symposium, where Fed Chair Janet Yellen spoke about the role of financial regulation since the global financial crisis; ECB President Mario Draghi addressed resurgent protectionist urges of recent years, highlighting the importance of developed-market openness to trade in driving increased productivity.

U.S. labor-market gains slowed in August. The unemployment rate increased to 4.4%, while average hourly earnings growth slid from the prior month. Personal-income growth strengthened in July and consumer spending warmed up, while inflation pressures remained light. Economic growth was revised upward for the second quarter, to a 3% annualized rate.

U.K. factory orders advanced in August, reaffirming early-summer progress in the manufacturing sector. Retail conditions were somewhat less comforting, as August sales volumes fell to their lowest levels since the immediate aftermath of the Brexit vote in July 2016. The labor-market landscape continued to firm, with the claimant count declining in July, the unemployment rate ticking lower to 4.4% for the April-to-June period, and average earnings growth rising for the one-year period in the second quarter. Second-quarter economic growth was unrevised at 0.3% for the three-month period and 1.7% year over year.

Eurozone economic sentiment continued to climb in August, reaching its highest level in a decade, with notable gains in Italy, France and Spain, as economic recovery continued to reverberate from the core to the periphery. Manufacturing growth accelerated during August on the largest boost to export orders in more than six years, while services growth moderated. The eurozone unemployment rate held at 9.1% in July.

Portfolio Review

U.S. equity performance was mixed in August, with large-company stocks advancing slightly and small-companies sliding, as growth continued to outpace value and traditional defensive sectors rotated back into favor. Small companies also faced a direct headwind from the continued perception that the Trump administration's pro-growth agenda is unwinding, as smaller businesses are more heavily impacted by domestic economic conditions. Our large-cap strategies were challenged mainly by an underweight to and stock selection in technology, as well as selection in the consumer sectors. Our small-cap strategies underperformed primarily due to selection in healthcare and industrials. Overseas, developed markets were essentially flat; our international-equity strategies performed well thanks to an emphasis on selection in Europe, where economic recovery has taken hold. Emerging-market performance led developed markets again, by a considerable margin; our emerging-market strategies fared well relative to their benchmark. Our overweight to and selection within Brazil was beneficial, as Latin America remained the best-performing region. An overweight to Russia and underweight to Qatar also contributed to relative performance, while results in Asia were mixed.

Core fixed-income strategies essentially matched the benchmark's performance in a positive market environment. A yield-curve-flattening bias contributed, as long-term yields declined by more than short-term yields. Positioning within corporates was mixed, with security selection among industrials aiding relative performance and an overweight to financials detracting. Securitized-sector positioning contributed to relative performance; however, the impact of a higher-quality bias was mixed, benefitting asset-backed securities but limiting the relative outperformance of commercial mortgage-backed securities. An overweight to non-agency mortgage-backed securities and an underweight to agency mortgage-backed securities were beneficial. High-yield strategies were challenged amid a moderately negative market environment; selection within energy detracted, as did an underweight to and selection in services and an allocation to bank loans. Cash holdings were rewarded, however, along with selection within healthcare, technology and electronics. Our emerging-market debt strategies performed well, as the asset class maintained its advance—representing a bright spot similar to that of its equity counterpart. An overweight to Argentinian external debt contributed to relative performance, as did an overweight to Egypt that included an off-benchmark currency position. A slight overweight to Venezuela detracted as the U.S. implemented sanctions against the country (although these did not directly affect any bonds that SEI holds). An overweight to Brazil also weighed on performance.

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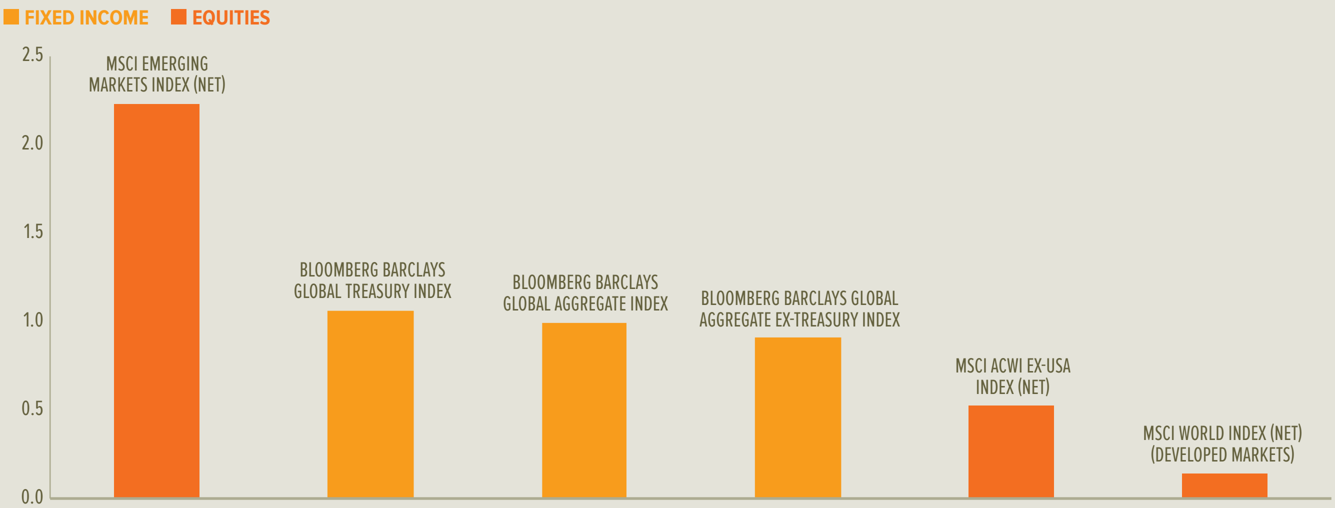
Major Index Performance in August 2017 (Percent Return)



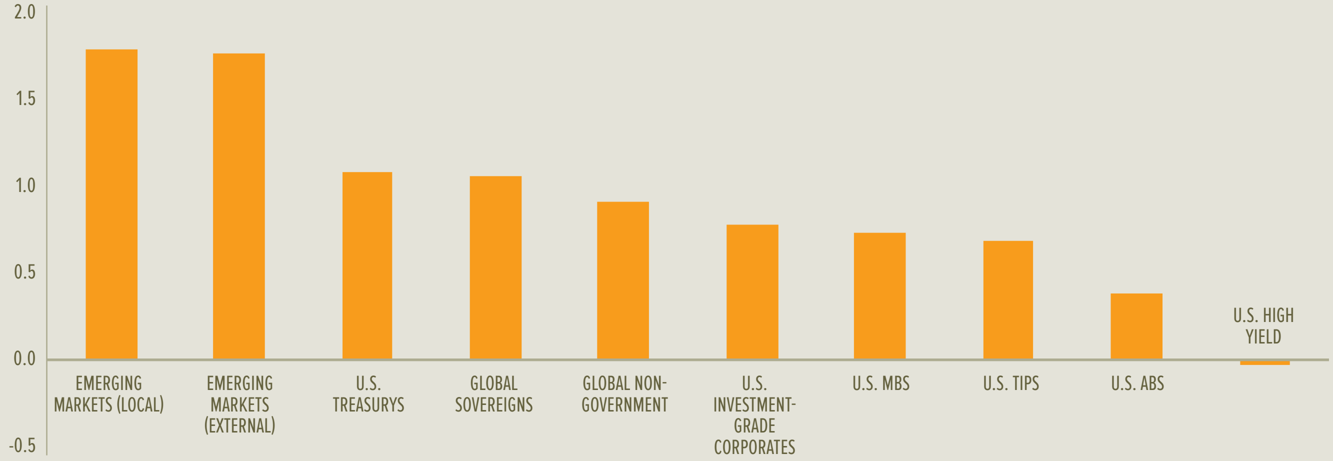
Sources: FactSet, Lipper

Manager Positioning and Opportunities

While U.S. market sentiment has dampened, the economic environment and earnings remain favorable. However, elevated valuations mean that the potential downside effect of a risk-off event could be material. We therefore continued to emphasize our stability levers to achieve a conservative posture in U.S. equity strategies. International developed-market equity strategies continued to underweight Japan and Australia on economic grounds, as attractive opportunities exist in the U.K. and Europe; we maintained ex-benchmark exposures in North America. The de-emphasis on Asia-Pacific countries was largely a product of an underweight to financials—primarily banks—in a low-rate environment. A stock-specific-driven overweight to industrials was intended to leverage the broad global-growth trend, as was an overweight to technology companies. Within emerging-market strategies, Asia remained both underweight and the largest absolute regional exposure—via underweights to Malaysia and China, and to more-developed countries like Korea and Taiwan; we did revert to an overweight to India. Our Latin American focus featured slight overweights to Brazil and Mexico, as well as off-benchmark exposure to Argentina. Sector-wise, we slightly lowered a technology overweight and retained an overweight to energy; financials and utilities remained underweight.

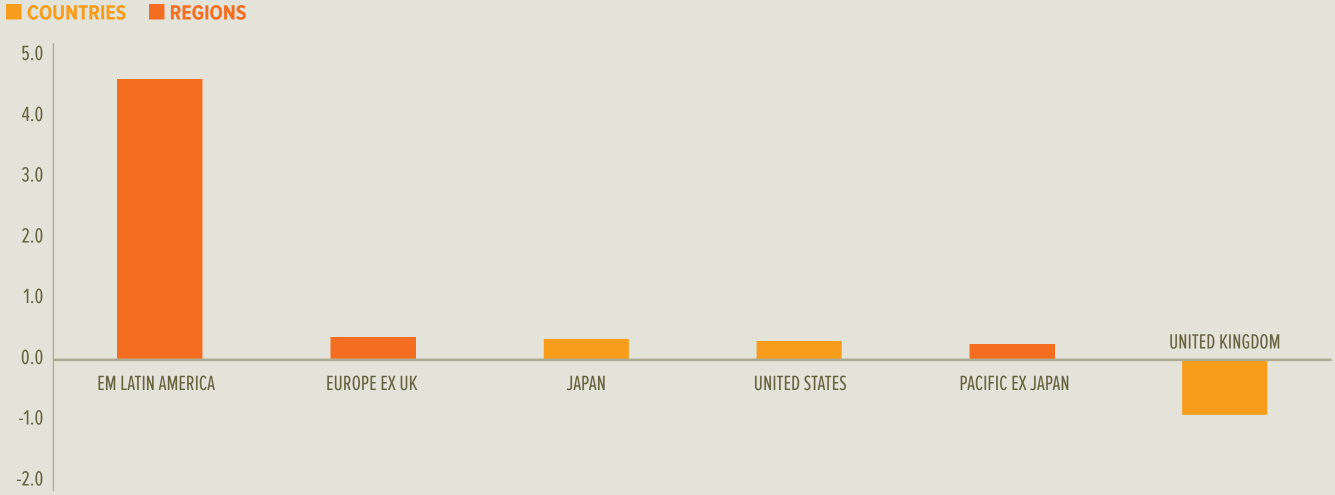
Core fixed-income strategies reduced their curve-flattening posture, as the curve has flattened during 2017. While bank spreads widened slightly in August, the sector still offered attractive relative valuations. We continued to reduce exposure to bonds that exceeded valuation targets, as a heavy new-issuance calendar may provide opportunities to add risk at more favorable levels. Securitized overweights remained given their competitive risk-adjusted yields. High-yield strategies retained an allocation to bank loans, as well as significant overweights to leisure, media,

Fixed-Income Performance in August 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 August 2017 (Percent Return)



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

healthcare, technology and electronics. Capital goods, basic industry and telecommunications represented the largest underweights. Within emerging-market strategies, an overweight to local-currency debt held firm. Our top country overweights were Argentina, Mexico, Turkey and Ukraine, while the top underweights were Philippines, Romania and Singapore.

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 for 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 performed 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 (VIX) 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 U.S. Congress. Widespread hopes of a big cut in U.S. corporate tax rates will most likely moderate toward aspirations for a smaller cut. Whatever the size, 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.

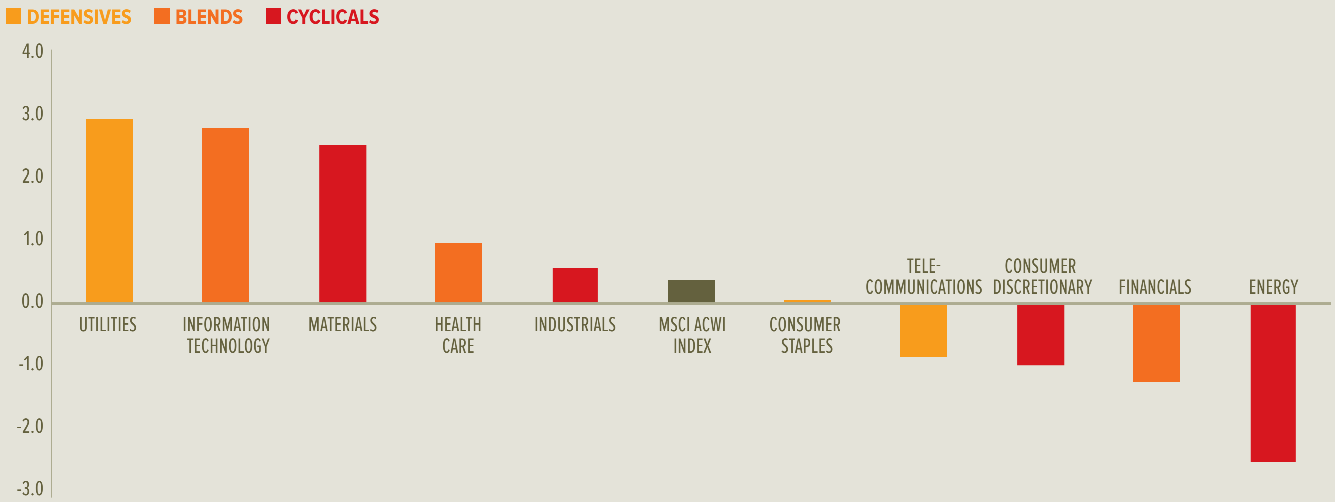
Fed Chair Yellen and a majority of her colleagues may be coming to the same conclusion, as evidenced by the second federal funds rate hike this year and the apparent intentions of the Federal Open Market Committee to reduce the size of the central bank's balance sheet. The pace of quantitative tightening 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 U.S. Treasury bond yielding just 2.12% at the end of August, however, it is obvious that inflation concerns are not yet paramount.

One of the great puzzles remains 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 for an 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 U.S. 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).

European economic sentiment has risen to the highest level since 2007, suggesting that economic growth may soon accelerate. Perhaps more important for investors, eurozone earnings have begun 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

Global Equity Sector Performance in August 2017 (Percent Return)



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

best pace in six years—an encouraging-yet-slow expansion that argues strongly in favor of Draghi's long-standing preference to maintain the current pace of quantitative easing at least through the end of 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 came at a time when the U.K. was showing mixed economic results. Inflation has been accelerating over the past year, which can be traced to sterling's steep decline since August 2015. This has not been matched by rising incomes—U.K. households have been falling behind, even though the unemployment rate dropped to its lowest level in 40 years.

If a trophy were given to the most underrated stock market, we would vote for 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, as the government under Abe has been working hard to open markets that were protected from competition.

Another factor behind the strong performance of Japanese equities stems from the liquidity infused into the economy by the BOJ through its quantitative and qualitative monetary-easing program. As a percentage of gross domestic product, the central bank's securities holdings are almost as large as the economy itself.

With interest rates in the U.S. moving up and the differential versus Japanese yields widening, we anticipate the yen to resume its trend of weakening against the U.S. dollar. This should serve as a tailwind for additional price appreciation in Japanese equities.

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Developing-market equities have been on a tear this year, with the MSCI Emerging Markets Index far outpacing U.S. equities in the year to date. 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 also prove transitory. But we no longer view U.S. equities as the best game in town.

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 sizable 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.

Definitions

Option-Adjusted Spreads: Option-adjusted spreads estimate the difference in yield between a security or collection of securities and comparable Treasurys after removing the effects of any special features, such as provisions that allow an issuer to call a security before maturity.

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 (formerly Lehman Brothers Global Aggregate Index), an unmanaged market-capitalization-weighted benchmark, 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% to 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, representing the market structure of 48 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 that is 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. 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. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

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