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Feb. BFI Profile: SEI Investments' Simko Talks About Total Return (2/26/19)

This month, BFI interviews Sean Simko, managing director and head of Global Fixed Income Management at SEI Investments. His responsibilities include "oversight of the fixed-income investment process, strategy and management of daily trading" and he "leads a team of investment professionals responsible for research, analysis, implementation, and ongoing portfolio management of over $7 billion of fixed-income strategies." Simko discusses SEI's separately-managed account options and forecasts that the Fed will likely not make any further upward moves in short-term interest rates this year. (He is also scheduled to speak at our Bond Fund Symposium, March 25-26, in Philadelphia. We'd like to remind those attending to register soon!) Note: This profile is reprinted from the February issue of our Bond Fund Intelligence publication. Contact us if you'd like to see the full issue, or if you'd like to see our BFI XLS performance spreadsheet, our BFI Indexes and averages, or our most recent Bond Fund Portfolio Holdings data set, which was published Tuesday.

BFI: How long has SEI been involved in running bond funds? Simko: SEI has been offering short-term bond funds since the launch of the SDIT Short-Duration Government Fund [with portfolio assets of $688 million as of Dec. 31, 2018] in February of 1987.

BFI: Tell us about your role at SEI. Simko: I have been in my role as Managing Director, Head of Fixed Income Portfolio Management, since 2005. I have the responsibilities and oversight of the department's overall investment process and management of daily trading of approximately $9 billion. I lead a team of investment professionals dedicated to the research, development, implementation and day-to-day management of a broad suite of fixed-income strategies in both U. S.-dollar and non-dollar markets. Prior to SEI, I was a portfolio manager at Weiss Peck & Greer on the Fixed Income Team.

BFI: Tell us about the Real Return Bond Fund, and SEI's other bond fund offerings. Simko: Tim Sauermelch, CFA, and I have co-managed the Real Return Bond Fund since 2013. The fund strives to protect investors' purchasing power against inflation. The strategy is implemented primarily through the use of Treasury Inflation-Protected Securities. This fund could be viewed as a staple in an investment portfolio that is looking to receive inflation protection.

BFI: Talk about the challenges with rates, supply, and 'hot money.' Simko: The lack of heightened inflationary pressure is a notable challenge in the real-rates market. This is not a new phenomenon, as inflation has been well contained for years. Despite this, inflation has the ability to quickly materialize, usually when it is not expected. Investors that seek to protect their purchasing power from inflation need to hold firm with their asset allocation models even when inflation appears to be well contained. If inflation protection is part of their model, it should be looked at as an insurance policy; a hedge against the threat of inflation. It is always cheaper to purchase insurance when you don't need it.

BFI: What is special about the Real Return Fund? Simko: While we have the ability to use a wide range of investment-grade fixed-income securities, the Real Return Fund is a purest in terms of attempting to capture inflation protection through Treasury Inflation-Protected Securities (no derivatives). The Real Return Fund aims to produce a total return that exceeds the rate of inflation in the United States. We invest in Treasury Inflation-Protected Securities with varying maturities.

BFI: Is SEI looking at launching other new products in this space? Simko: Although not a new addition to SEI's lineup, the Multi-Asset Real Return Fund seeks to generate "real return" by selecting investments from among a broad range of asset classes, including fixed-income securities, equity securities and commodity-linked instruments.

BFI: Talk about the company's separately-managed account offerings. Simko: SEI offers many options within its separate-account platform. Solutions cover a broad spectrum, including low-turnover strategies, optimized strategies, factor-based and active mandates. In terms of my team, with the use of technology, we've found success in providing custom portfolios at lower minimums. This enables a wider audience to access the customization and transparency benefits of a custom fixed-income portfolio.

BFI: Who are your investors? Simko: Our funds appeal to a range of investors seeking exposure to fixed-income securities as part of their overall asset allocation. On the separate-account side, institutions, foundations, endowments and high-net-worth investors rely on us for cash management, liability matching and operating funds.

BFI: What is your outlook for the Fed? Simko: Financial conditions remain relatively easy. This gives the Fed some, but limited, capacity for further rate hikes if economic data warrants a move. Against this backdrop, we are in the camp that the FOMC is likely on hold for the remainder of the year. The committee will remain data dependent and, if needed, raise interest rates one more time. We feel that the prospect of additional tightening carries a low probability. A sidelined Fed will help hold 10-year rates in a tight range of 2.5% to 3%.

BFI: What do you think about the future of bond funds? Simko: At some point in their lives, nearly all investors will have a need for fixed-income investments. So, bond funds will always have a place among fixed-income offerings. In particular, active bond fund managers continue to deliver value, and separate accounts are available for investors that require greater transparency and control.

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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. Bonds and bond funds will decrease in value as interest rates rise. TIPS can provide investors a hedge against inflation, as the inflation adjustment feature helps preserve the purchasing power of the investment. Because of this inflation adjustment feature, inflation protected bonds typically have lower yields than conventional fixed rate bonds.

Risks relevant to the Multi-Asset Real Return Fund: The Fund uses investment techniques with risks that are different from the risks ordinarily associated with fixed income and equity investments. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. Smaller companies and narrowly focused investments typically exhibit higher volatility. Investments in commodity-linked securities 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 primary risk of derivative instruments is that changes in the market value of securities held by the Fund and of the derivative instruments relating to those securities may not be proportionate. Derivatives and swaps are also subject to illiquidity and counterparty risk. Bonds and bond funds will decrease in value as interest rates rise. High yield securities may be more volatile and be subject to greater levels of credit or default risk. TIPS can provide investors a hedge against inflation, as the inflation adjustment feature helps preserve the purchasing power of the investment. Because of this inflation adjustment feature, inflation protected bonds typically have lower yields than conventional fixed rate bonds and will likely decline in price during periods of deflation, which could result in losses. REIT investments are subject to changes in economic conditions, credit risk and interest rate fluctuations.

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.

Please see SIMC's Form ADV Part 2A (or the appropriate wrap brochure) for a full disclosure of the fee schedule relevant to separately managed accounts.

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.