

# Managing the Managers that Work for You

The financial wellness of our clients is and always has been our top priority. At SEI, we focus our disciplined investment process on portfolios designed specifically to help investors achieve their life and wealth goals.

For more than 30 years, SEI has relied upon an investment philosophy that focuses on each of an investor's specific objectives. We developed our approach from disciplined behavioral and analytical research, focusing on the psychology of an individual investor, as well as the trends that impact worldwide financial markets and

investment managers. This philosophy is based upon five principles: asset allocation, portfolio structure, tax management, multiple specialist managers and continuous portfolio management. We concentrate on asset allocation and diversification among asset classes — two critical determinants of investment planning success.

## SEI's Investment Process: Grounded in Superior Manager Selection

One of the key principles of our investment philosophy is the use of multiple specialist managers. Our research shows it is virtually impossible to "time" the market by guessing which style of investing will be in favor. So, to

implement our asset management strategies, we select the very best investment talent from a global network of institutional money managers who specialize in specific sectors of the market.

## A Proven Model for Identifying Superior Investment Talent

SEI's skill in assessing the best candidates is driven by a specialized team, the Investment Management Unit, made up of more than 100 analysts dedicated to the implementation and oversight of the investment process. With decades of experience, and supported by millions of dollars in cutting-edge technology and research, their responsibilities include the selection of managers, performance optimization and risk reduction, as well as intensely monitoring each of the specialist managers.

The fundamental logic of our process is to apply rigorous quantitative analysis to the entire manager landscape, and leverage the results into a focused, qualitative evaluation of the leading candidates. It's an intensive approach that winnows a huge universe of investment managers down to a handful that meet all of SEI's demanding criteria. This process is based on SEI's experience with thousands of investment managers across all market cycles and looks for adherence to four principles:

### PHILOSOPHY

SEI looks for specialist managers who have a clearly defined investment philosophy and style — such as selecting growth or value, or a preference for large or small companies — that have been consistently applied over a number of years.

### DISCIPLINE

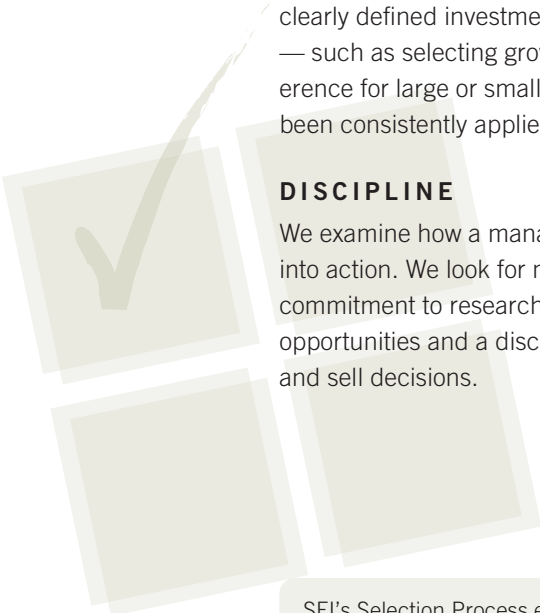
We examine how a manager puts its philosophy into action. We look for managers with a commitment to researching new investment opportunities and a discipline in making buy and sell decisions.

### CONSISTENCY

We compare a manager's performance against a benchmark relevant to its investment style. Analysis is focused on determining whether a manager's performance is consistent with its investment process and the current market environment.

### TALENT

Because an investment firm's primary assets are its people, we look for stable, well-managed organizations that have the ability to attract and retain outstanding investment management talent. We also look for companies with a team approach to investing, rather than those that may rely solely on the talents of their individual managers.



SEI's Selection Process ensures that only the Specialist Managers whose **investment philosophy** and **past performance** meet SEI's high standards are chosen.

## SEI's Three-Step Evaluation Process

Our disciplined three-step process evaluates each manager based on the above-mentioned four principles. Integrating a 'Returns-Based Evaluation' with a 'Holdings-Based Analysis,' our first two steps focus on gaining a quantitative understanding of the philosophy, discipline and consistency of each manager. The third step involves a 'Qualitative Evaluation' of each manager's overall organization and the people that make up its talent base. The following is a detailed description of the tools and criteria that comprise our time-tested process.

## Step 1: Returns-Based Evaluation

This quantitative research phase starts by compiling quarterly returns for the entire universe of managers from sources such as Nelson's Money Manager Database, Lipper Analytical Services, Morningstar and Mobius, as well as data supplied directly to SEI from specific managers. By using a combination of proprietary and industry analytical tools, the SEI analysts are able to gain a feeling for each manager's investment philosophy, process discipline and consistency of performance. With these tools, SEI can narrow down the list to a manageable size for any specific search.

### Equity Manager Selection

#### SEI's Global Equity Screening Model

- Analytical tool which is able to evaluate each manager sector on more than 100 factors
- Enables SEI to create sectors of managers who exhibit style-specific traits
- Analyzes manager's composite returns against a market index and peers to identify style attributes.

### Fixed Income Manager Selection

#### SEI's Global Fixed Income Screening Model

- Analytical tool that evaluates various statistical measures such as  $R^2$ , tracking error, manager alpha, residual return and downside risk
- Enables SEI to rank managers within a certain specialist category
- Analyzes manager's composite returns against a market index and peers to identify style attributes.

1

## Step 2: Holdings-Based Analysis

### Equity Manager Evaluation

Fundamental analysis used to better understand a manager's historical monthly investment decisions based on the quality, repeatability and discipline of their track record. Additionally, we analyze the impact of past market conditions on the manager's historical results and establish parameters for expected consistency of its process in future market conditions. Important tools used to monitor risk factors and manager consistency include BARRA® Analytics, Factset and Style Research:

- BARRA® is used to attribute and assign portfolio return to one of these categories:
  - Beta Policy
  - Industry Contribution
  - BARRA® Risk
  - Stock Selection
- Style Research provides robust holdings-based style and risk analysis software to assist with detailed manager analysis.
- Factset provides a framework to gather fundamental and quantitative analysis on specific manager's holdings and isolating the drivers of manager returns.

2

### Fixed Income Manager Evaluation

On the fixed income side, we use tools to determine whether the manager has been compensated for any risk assumed versus the benchmark.

- Wilshire Software is used to analyze holdings, isolate manager style and attribute returns
- Manager decisions are evaluated within two perspectives: the assumption of excess risk vs. excess return generated, and the successful avoidance or neutralization of risk that provides no tangible investor benefit
- Factset provides a framework to gather fundamental and quantitative analysis on specific manager's holdings and isolating the drivers of manager returns.

## Step 3: Qualitative Examination

### Equity and Fixed Income

As the next step in the manager search process, an SEI analyst conducts an on-site visit to interview potential manager candidates. Experience gained from hundreds of manager visits helps in identifying managers who will add incremental value over their benchmarks, and who will complement existing fund managers. This qualitative research phase includes:

- Intense review of money manager's organization, investment team and investment product
- Evaluation of the organization's stability, ownership structure, business structure, and the reliability of their compliance procedures
- Close scrutiny of manager's team structure, experience, staff turnover and compensation

## SEI's Manager Monitoring Process Keeps Goals on Track

### ONGOING MONITORING AND OVERSIGHT PROCESS

SEI's "manager of managers" investment process requires us to continually evaluate current managers, while also searching for new specialist managers.

Managers who are included as sub-advisors in SEI's funds are subject to a rigorous, ongoing monitoring and oversight process. We analyze manager activities and performance on a daily, monthly, quarterly and annual basis, evaluating everything from security trades to complete organizational reviews.

Our commitment to constant review and adjustment reflects our philosophy that the only measure of success is how well we help accomplish your goals. By working relentlessly for decades, SEI has developed an investment process that adapts to shifting market conditions and macro-economic developments — even to changes in your individual investment goals.

SEI's continual monitoring of its multiple specialist money managers is an integral step in our investment process. It ensures that holdings are closely monitored, risk is carefully reduced, and investment performance is driven by each manager's individual security selection. Those managers who fail to achieve stated goals, or who deviate from their stated philosophy, are subject to replacement.

*To determine if the fund(s) are an appropriate investment for you, carefully consider the fund's investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's prospectus, which may be obtained by calling 1-800-DIAL-SEI. Please read it carefully before investing.*

*There are risks involved with investing, including loss of principal.*

*For those SEI funds which employ the "manager of managers" structure, SEI Investments Management Corporation has ultimate responsibility for the investment performance of the Fund due to its responsibility to oversee the sub-advisors and recommend their hiring, termination and replacement.*

*SEI Investments Management Corp (SIMC) is the investment advisor to the SEI Funds. Funds distributed by SEI Investment Distribution Co. (SIDCO). SIMC and SIDCO are wholly owned subsidiaries of SEI Investments Company.*