SEI INVESTMENTS CANADA COMPANY

Quarterly Review

Q1 2021

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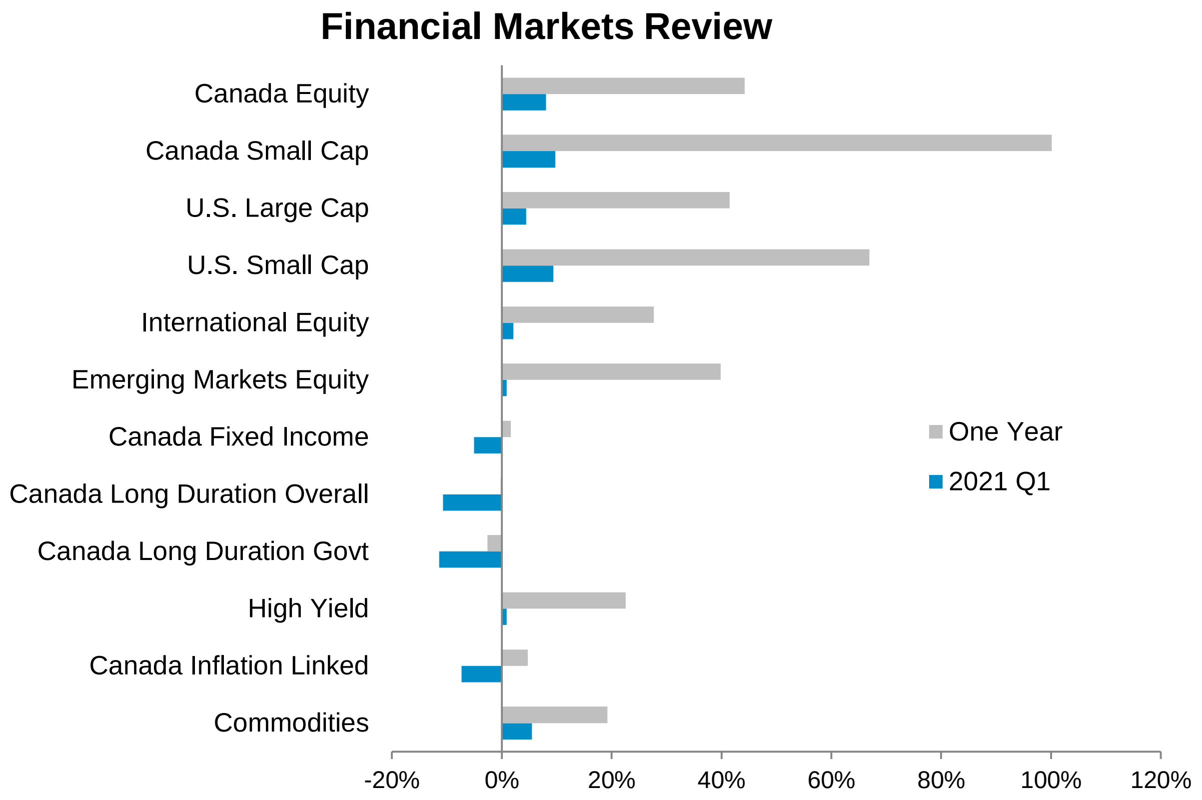
Market performance overview

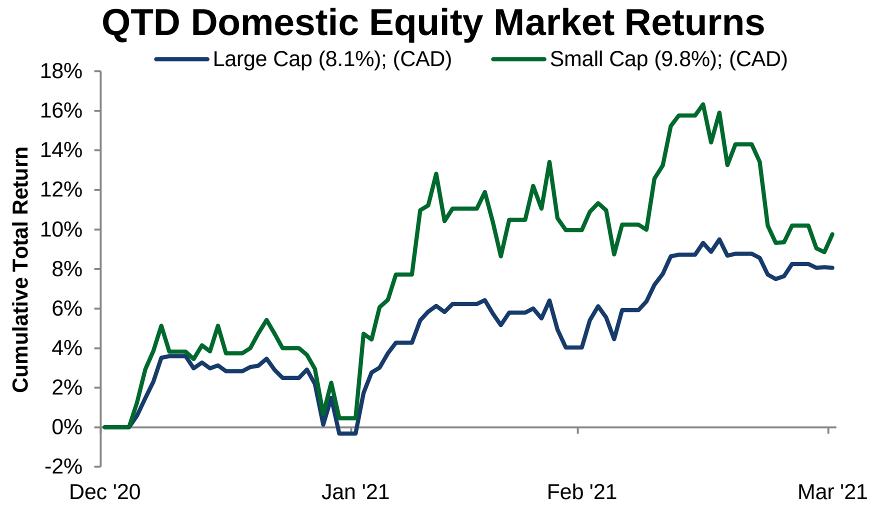
- The post-COVID reflation theme was in full bloom during the first quarter, as markets anticipated economic reopenings and additional rounds of massive U.S. fiscal easing. U.S. Treasury yields rose sharply in response, and while the U.S. dollar staged a turnaround from a weakening trend that had been in place against most currencies since May of 2020, the loonie was even stronger, thanks in part to higher oil prices.
- North American equities continued to roll along, especially smaller companies, as risk appetite improved and as cyclical and "go-out" names made up further ground on the mega-cap tech and work-from-home winners of 2020. Stocks elsewhere were positive but currency movements and renewed COVID outbreaks were headwinds.
- Domestic bond yields rose in sympathy with U.S. Treasurys, and rising growth and inflation expectations caused another difficult stretch for high-quality and longer-duration bonds. Riskier credits managed to tread water, as spreads were well behaved thanks to the favourable economic outlook. Translation effects from a stronger Canadian dollar muted high yield bond returns. After a strong 2020, inflation-linked bonds declined due to a partial but steep recovery in real rates.
- Commodities overcame a stronger loonie and greenback to provide another quarter of positive returns, thanks to an improving recovery outlook that buoyed expected demand. Energy led the way, and industrial metals also performed well thanks to aluminum and copper. Precious metals struggled in the face of rising real interest rates, while agricultural commodities performed well overall.

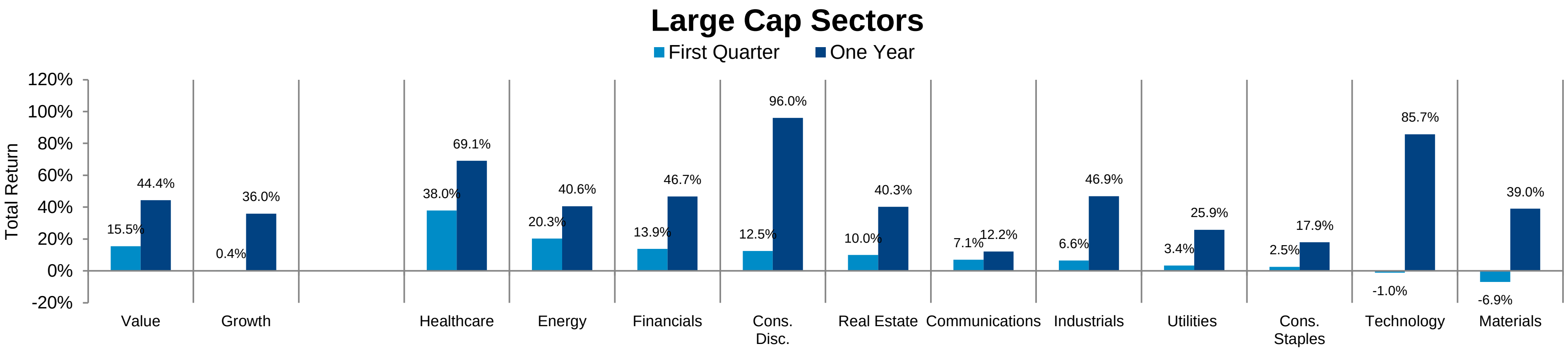


Commodities = Bloomberg Commodity Total Return Index (CAD), Canada Inflation Linked = FTSE Canada Real Return Bond Index (CAD), High Yield = ICE BofAML US High Yield Constrained Index, 100% Hedged (CAD), Canada Long Duration Govt = FTSE Canada Long Term Government Bond Index (CAD), Canada Long Duration Overall = FTSE Canada Long Term Overall Bond Index (CAD), Canada Fixed Income = FTSE Canada Universe Bond Index (CAD), Emerging Markets Equity = MSCI Emerging Markets Index (Net) (CAD), International Equity = MSCI EAFE Index (Net) (CAD), U.S. Small Cap = Russell Custom 2500 Index (Net 15%) (CAD), U.S. Large Cap = Russell Custom 1000 Index (Net 15%) (CAD), Canada Small Cap = S&P/TSX Small Cap Index (CAD), Canada Equity = S&P/TSX Composite Index (CAD). Sources: SEI, index providers. Past performance is no guarantee of future results.

Canadian equity market review

- Domestic equities enjoyed another strong quarter, thanks to further improvement in the growth outlook for North America.
- Improved risk appetite allowed small caps to outperform larger caps for a fourth consecutive quarter, although they gave up some ground from the middle of March.
- Within large caps, value-oriented names outperformed and are now lead their growth counterparts over the trailing 12 months.
- From a sector standpoint, healthcare, as well as the economically sensitive energy, financials and consumer discretionary sectors, led the way. Materials was the only sector that detracted meaningfully, driven in part by lower precious metals prices.





Sources: Factset, MSCI, Standard & Poor's. Large Cap = Canada S&P/TSX Composite, Small Cap = S&P/TSX Small Cap. Value and Growth represented by MSCI Canada Value Index and MSCI Canada Growth Index, respectively. Sectors represented by respective S&P/TSX Composite sector indexes. Past performance is not a guarantee of future results.

The outlook: A healthier world, but a sicker bond market

The good news

- COVID-19 vaccine creation and distribution are now being ramped up to a meaningful extent, raising hopes that the pandemic will subside in the U.S. and other advanced economies during the second half of 2021.
- Economic growth is set to accelerate throughout 2021, especially in the U.S., where fiscal stimulus is reaching record levels.
- The rebound in global economic activity should result in strong profit growth for cyclical companies and service-oriented industries that had been badly hurt during the pandemic.
- Monetary policy remains geared toward fostering strong economic growth and keeping interest rates low despite extraordinary debt issuance.

The bad news

- The virus continues to evolve, forcing countries and regions into additional disruptive lockdowns.
- The prospect of a quick return to full employment in the U.S. over the next 12-to-18 months has pushed bond yields higher.
- Richly-valued growth stocks have lagged badly in recent months amid the climb in interest rates, the gathering strength of the economic recovery, and the prospect of higher taxes beginning in 2022.
- There is some danger that the U.S. Federal Reserve maintains low interest rates and other stimulative policy measures for too long, allowing inflationary pressures to take root; however, in the near term, any increase in measured inflation will likely be viewed by investors as transitory.

Active positioning overview

2021 Q1

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Looking back: Pro-cyclical rotation gained further traction

- The reopening trade gained serious momentum in the first quarter as vaccine rollouts promised an eventual return to normal. Strong equity and commodity performance was accompanied by sharply higher interest rates and steeper yield curves. In equity markets, cyclical sectors did quite well. Energy, financials and industrials led, while more rate-sensitive sectors underperformed. In fixed income, riskier credits and floating rate securities outperformed.
- In equity markets, energy and financials enjoyed a resurgence against more growth-oriented sectors. Value-factor positioning contributed in the Canadian Equity, Canadian Small Company Equity, Emerging Markets Equity, International Equity, U.S. Large Company and U.S. Small Company Funds. Value managers LSV and Sionna contributed to relative performance in Canadian Equity, as did Beutel Goodman in Canadian Small Company. Managers in both Funds are finding attractively valued opportunities. Value exposure (LSV) mitigated underperformance in the Global Managed Volatility Fund. Financials overweights were beneficial in the Canadian Fixed Income, Canadian Small Company, Emerging Markets Equity and U.S. Large Company Funds.
- An overweight to financials also contributed in Canadian Fixed Income, as did overweights to energy and securitized credit. An overweight to corporates and underweight to duration helped relative performance. Floating rate bank loans produced positive returns in the U.S. High Yield Fund.

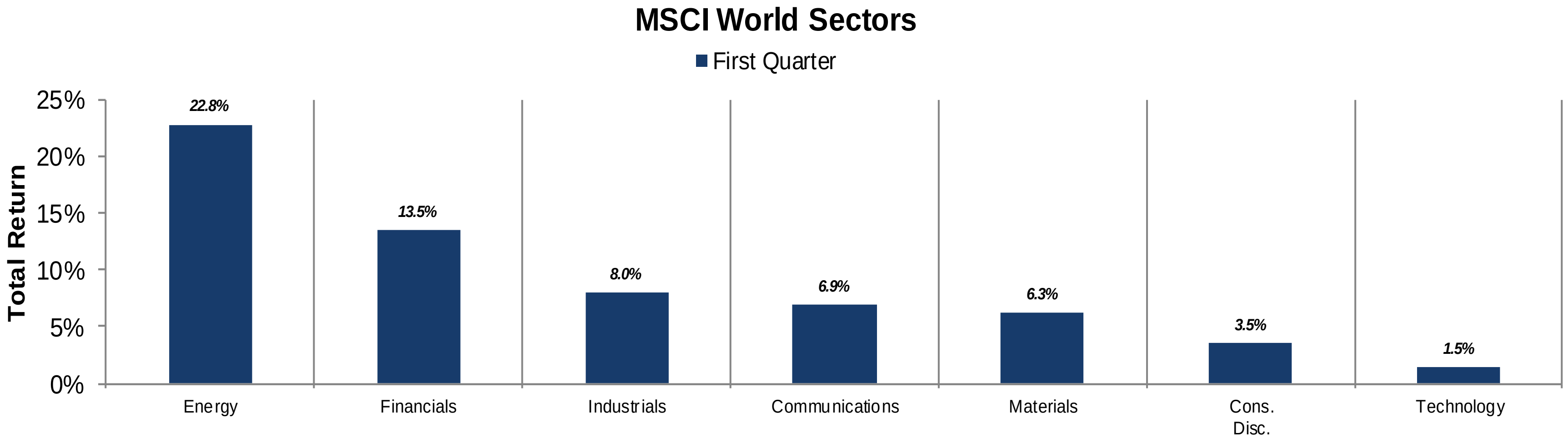


Chart shows MSCI World sector total returns, net (USD). Sources: Bloomberg, SEI, index providers.

Looking ahead

Positioned for further market rotation

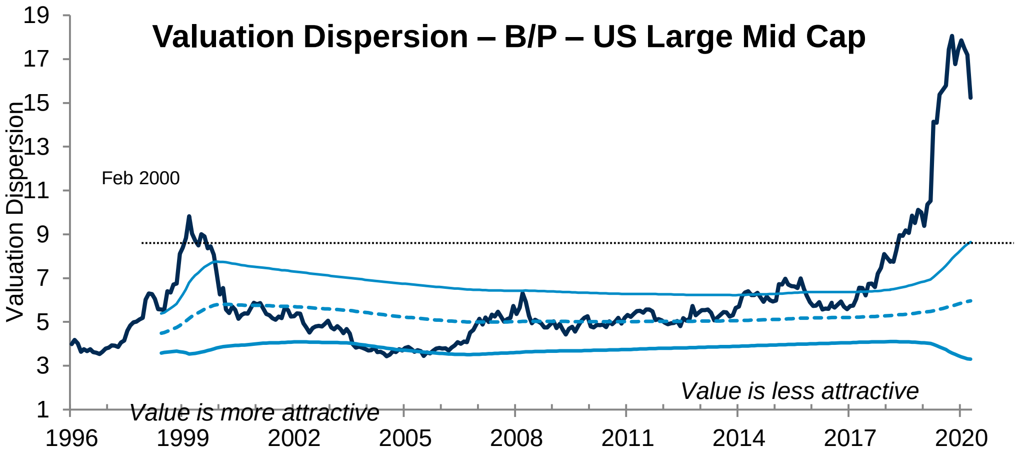
Active positioning in multiple funds should continue to benefit from an improving economic environment, lingering equity valuation disparities, rising interest rates, steepening yield curves (bottom chart) and higher inflation expectations.

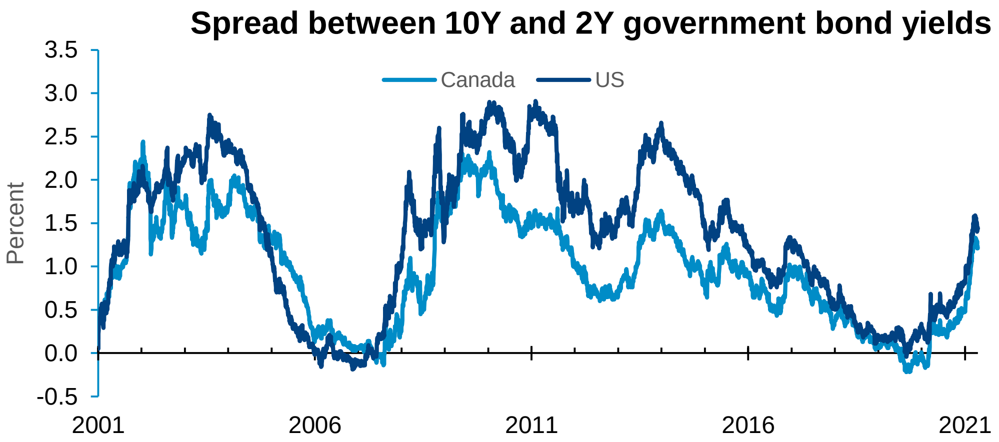
Equity valuation disparities narrowed somewhat but are still quite wide, especially in the U.S. (top chart) given its numerous megacap tech components. Value-factor overweights were maintained across equity funds with the exception of Global Managed Volatility, although LSV incorporates value into its risk-reduction framework.

The Canadian Small Company and U.S. Large Company Equity Funds continued to hold prominent overweights to financials. The Canadian Equity Fund holds a small overweight to financials and a meaningful overweight to consumer discretionary.

The Canadian Fixed Income Fund continues to hold a healthy overweight to corporate credit, specifically financials, energy and securitized debt.

The U.S. High Yield Fund remains overweight lower-rated credits, and its allocation to less rate-sensitive credits and off-benchmark floating rate securities should benefit in a rising rate environment as long as default expectations remain stable.





Top: S&P United States Large Midcap Index with valuation dispersion measured as ratio of median book-to-price of equally weighted 2nd and 9th deciles. Dotted blue line is average, solid blue lines are +1 and -1 standard deviations on an expanding basis starting in May 1999. Sources: Axioma, Factset, Standard & Poor's, SEI. Past performance is not a reliable indicator of future results. **Bottom:** Spreads between constant maturity 10-year and two-year nominal government bond yields, January 2001 thru March 2021, daily data. Sources: Bank of Canada, St. Louis Federal Reserve, SEI.

Looking forward to a post-COVID world

2021 Q1

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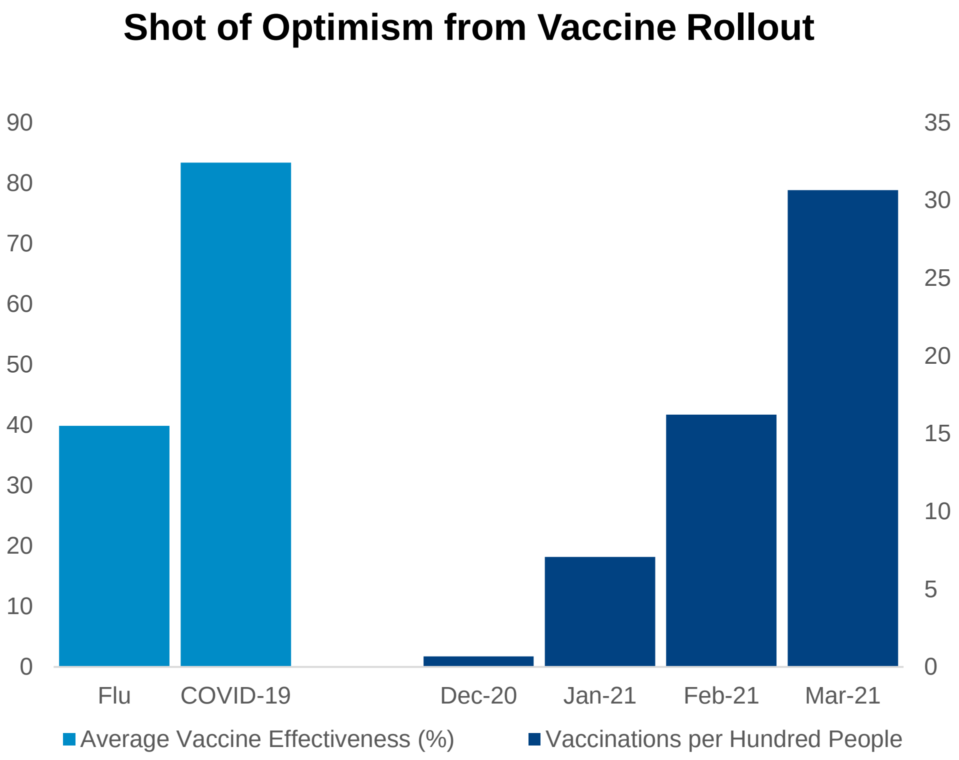
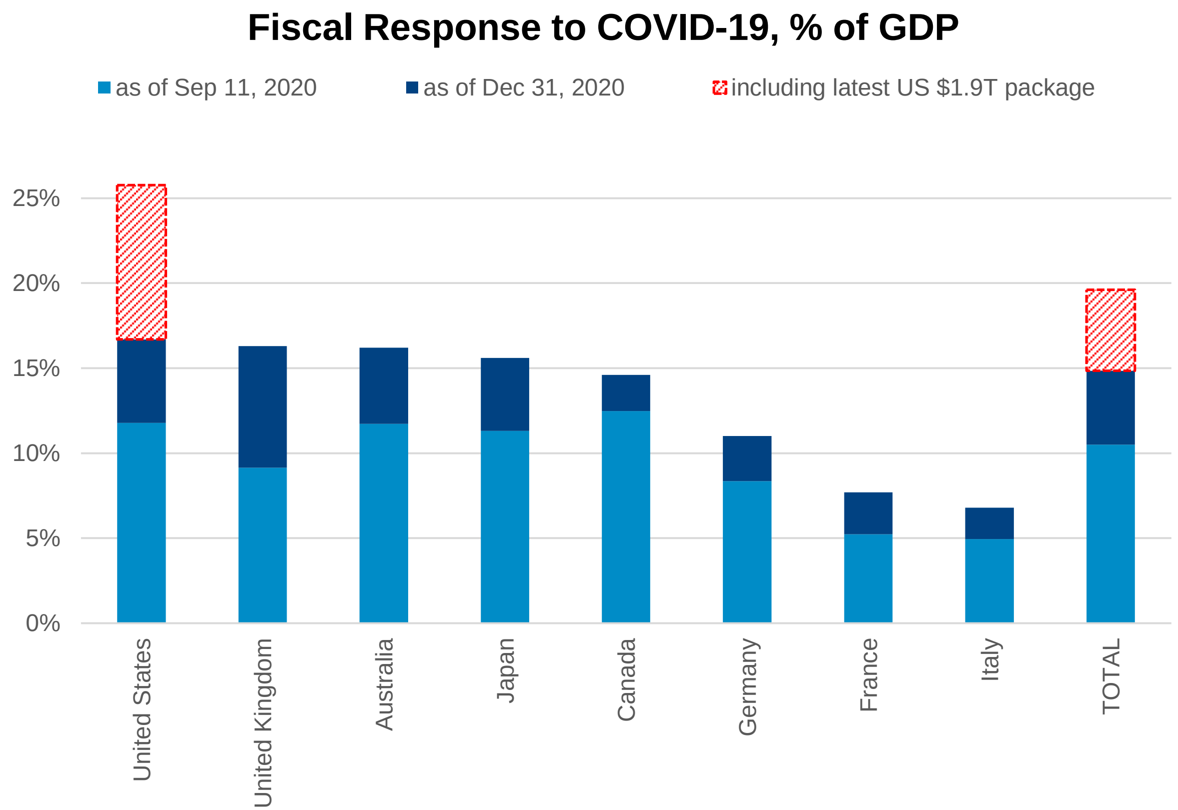
Key themes

- A clearer path to victory over COVID-19 has sparked changes across financial markets. While the rotation has had significant effects on equity markets, there are also important implications for fixed income and commodities.
- Some of the most stubborn trends of the previous cycle now appear to be rolling over. We believe strategies focused on fundamentals and valuations stand to benefit from changing market leadership and unwinding of top-heavy market concentrations.
- In the recovery phase of the cycle, expectations for accelerating economic growth and higher interest rates and inflation should provide a supportive environment for the imbalances of the previous cycle to continue unwinding.
- Fixed income remains an incredibly valuable part of the total portfolio, playing a critical role in bringing diversification and managing the overall risk of a portfolio. All components of a balanced portfolio, for that matter, continue to play important roles in navigating through changing markets and environments.

Light at the end of the tunnel

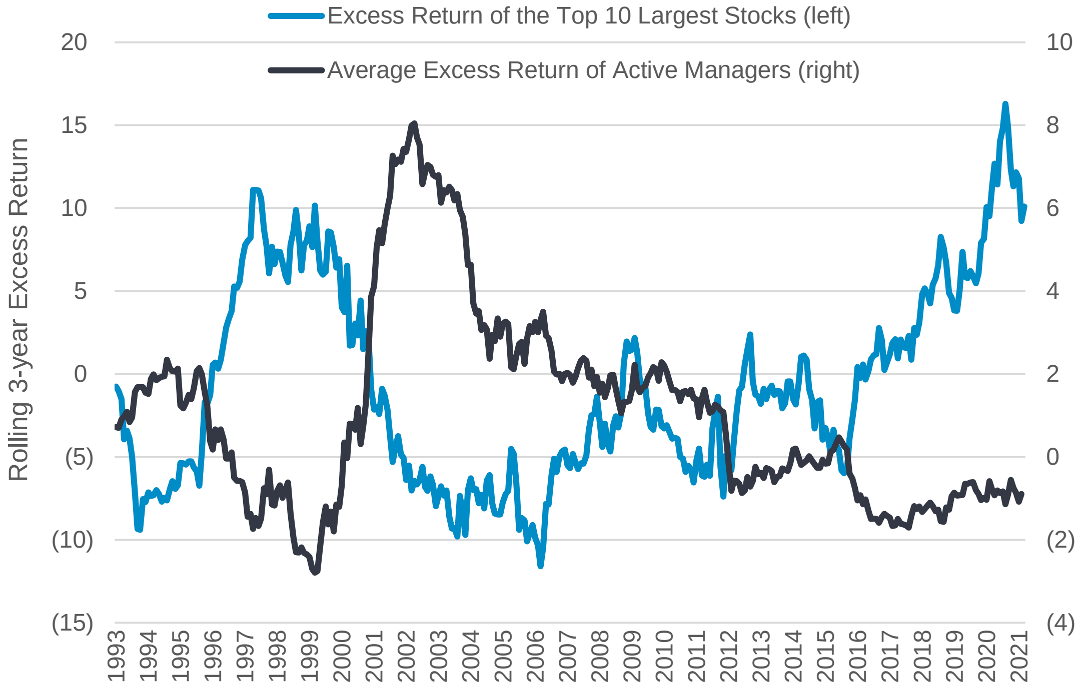




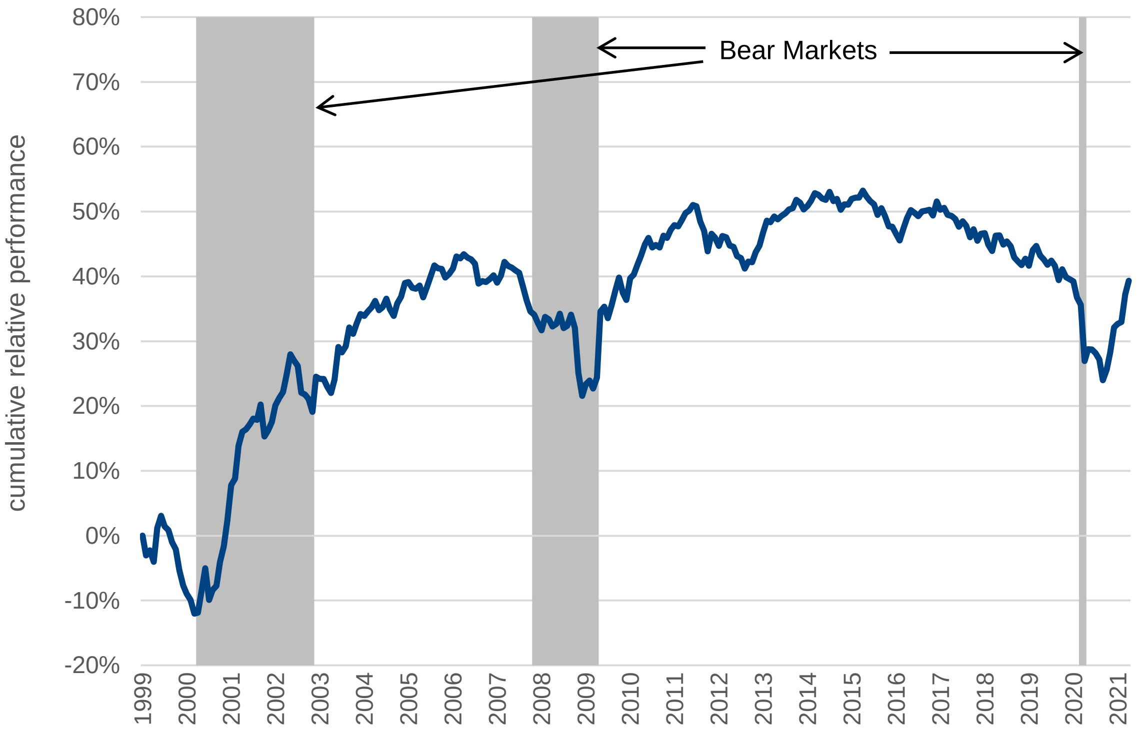
Left: COVID-19 vaccine efficacy is the average reported trial efficacy of the Pfizer-Biontech, Moderna NIH, Sputnik V, Oxford University AstraZeneca, BBIBP-CorV, and Sinovac CoronaVac vaccines. Source: CDC, FDA, SEI. Vaccinations per hundred people is the average of that statistic for the US, European Union, UK, and China. Source: Our World in Data COVID-19 dataset. As of March 31, 2021. **Right:** Based on IMF reports summarizing key fiscal measures announced or taken in response to the COVID-19 pandemic as of September 11, 2020 and December 31, 2020 (and overlaying the March 11, 2021 $1.9T 'American Rescue Plan'). Excludes equity injections, asset purchases, loans, debt assumptions, and extra-budgetary funds. Source: IMF, SEI.

Change can be a healthy thing

Headwinds and Tailwinds for Active Management
Russell 3000 Universe

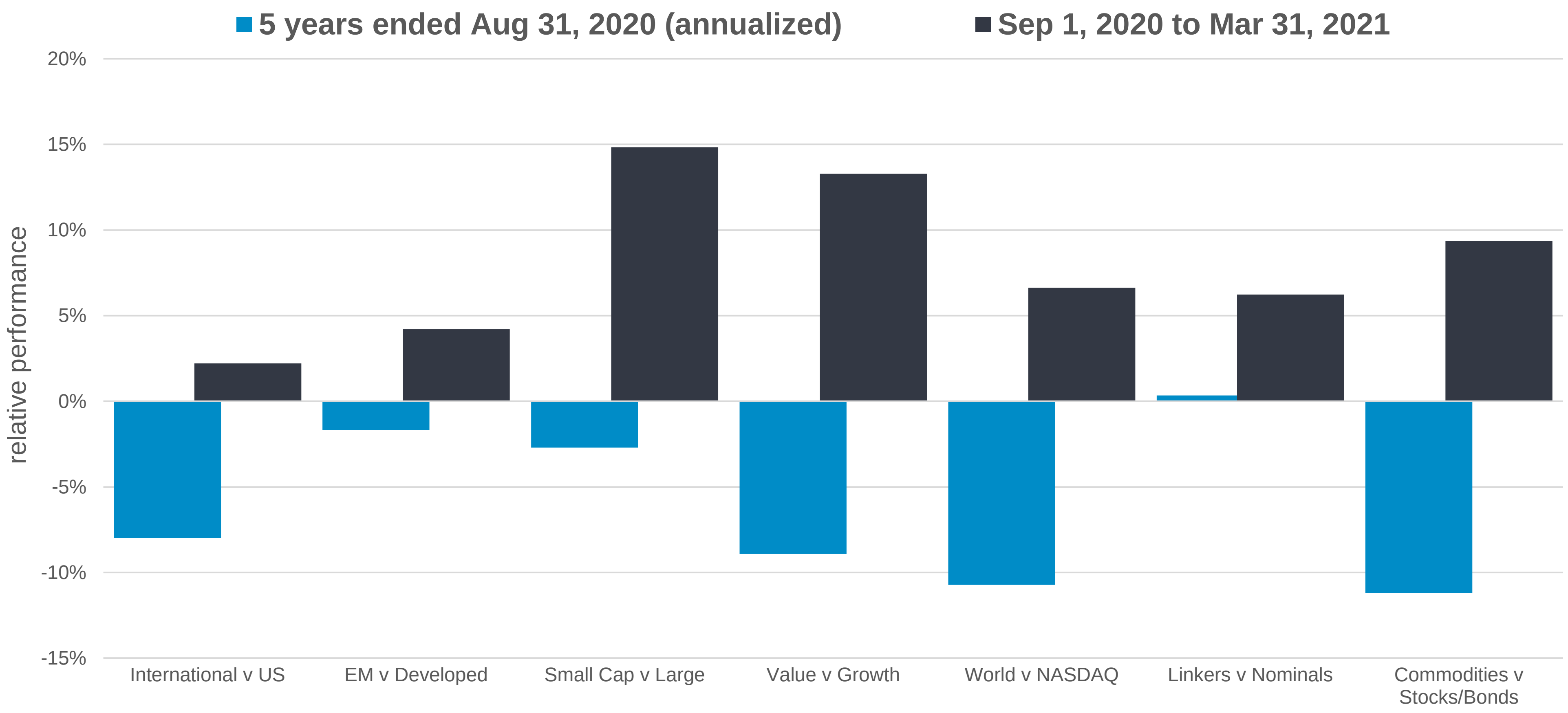


Equal-Weighted vs Capitalization-Weighted
S&P 500 relative performance



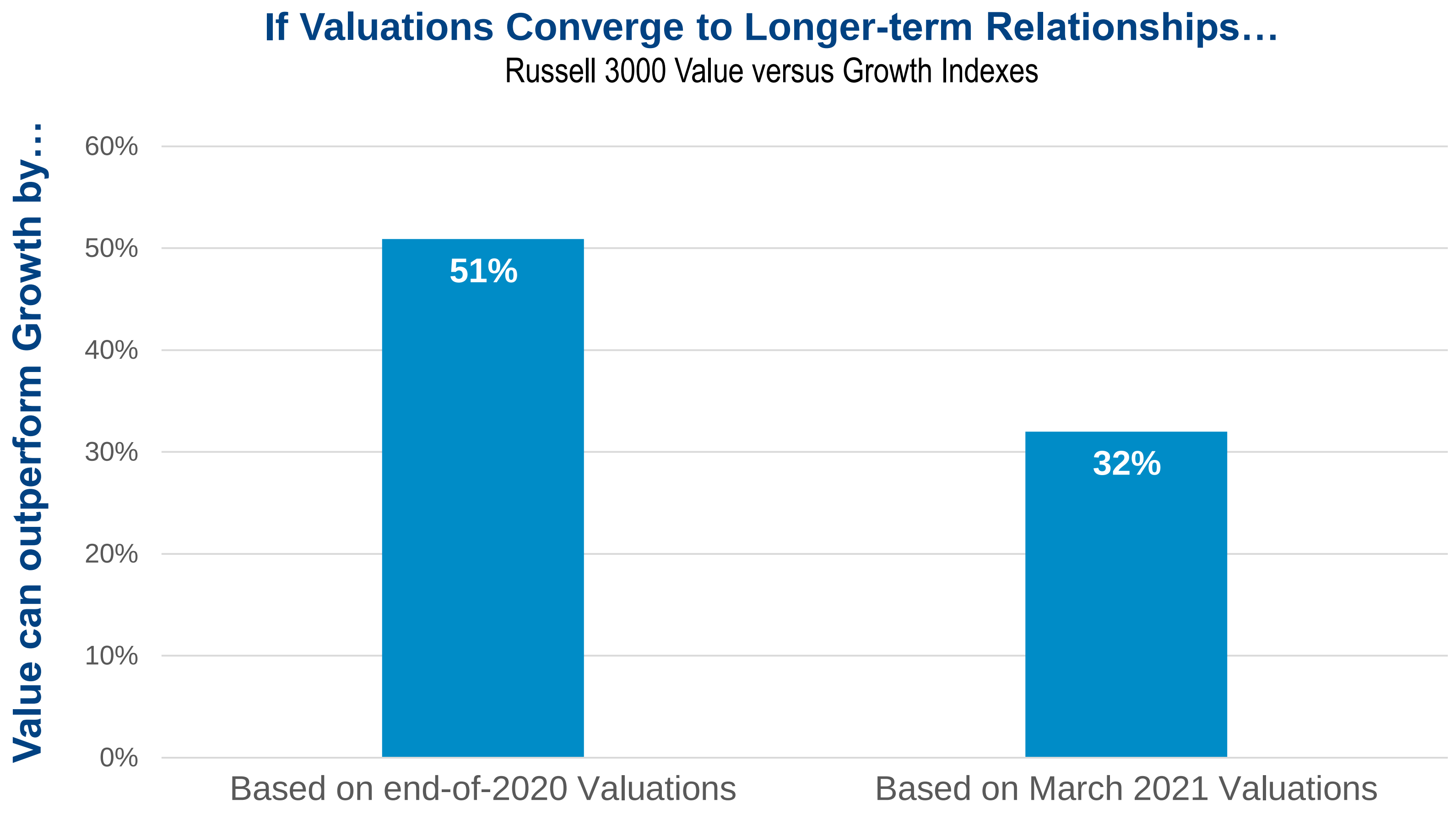
Left: Rolling 3-year excess returns versus the Russell 3000 Index. Average excess return of active managers in the eVestment US All Cap Core Universe are gross of fees. Top 10 largest stocks by market capitalization weight, rebalanced monthly. Source: eVestment, FactSet. As of March 31, 2021. **Right:** Monthly total (gross) returns from January 1999 to March 2021 (CAD terms). Cumulative relative performance of the Equal-Weighted S&P 500 Index versus the S&P 500 Index (which is market-capitalization-weighted). Bear markets defined as price declines of 20% or more in the S&P 500 Index. Source: Bloomberg, SEI.

The winds of change



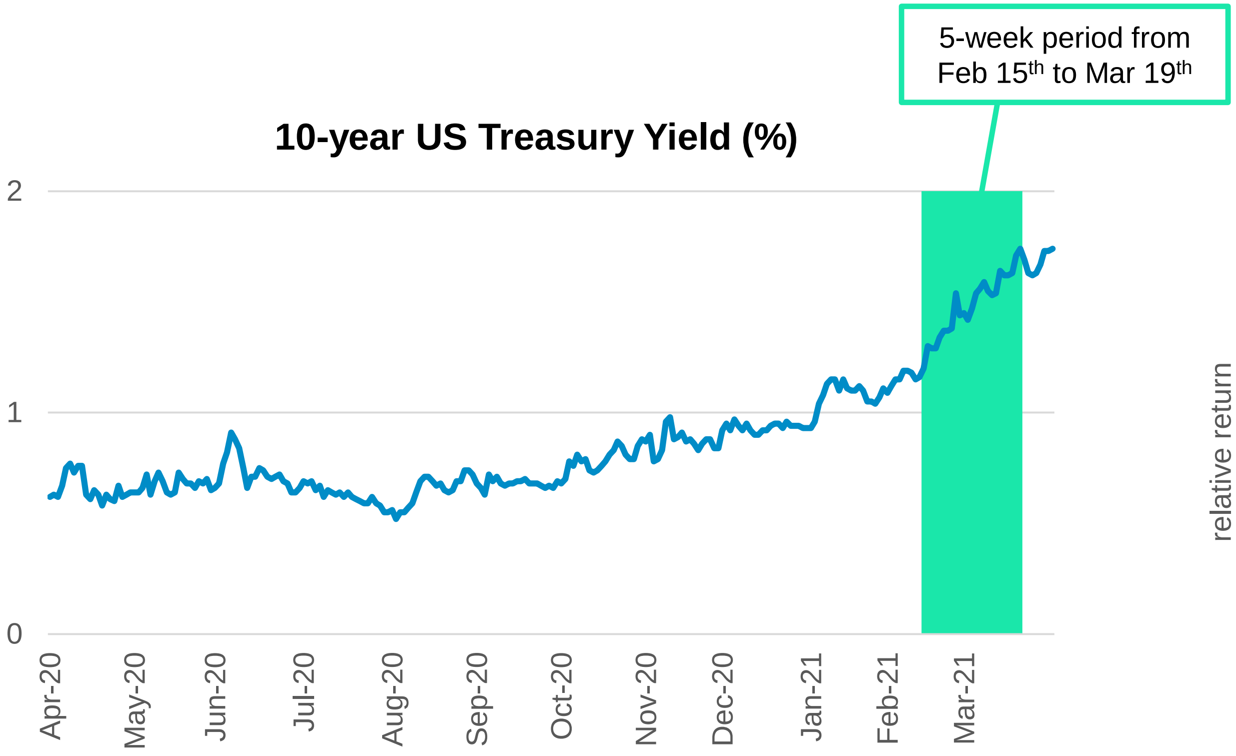
Relative performance comparisons as follows: MSCI World ex-US Index v. MSCI USA Index, MSCI Emerging Markets Index v. MSCI World Index, MSCI World Small Cap Index v. MSCI World Index, MSCI World Value Index v. MSCI World Growth Index, MSCI World Index v. NASDAQ 100 Index, ICE BofA 7-10 Year US Inflation-Linked Treasury Index v. ICE BofA 7-10 Year US Treasury Index, Bloomberg Commodity Index v. 50/50 blend of MSCI World Index & ICE BofA 7-10 Year US Treasury Index. Daily total gross returns in USD, unless otherwise noted. Source: Bloomberg, SEI. As of March 31, 2021. Past performance is not a guarantee of future results.

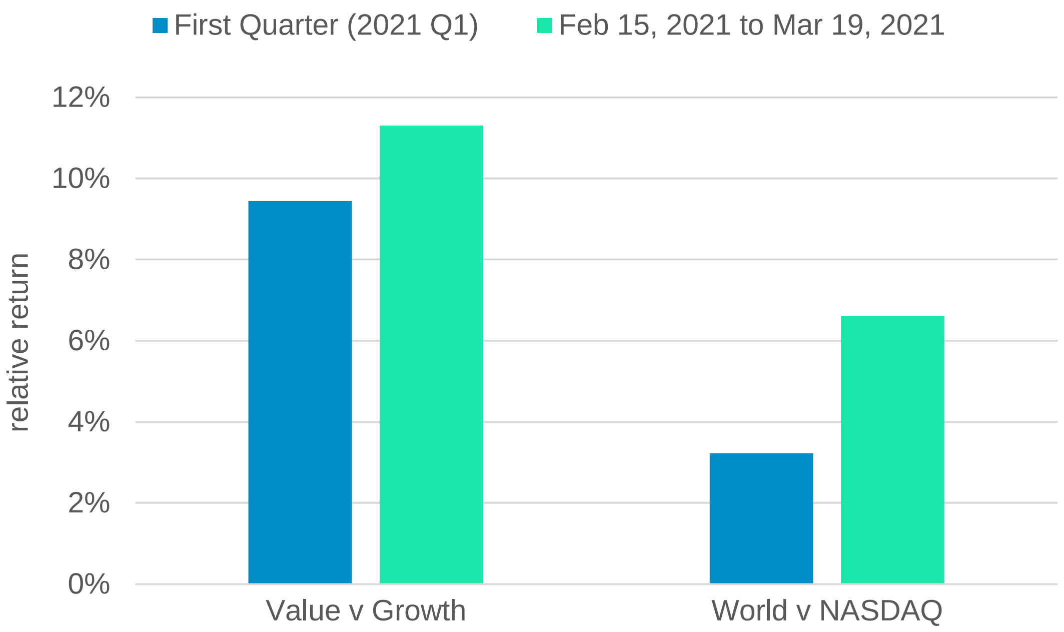
Room to run



Monthly data from December 1997 to March 2021. Hypothetical outperformance of value over growth is the average of five estimations, based on reversion to the mean for five valuation metrics: Price/Free Cash Flow, Price/Book Value of Equity, Price/Forward Earnings, Price/Forward Cash Flow from Operations, Price/Forward Sales. Source: FactSet, SEI..

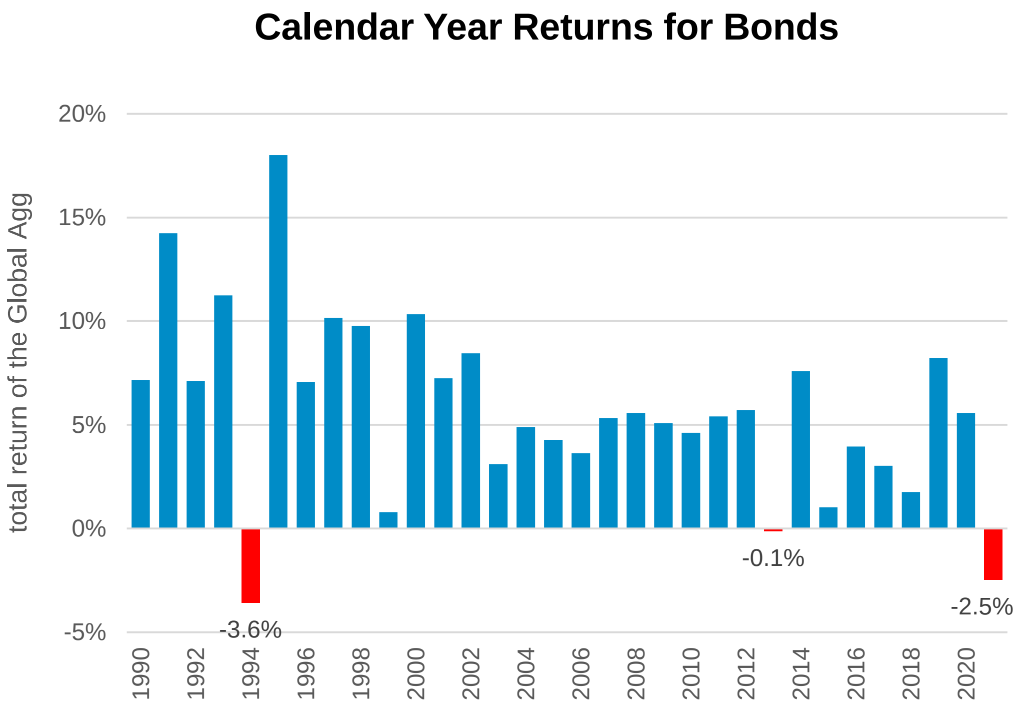
Rates run-up

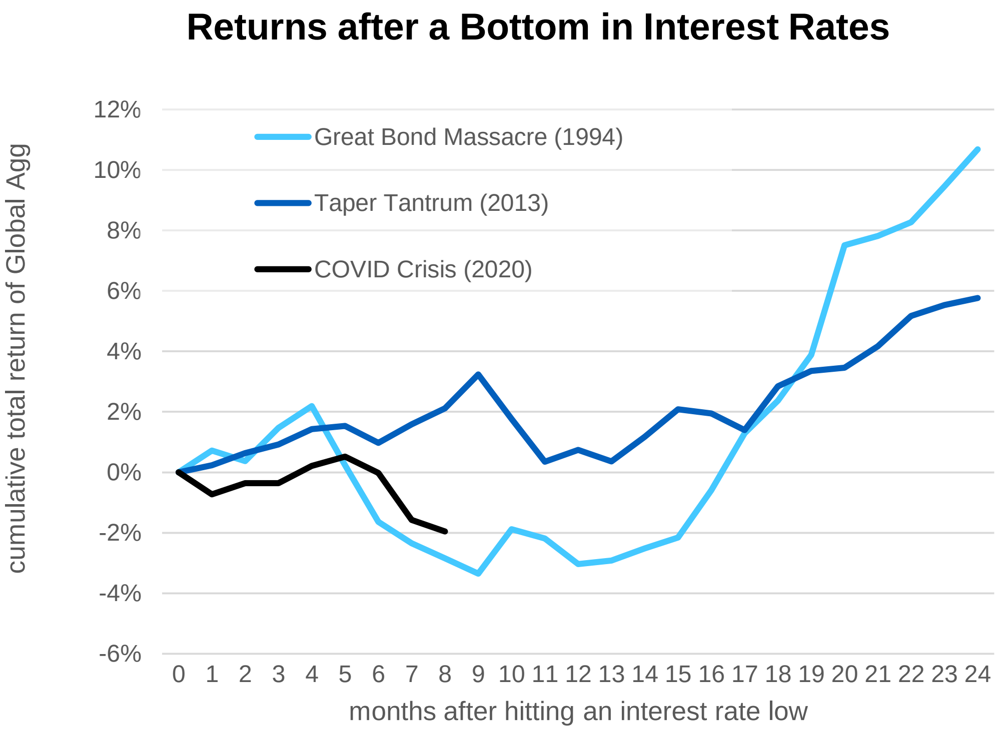




Left: 10-year Treasury constant maturity rate, percent, daily, not seasonally adjusted. Source: Federal Reserve Bank of St. Louis. As of March 31, 2021. **Right:** Relative performance based on the following indexes: MSCI World Value Index v. MSCI World Growth Index, MSCI World Index v. NASDAQ 100 Index. Daily total gross returns in USD, unless otherwise noted. Source: Bloomberg, SEI. As of March 31, 2021. Past performance is not a guarantee of future results.

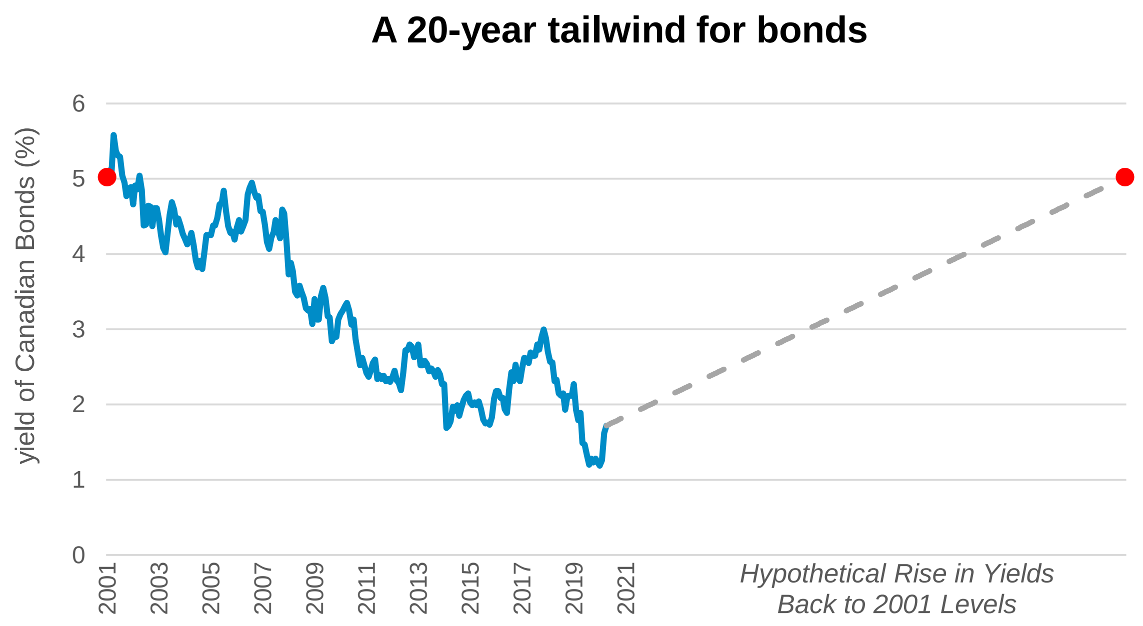
Bear markets for bonds

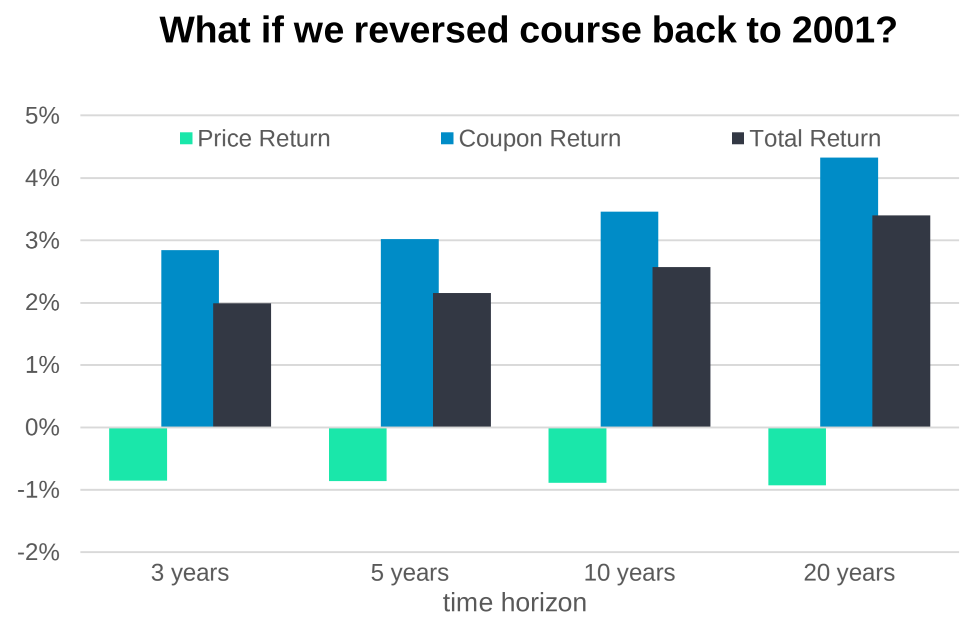




Left: Calendar-year total returns since inception of the Bloomberg Barclays Global Aggregate Bond Index (USD-hedged) from 1977 to 2020. Data point for 2021 is the year-to-date total return through March 31, 2021. Source: Bloomberg. **Right:** Cumulative total returns of the Bloomberg Barclays Global Aggregate Bond Index (USD-hedged) following a low in interest rates (as measured by the 10-year US Treasury yield). Monthly data. Low points in interest rates surrounding the Great Bond Massacre, Taper Tantrum, and COVID Crisis occurred in September 1993, July 2012, and July 2020, respectively. Source: Bloomberg, Federal Reserve Bank of St. Louis.

Keep calm and clip on





Left: Canadian Bonds = ICE BofA Canada Broad Market Index. Monthly data from December 2001 to March 2021. Source: ICE Index Platform. As of March 31, 2021. **Right:** Yield, coupon rate, average maturity and slope of the yield curve are assumed to move from current levels (March 31, 2021) back to 2001 levels (December 31, 2001) linearly over the course of 20 years for the purposes of this hypothetical analysis. Yield, coupon rate, average maturity, and slope of the yield curve are indicative of the ICE BofA Canada Broad Market Index. Source: ICE Index Platform, SEI. As of March 31, 2021.

A post-COVID road map for investors

	FASTER GROWTH	HIGHER INTEREST RATES	ACCELERATING INFLATION
EQUITIES	Widespread vaccination, accommodative central banks, additional fiscal impulses from the U.S., and an eventual reopening of the global economy. › Small/mid caps over large/mega caps › Non-U.S. over U.S. › Cyclical/value sectors over growthier/pricier Factor-based equity strategies and active equity management should be able to prove their worth.	Headwinds from higher rates can be offset by stronger earnings. Impacts may vary across sectors/industries.	Nominal corporate earnings may adjust to higher inflation but with important sector/industry differences.
FIXED INCOME	Higher interest rates correspond to faster growth.	Higher interest rates typically correspond to faster global growth, and rising rates are negative for the prices of most types of bonds. › High-quality, long-duration bonds most affected. › Riskier credits may outperform if spreads stable. › Floating-rate credits may outperform. Bond returns are still likely to be positive over multi-year horizons, and fixed income assets continue to play a critical role in effective portfolio construction.	Diversification of fixed-coupon debt, including credit and floating-rate exposures, may prove beneficial.
INFLATION SENSITIVE	Accelerating inflation often a feature of faster growth.	To the extent rising rates reflect inflation expectations, inflation-sensitive assets should perform well.	Simple stock-bond portfolios have done well in the disinflationary environment of the last 40 years. A return to meaningful, persistent inflation in the years ahead would be a headwind. › We believe “all-weather” portfolios should include positive inflation exposures. › A durable shift toward greater fiscal and central bank largesse is an important risk for investors. Inflation-favored assets and investment strategies are likely to prove their value against upside inflation surprises. Don't abandon inflation-sensitive assets.

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