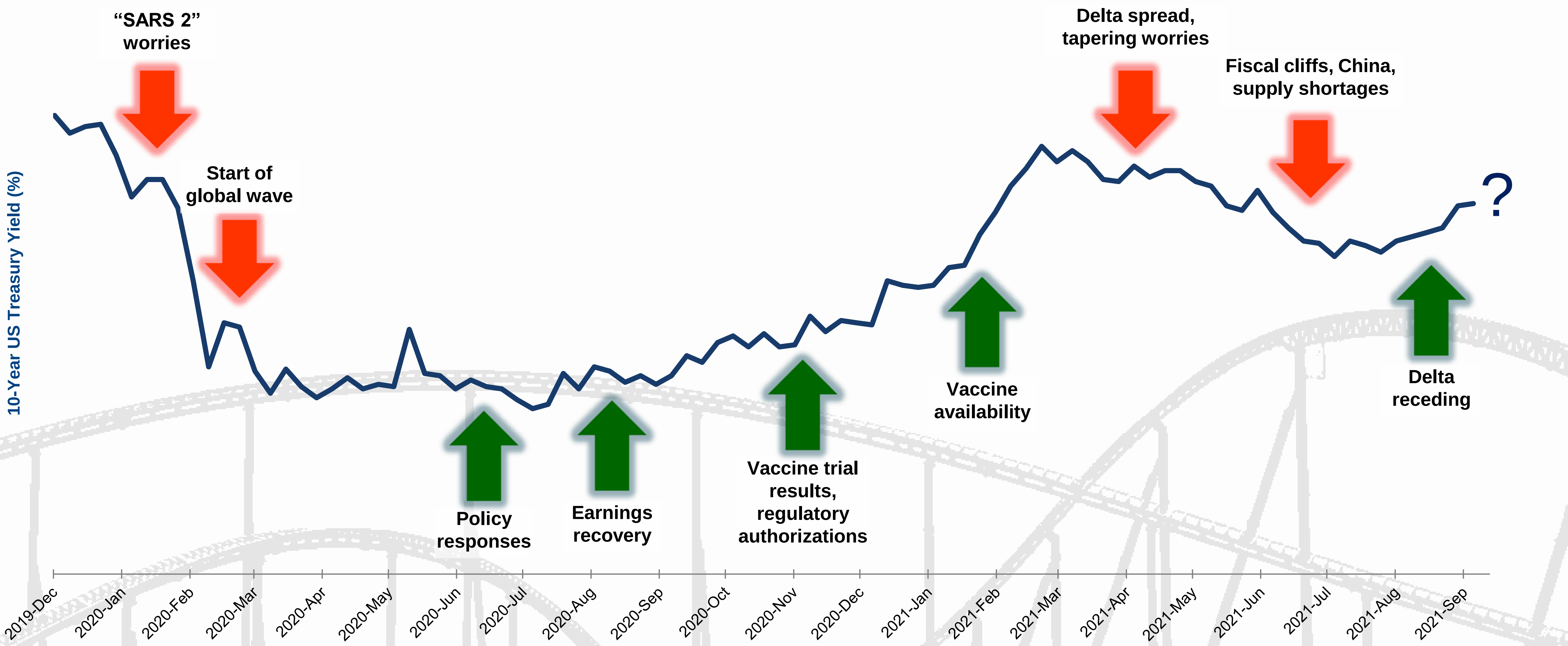
SEI Investments Canada Company

2021 Q3

The reflation roller coaster



Ten-year constant-maturity U.S. Treasury yield, weekly. Source: Federal Reserve. Background image Augustine Wong, accessed 10/5/2021 at https://unsplash.com/photos/bpqWRCAd6m8.

Market performance overview

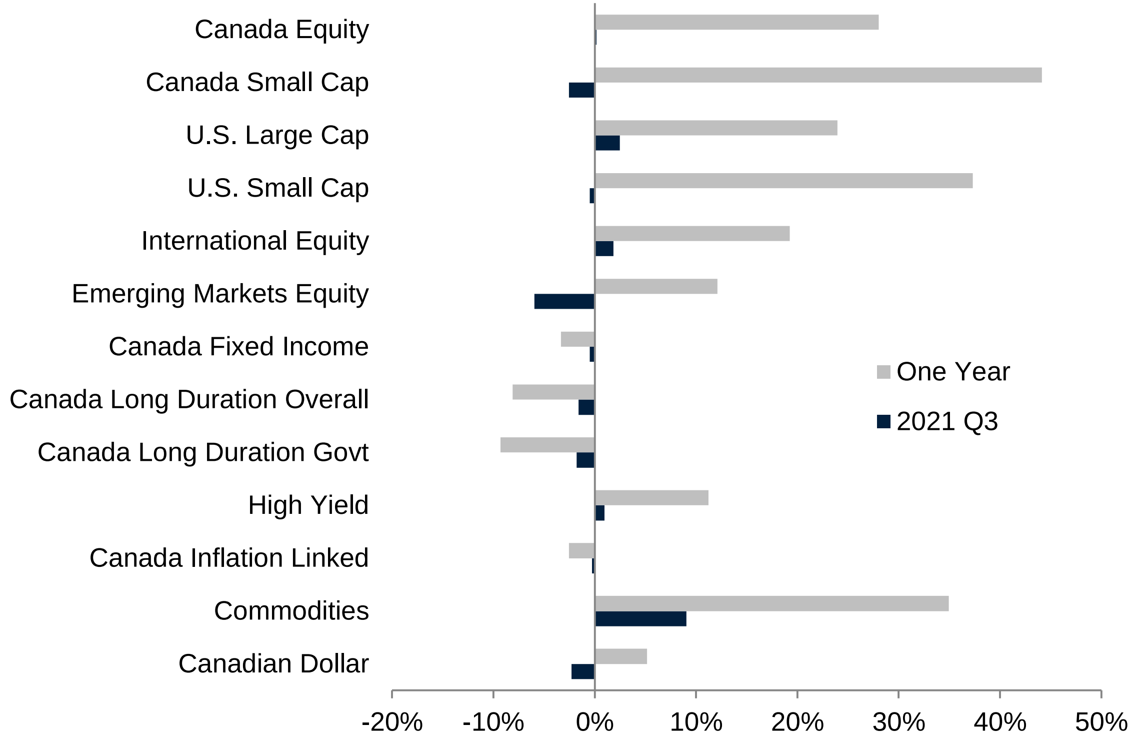
- The global reflation theme sputtered for much of the third quarter due to further spread of the delta variant, concerns about China's real estate sector and government crackdown on private companies, waning fiscal support in many economies, and worsening shortages of materials, transportation services and labour.

- Large cap equity returns were largely flat though international exposures were helped a bit by a weaker Canadian dollar. Emerging markets declined meaningfully as a result of economic anxiety and concerns around China.

- Domestic bond markets were challenged at the end of the quarter as rates rose in sympathy with U.S. Treasurys. In public comments, Bank of Canada Governor Tiff Macklem observed that while the economy had struggled a bit, the BOC still expected strong growth and would be watching inflation closely. The U.S. high yield market managed to provide positive returns despite spreads widening out a bit from their midyear lows.

- Commodities were one of the best-performing asset classes in the third quarter, driven by mounting supply shortages as well as the softer loonie. Price pressures were most intense in energy goods, led by natural gas.

Financial Markets Review



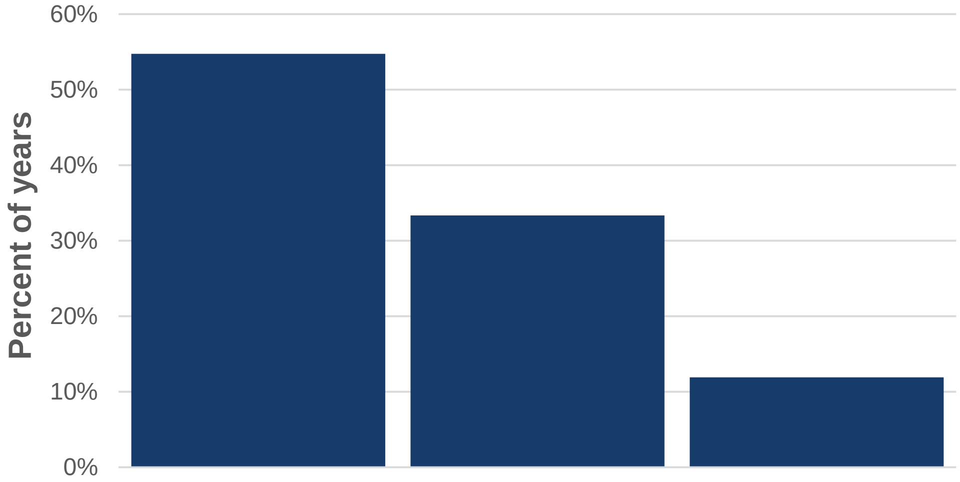
Canadian Dollar = CAD USD Exchange Rate, Commodities = Bloomberg Commodity Total Return Index (CAD), Canada Inflation Linked = FTSE Canada Real Return Bond Index (CAD), High Yield = ICE BofAML US High Yield Constrained Index, 100% Hedged (CAD), Canada Long Duration Overall = FTSE Canada Long Term Overall Bond Index (CAD), Canada Long Duration Govt = FTSE Canada Long Term Government 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. As of 09/30/2021.

Key themes

- Stock markets have had a good run recently with little volatility, but we shouldn't be surprised to see a bit more volatility going forward. However this doesn't mean that we're headed toward a bear market or a recession.
- The market conditions we see today, such as elevated earnings growth and valuations, have not been clear indicators of a market top in the past. It's near-impossible to accurately call market tops… or bottoms for that matter.
- There are many ways to slice and dice the equity market – many approaches to equity investing. But remember that styles can fall in-and-out of favour, and market leadership rotates across sectors. We believe the best approach is to focus on the well-researched and established drivers of performance, like valuation and profitability, and to maintain diversification across those factors.
- We expect the global economic recovery to get back on track at a healthy pace of growth. We believe it's a favourable environment for active management within equities, diversified exposure to fixed income, including inflation-linked bonds, and other inflation sensitive assets, like commodities.

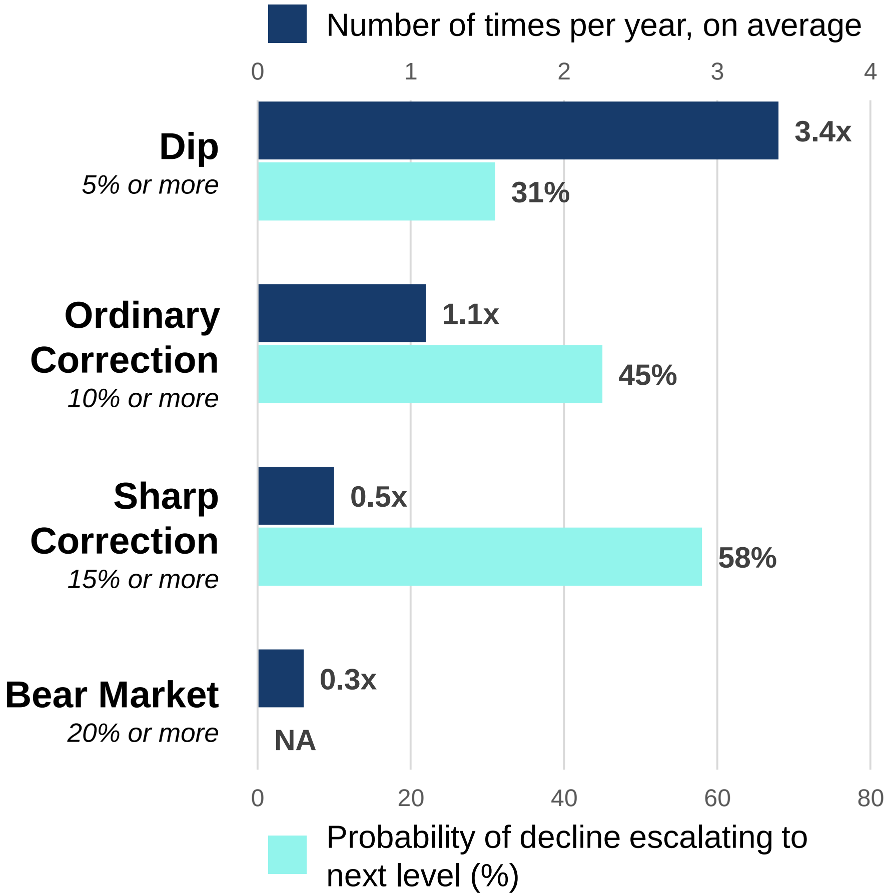
Declines come with the territory, but often provide firmer footing

Frequency of Varying Degrees of Market Volatility



Volatility *Number of 1%-down-days in a year*	**Moderate** ***0 to 19***	**Elevated** ***20 to 39***	**Severe** ***40+***
Market gains (number of years)	20	11	0
Market losses (number of years)	3	3	5
Average Return (%)	14.9	8.6	-19.8

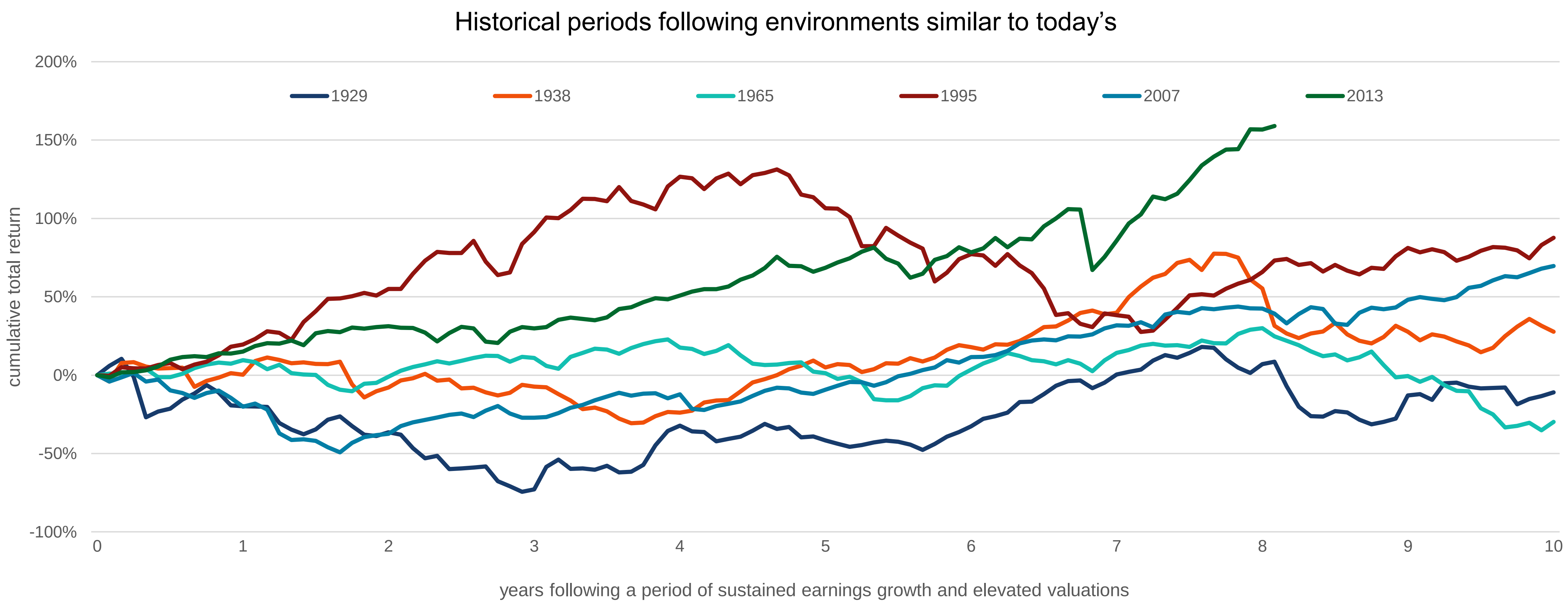
Frequency of Varying Degrees of Market Declines



Left: MSCI World price returns, in local currency terms, since 1980. Source: Bloomberg, SEI. As of September 30, 2021.

Right: S&P 500 price returns, in US Dollar terms, since 1928. Source: Ned Davis Research, Standard & Poor's, SEI. As of August 31, 2021.

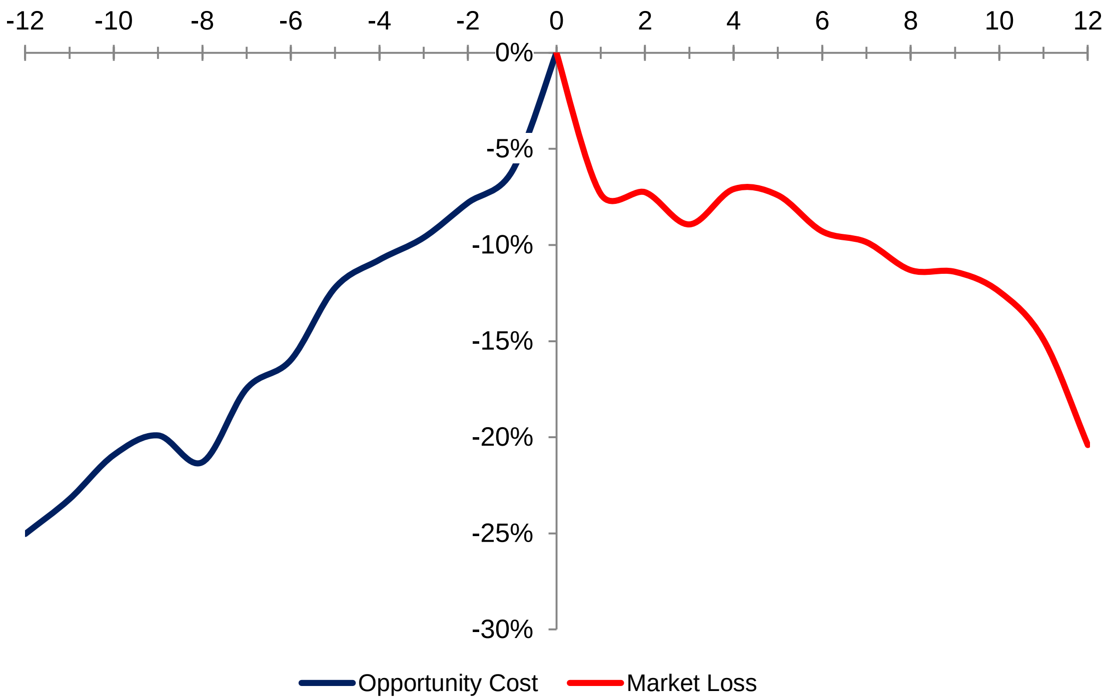
Elevated valuations? Peak growth?



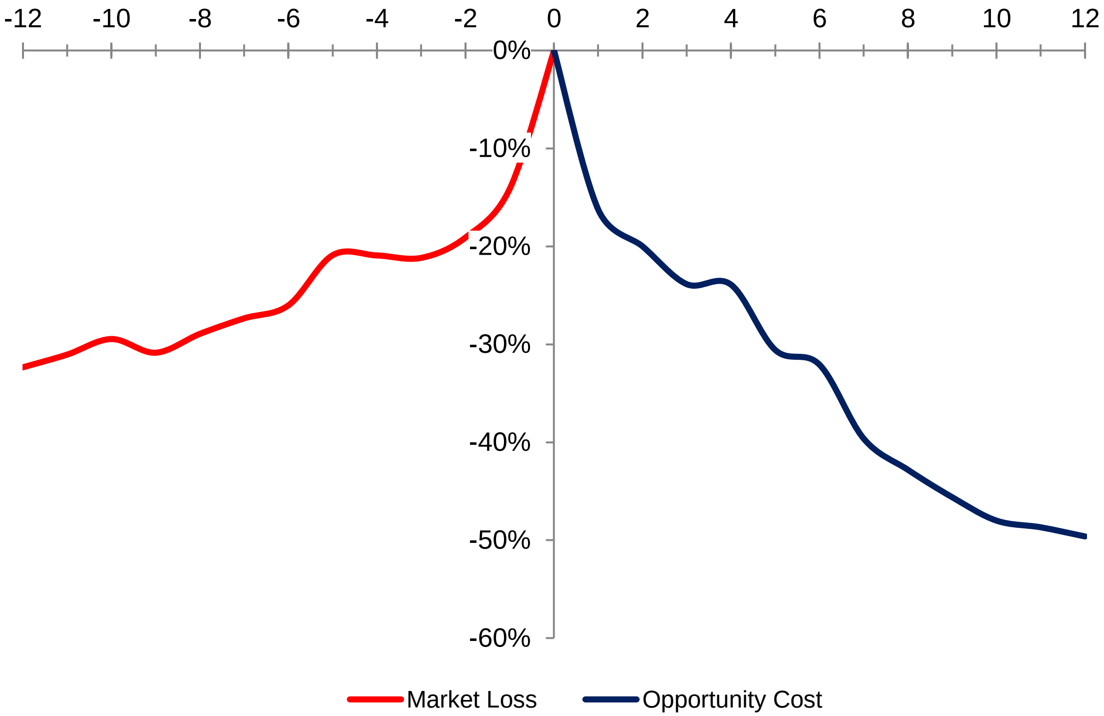
US stock market data consisting of monthly stock prices, dividends and earnings data from Robert Shiller dataset from January 1900 to June 2021. Historical periods capture up to 10 years following the first occurrence of 2 characteristics: (1) earnings growth exceeding an annual pace of 8% over the previous 5 years and (2) a price-to-earnings ratio higher than 18. Both of these thresholds (8% earnings growth and PE ratio of 18) represent levels above which only about one-third of historical observations fall. Time periods shown are the years following July 1929, August 1938, January 1965, December 1995, July 2007, and May 2013. Source: Robert Shiller dataset, SEI. As of September 30, 2021.

Timing investments around market declines can be risky business

Average cost of mistiming the peak
month before/after the market peak



Average cost of mistiming the trough
months before/after the market trough



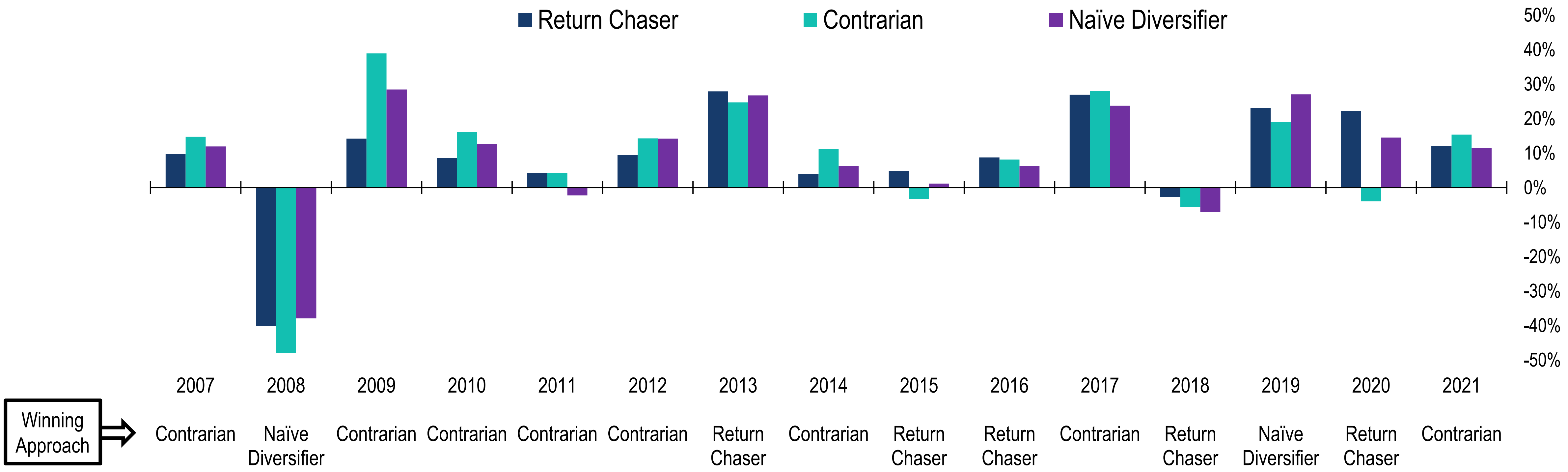
Source: Bloomberg, Standard & Poor's, SEI. As of September 30, 2021.

Styles and sectors and factors, oh my! Different approaches to equity investing.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD 2021
momentum 19.4%	low vol -24.9%	value 41.1%	momentum 16.1%	low vol 7.0%	cyclicals 20.4%	value 31.9%	low vol 11.2%	low vol 4.9%	cyclicals 10.0%	momentum 32.1%	low vol -1.5%	quality 36.1%	growth 33.8%	value 15.3%
defensives 18.4%	defensives -29.1%	cyclicals 38.9%	size 15.3%	defensives 4.2%	size 16.2%	momentum 29.7%	quality 8.4%	momentum 4.1%	low vol 8.7%	growth 28.0%	momentum -2.8%	growth 33.7%	momentum 28.3%	cyclicals 14.2%
quality 16.2%	quality -33.8%	size 35.2%	growth 14.5%	momentum 4.2%	growth 16.1%	cyclicals 27.9%	momentum 6.5%	quality 3.7%	value 8.1%	cyclicals 26.9%	quality -5.5%	cyclicals 30.8%	quality 22.2%	quality 14.0%
growth 14.8%	momentum -40.2%	growth 33.3%	cyclicals 14.2%	quality 3.8%	bench 15.8%	quality 27.1%	growth 6.1%	growth 3.1%	size 7.8%	quality 26.0%	defensives -5.6%	momentum 27.7%	cyclicals 21.1%	bench 13.0%
value 9.8%	bench -40.7%	quality 32.6%	low vol 13.7%	growth -5.5%	value 14.3%	size 26.9%	defensives 5.5%	cyclicals -0.6%	bench 7.5%	size 22.8%	growth -6.7%	bench 27.7%	bench 15.9%	size 12.0%
bench 9.0%	growth -41.1%	bench 30.0%	bench 11.8%	bench -5.5%	momentum 14.1%	growth 26.7%	bench 4.9%	bench -0.9%	quality 4.6%	bench 22.4%	bench -8.7%	size 25.3%	size 12.4%	growth 12.0%
size 8.1%	size -41.4%	defensives 19.2%	quality 10.7%	size -7.8%	quality 13.0%	bench 26.7%	cyclicals 4.6%	defensives -1.3%	momentum 4.2%	value 22.2%	cyclicals -10.3%	low vol 23.0%	defensives 3.5%	defensives 9.7%
low vol 5.7%	value -43.0%	low vol 14.2%	value 8.6%	cyclicals -11.5%	low vol 9.4%	defensives 24.7%	size 4.0%	size -1.4%	defensives 3.4%	low vol 18.5%	size -10.7%	defensives 20.9%	low vol 2.3%	momentum 8.4%
cyclicals 4.0%	cyclicals -47.9%	momentum 14.2%	defensives 8.1%	value -11.6%	defensives 9.3%	low vol 19.0%	value 4.0%	value -3.3%	growth 2.8%	defensives 14.2%	value -13.9%	value 19.0%	value -4.0%	low vol 6.1%

Annual performance from 1/1/2007 to 9/30/2021. Source: FactSet, MSCI, SEI. Performance is presented in total return net USD terms. Equity approach proxies: momentum = MSCI World Momentum Index, value = MSCI World Enhanced Value Index, quality = MSCI World Quality Index, size = MSCI World Size Tilt Index, growth – MSCI World Growth Index, low vol = MSCI World Minimum Volatility Index, cyclicals = MSCI World Cyclical Sectors Index, defensives = MSCI World Defensive Sectors Index, bench = MSCI World Index. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is not a guarantee of future results.

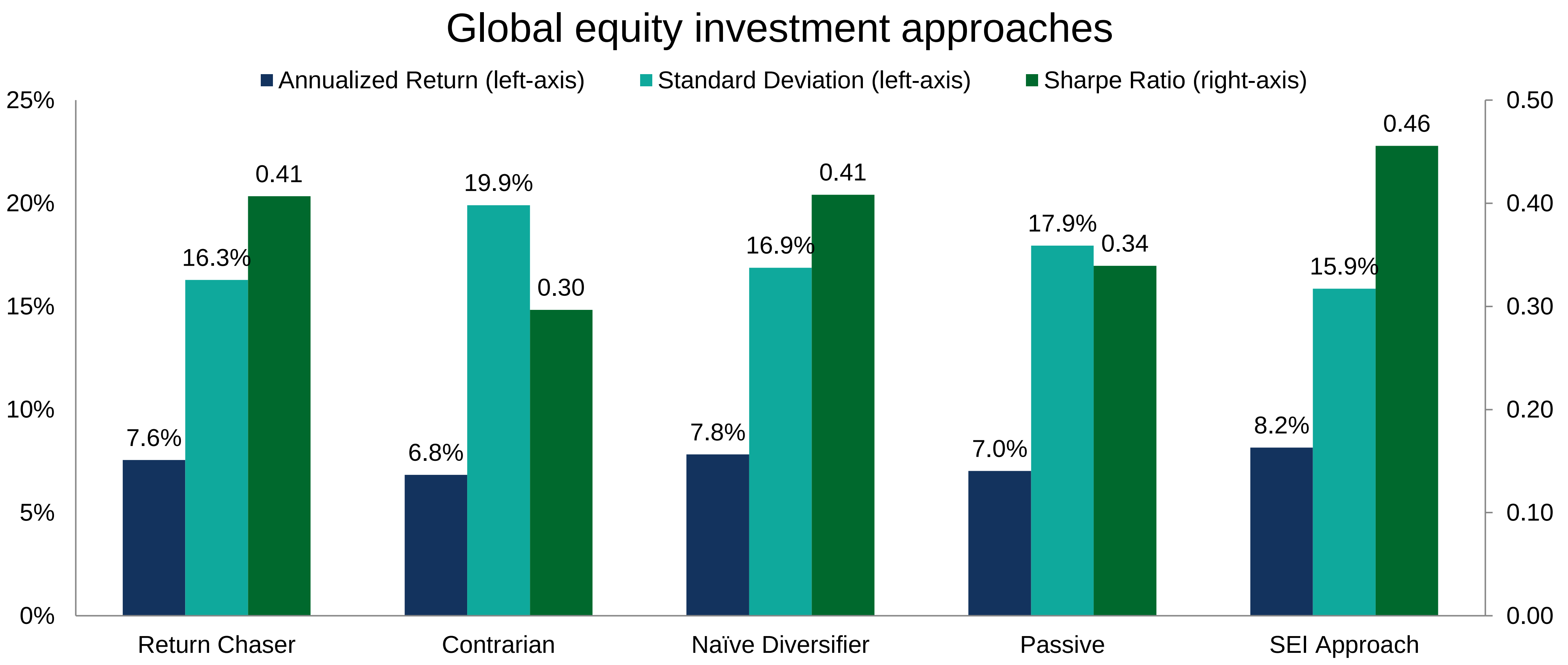
Is there a method to the madness?



On a year-by-year basis…	Return Chaser	Contrarian	Naïve Diversifier
"Win" rate	33% (5 times)	54% (8 times)	13% (only twice)

Annual returns from 2006 to 2020 and year-to-date return for 2021 through September. At the start of each year, the hypothetical Return Chaser invests 100% in the best-performing equity approach of the prior year (e.g. growth in 2021), the hypothetical Contrarian invests 100% in the worst-performing equity approach of the prior year (e.g. value in 2021), and the Naïve Diversifier, or "one-over-N" strategy, invests equally in all equity approaches (excluding the benchmark). Source: FactSet, MSCI, SEI. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is not a guarantee of future results.

Staying diversified across key drivers of performance is likely your best bet



Annualized returns, standard deviations, and Sharpe Ratios measured from 1/1/2007 to 9/30/2021.At the start of each year, the hypothetical Return Chaser invests 100% in the best-performing equity approach of the prior year (growth in 2021), the hypothetical Contrarian invests 100% in the worst-performing equity approach of the prior year (value in 2021), the Naïve Diversifier, or 1/N strategy, invests equally in all equity approaches excluding the benchmark, the Passive invests 100% in the MSCI World Index, and the SEI Approach invests equally in MSCI World Enhanced Value, MSCI World Momentum, MSCI World Quality, and MSCI World Minimum Volatility. Source: FactSet, MSCI, SEI. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is not a guarantee of future results.

Strong fundamental outlook, though the ride could be bumpy

POTENTIAL RISKS
- New variants, waning immunity
- Persistent supply shortages
- Not-so-transitory inflation
- US debt ceiling
- Unexpected policy tightening
- Longer-term slowdown in China

REASONS for OPTIMISM
- Last big COVID wave?
- Mobility improving, borders re-opening
- Corporate and household finances
- Global trade recovery
- Infrastructure, capital expenditure plans
- Inventory rebuilding
- Housing demand
- Services sector upside
- Labor market upside

- The smooth, nearly straight-line recovery of late 2020–early 2021 is over, unfortunately. The volatility we've seen in recent months could remain with us for some time, given some of the risks facing the global economy.
- However, the fundamental picture remains quite solid. We believe the global economy overall will continue to experience growth that exceeds the post-global financial crisis environment of 2010-2020.
- The resulting market environment should continue to favour active equity management, diversified fixed income holdings and positive inflation exposures.

As of 10/8/2021.

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