

## Overview

SEI has updated the strategic asset allocations within a number of its strategies. These changes reflect an effort to achieve a more consistent risk profile across all of SEI's portfolios. When evaluating these changes, it is important to view them in terms of the total portfolio rather than one-for-one or paired asset swaps. There are several themes associated with these changes:

### Reduce Home Country Bias in Equities

- Many investors favour equities listed in their home country over those listed internationally, however this preference generally impairs diversification and can lead to lower risk-adjusted returns for the portfolio.
- Our changes reduce an existing bias toward Canadian equities with the goal of providing enhanced global diversification of our equity exposures and improving the efficiency of the portfolios.
- By focusing on global equities over Canadian equities we have a significant opportunity to achieve greater diversification both in terms of sector exposures and in the number of stocks held in the portfolios.
- Even after the reduction, portfolio exposure to Canadian equities remains meaningfully higher than the market capitalization-weight in a global index such as the MSCI ACWI Index, which is approximately 3%.

### Broaden use of Global Managed Volatility

- The tendency of low-volatility stocks to exhibit higher risk-adjusted returns than their higher-volatility counterparts has been demonstrated extensively in literature.
- We have a long track record of management of managed volatility portfolios across the globe, including in Canada.
- The use of global managed volatility has been significantly expanded across a variety of portfolios.
- At the portfolio level, the expectation of equity-like returns with meaningfully less volatility proves valuable in any context in terms of risk-adjusted return potential.

### Short-Term Bonds versus Core Fixed Income

- In certain portfolios, allocations to short-term bonds are being reduced and allocations to core fixed income are being increased.
- This in conjunction with the broadened use of global managed volatility in equities allows SEI to maintain a similar risk profile at the portfolio level.
- While short-term bonds are a valuable component that help lower risk in stability-focused portfolios, core fixed income is a more effective diversifier of the equity risk that dominates most portfolios.

### Adjustment to U.S. High-Yield and Real-Return Bond Allocations

- We believe that a moderate allocation to high-yield bonds further diversifies portfolios and may increase risk-adjusted returns. However, given the relative concentration of the market (both in terms of sectors and issuers), there is a point at which portfolio efficiency can be improved by limiting the high-yield exposure and achieving a similar risk profile by pairing diversified exposures to both stocks and investment-grade bonds.
- We view real-return bonds as one of very few sources of protection against unexpectedly high inflation, a major risk for almost all investor types. Nominal bonds, given their fixed payment structure, are obviously exposed to inflation risk, but even equities can lose significant value in the event that inflation becomes untethered and proves damaging to the real economy.
- Allocations to U.S. high-yield and real-return bonds are being more closely aligned to portfolio risk profiles. This results in an increased allocation in some portfolios and a reduction in others.

## Goals-Based Strategies Asset Allocation Changes

	Defensive	Conservative	Moderate	Balanced	Growth	Long-Term Growth	All Equity
Canadian Equity Fund		-0.33%	-1.00%	-1.67%	-2.33%	-2.67%	-3.50%
Canadian Small Company Equity Fund				0.67%	0.67%	0.33%	0.17%
U.S. Large Company Equity Fund					0.83%	1.67%	2.16%
U.S. Small Company Equity Fund				0.67%	0.50%	0.83%	0.83%
Global Managed Volatility Fund		0.67%	1.67%	1.67%	1.50%	1.17%	
EAFE Equity Fund				-0.17%		0.17%	0.67%
Emerging Markets Equity Fund				0.17%	-0.17%	-0.33%	-0.33%
Canadian Fixed Income Fund	0.67%	1.00%	4.66%	-0.34%	0.67%	1.16%	
Short Term Bond Fund	-0.67%	-1.34%	-4.67%	1.33%			
Real Return Bond Fund		0.67%	0.67%	-1.33%			
Short Term Investment Fund							
U.S. High Yield Fund (hedged)		-0.67%	-1.33%	-1.00%	-1.67%	-2.33%	

No changes were made to the Short-Term Strategy.  
Effective 6/14/18. Holdings are subject to change.

## Strategic Portfolios Asset Allocation Changes

	Short-Term Conservative Income	Conservative Income	Income	Moderate Growth & Income	Global Moderate Growth & Income	Core Growth & Income	Global Core Growth & Income
Canadian Equity Fund	-1.50%	-1.50%	-1.50%	-2.50%	-1.33%	-3.67%	-1.67%
Canadian Small Company Equity Fund				-0.33%	-0.33%	0.33%	-0.33%
U.S. Large Company Equity Fund	-1.67%	-1.67%	-1.67%	-2.67%	-3.00%	1.00%	0.50%
U.S. Small Company Equity Fund				-0.33%	-0.67%	0.33%	
Global Managed Volatility	4.83%	4.83%	4.83%	9.50%	9.00%	1.67%	2.00%
EAFE Equity Fund	-1.67%	-1.67%	-1.67%	-3.00%	-3.00%	0.17%	-0.50%
Emerging Markets Equity Fund				-0.67%	-0.67%	0.17%	
Canadian Fixed Income Fund	-0.66%	-0.33%		-1.00%	-1.00%	-1.00%	-1.00%
Real Return Bond Fund		-0.33%	-0.66%				
U.S. High Yield Fund (hedged)	0.67%	0.67%	0.67%	1.00%	1.00%	1.00%	1.00%

	Growth & Income	Global Growth & Income	Core Growth	Global Core Growth	Growth	Global Growth	Equity
Canadian Equity Fund	-4.33%	-2.00%	-5.33%	-2.83%	-6.33%	-3.00%	-11.50%
Canadian Small Company Equity Fund	0.33%	-0.67%		-0.67%	-0.33%		-0.17%
U.S. Large Company Equity Fund	1.67%	1.00%	2.50%	1.50%	3.33%	1.84%	6.17%
U.S. Small Company Equity Fund	0.33%	0.17%	0.50%	0.17%	0.33%	0.33%	0.83%
Global Managed Volatility	1.50%	1.67%	1.17%	1.50%	1.00%	1.00%	
EAFE Equity Fund	0.50%	-0.17%	0.83%	0.33%	1.67%		3.67%
Emerging Markets Equity Fund			0.33%		0.33%	-0.17%	1.00%
Canadian Fixed Income Fund	-1.33%	-1.33%	-1.33%	-1.00%	-1.33%	-1.33%	
Real Return Bond Fund		0.33%	0.33%	0.33%			
U.S. High Yield Fund (hedged)	1.33%	1.00%	1.00%	0.67%	1.33%	1.33%	

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	Global Equity	Aggressive Global Equity	International Equity	Canada-Focused Balanced	Canada-Focused Growth
Canadian Equity Fund	-7.00%	-3.00%		-0.83%	-0.50%
Canadian Small Company Equity Fund	-0.33%	-1.00%		0.67%	0.50%
U.S. Large Company Equity Fund	4.00%	3.00%	1.66%		
U.S. Small Company Equity Fund	0.83%	0.50%			
U.S. Large Company Equity Fund (Hedged)				-0.34%	0.34%
U.S. Small Company Equity Fund (Hedged)					-0.67%
Global Managed Volatility				1.00%	1.00%
EAFE Equity Fund	2.17%	0.50%	-1.33%	-0.50%	-0.67%
Emerging Markets Equity Fund	0.33%		-0.33%		
Canadian Fixed Income Fund					0.33%
Real Return Bond Fund					-0.33%

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## Background

SEI has a dedicated Portfolio Strategies Group that researches and regularly reviews capital market assumptions (CMAs) based on the team's macroeconomic research. This Group is responsible for building SEI's asset allocation models and strategies. As the Group reviews asset classes and updates long-term risk and return characteristics, changes are made to the selection and allocation of a range of asset classes within SEI's models and strategies to improve efficiency. SEI offers a variety of asset allocation funds spanning a broad risk-return spectrum, allowing investors to participate in different levels of returns commensurate with different levels of risk. SEI selects and allocates to several asset classes in its Funds, aiming to build diversified portfolios that efficiently generate returns within a specific risk tolerance. SEI develops proprietary CMAs for its asset classes based on quantitative analysis and the qualitative judgment of the Portfolio Strategies Group. The Group employs various historical and forward-looking techniques in developing its CMAs and then uses its CMAs to determine asset allocation within SEI's models and strategies.

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