



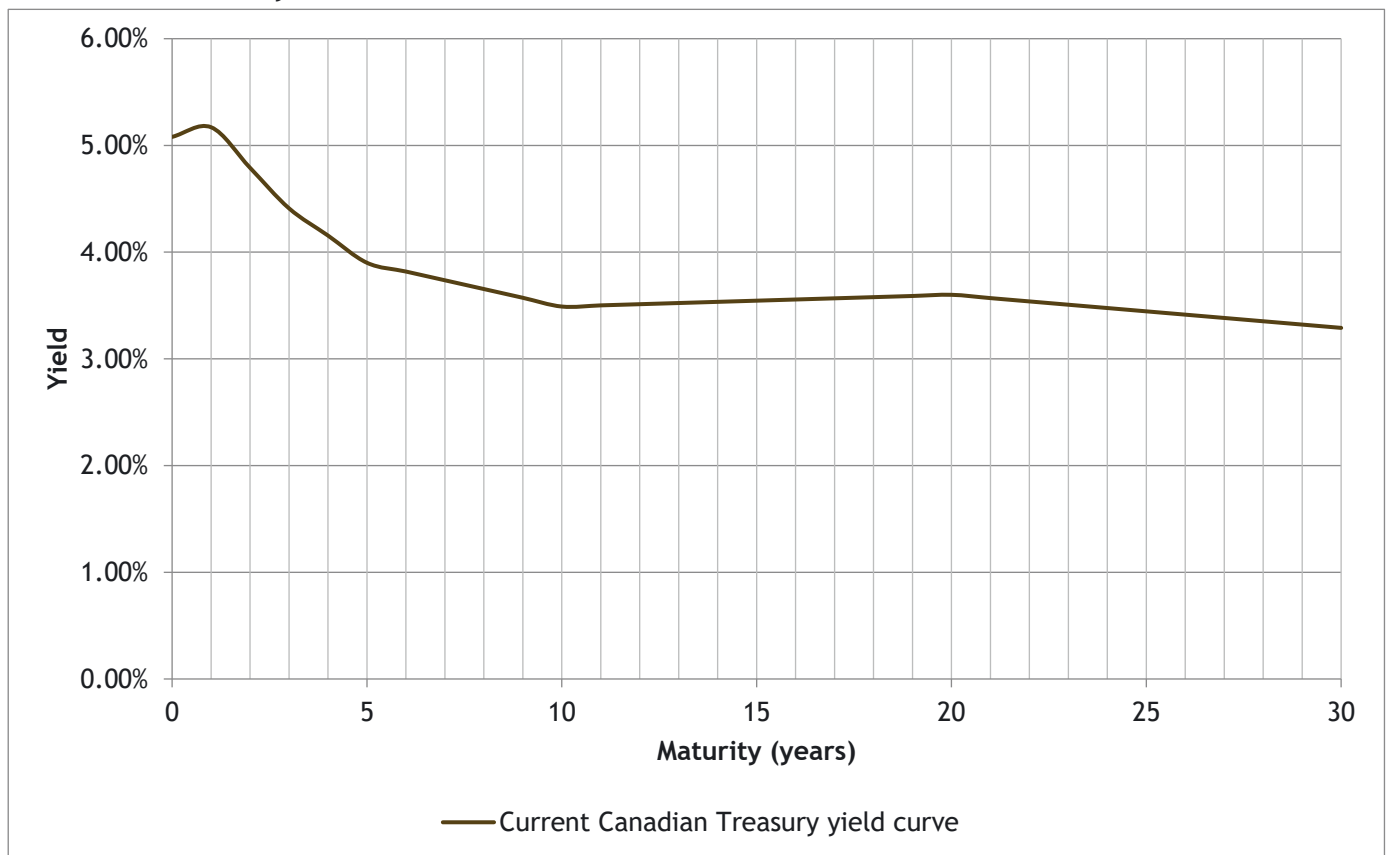
# Capital market assumptions update.

At SEI, our Investment Management Unit (IMU) recently updated its capital market assumptions (CMAs) as part of its review and monitoring process. Fixed-income assumptions now reflect possible future rate paths, while equity assumptions edged higher.

## Fixed income: inflation is a primary concern

The current yield curve reflects the recent aggressive rate hikes by central banks across the developed world, with the short end of the curve currently higher than our long-term projections for cash. The curve is currently inverted, as the market expects rates to settle at lower levels over time. We have updated our yield curve outlook to include a tighter central bank period, but also an eventual return to an upward-sloping yield curve.

Exhibit 1: Current yield curve

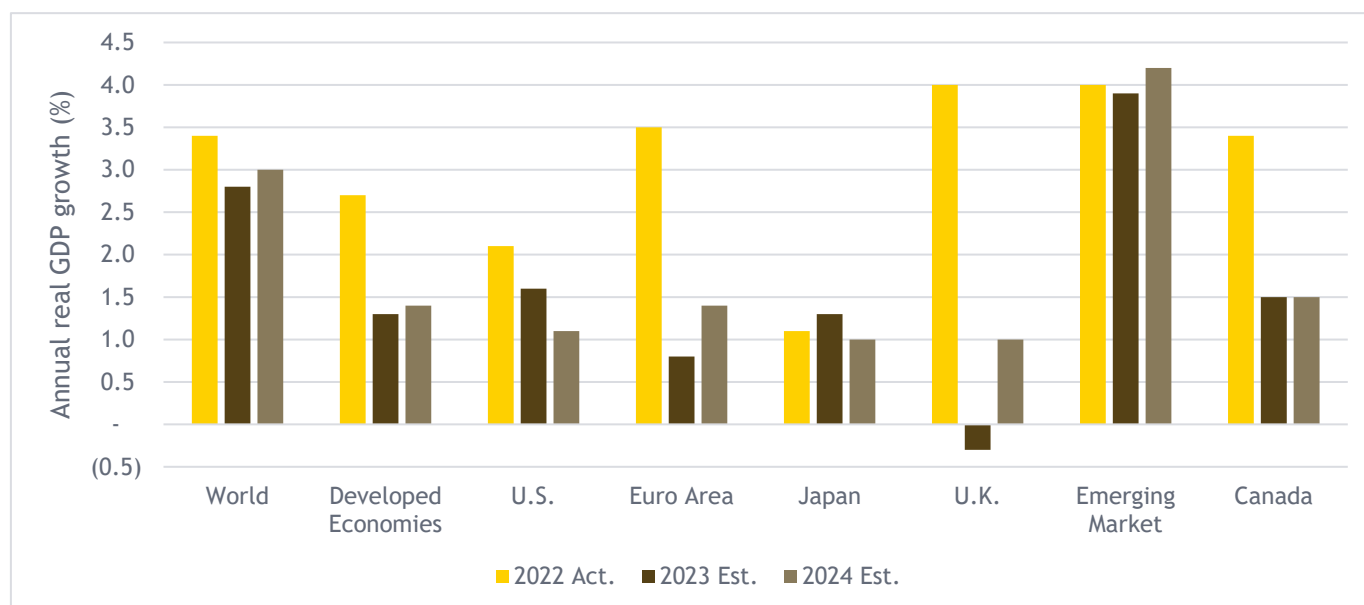


Source: SEI, Bank of Canada. As of 7/31/2023.

# Global equity returns revised higher

Our equity assumptions reflect that risk-free rates, which serve as a core component of discount rates applied to asset classes across all risky markets, will be higher going forward. Meanwhile, we have not changed our outlook for equity risk premiums. Given this interaction, we expect that over the long run, equity returns will be higher than recent projections.

## Exhibit 2: Global growth estimates



Source: International Monetary Fund. As of 3/30/2023.

## Process overview

SEI's CMAs are an integral part of the team's strategic asset allocation process. Each re-evaluation is led by forward-thinking, qualitative judgments that are guided by empirical data.

Estimating CMAs requires extensive analysis of the key drivers of risk and return in each asset category. These assumptions are not economic predictions of how asset classes will perform over a given period of time; instead, they are baseline estimates of long-term asset class characteristics. CMAs are used to form SEI's strategic asset allocation portfolios.

SEI maintains a CMA model that contains risk, return, and correlation assumptions for asset classes and currencies across the globe. A combination of quantitative analysis of historical data and qualitative judgment is used to capture trends, structural changes, and potential scenarios not reflected in historical data.

Our process is represented as follows:

- We estimate asset class returns by focusing on the average risk-adjusted return (as measured by the Sharpe ratio) that we feel an asset class is expected to deliver over a full market cycle.
- Equity return assumptions are calculated using our assumption of risk from the asset class Sharpe ratio determined above and adding the short-term risk-free rate.
- Fixed-income return assumptions reflect both long-run equilibrium conditions and the current yield environment. Equilibrium return estimates account for the short-term risk-free rate, maturity premium (typical upward slope of the government yield curve), credit spreads, and expected losses due to defaults and downgrades.
- Our model includes assumptions for currencies, allowing CMAs to be translated from local currency terms to different currency perspectives.
- Asset class risk assumptions account for tail risks directly by assessing potential extreme market scenarios. Standard deviation estimates are derived to be consistent with those tail risks.

# Asset class risks and correlations

Risk and correlation assumptions can rely on historical data to a larger degree than returns. However, risks and correlations do change with economic fundamentals; therefore, it is important to focus on the most relevant periods of history and make qualitative adjustments where appropriate.

Further insights into our risk and correlation assumptions are below:

- **Risk**

Investor perceptions of risk are generally most concerned with the left tail of return distributions. Accordingly, asset class risk assumptions are meant to capture the frequency and severity of negative returns. We estimate tail risks directly by assessing the potential extreme market scenarios that could occur, and then derive the standard deviation that is consistent with those risks.

- **Correlation**

During an economic downturn, correlations among risky assets tend to rise, while correlations between safe-haven assets and risky assets tend to fall. We consider several different scenarios for correlations, beginning with a baseline scenario and then adding stress scenarios, in which correlations are typically assumed to be higher. Under our stress scenarios, we raise correlations halfway between their baseline levels and 1.00 (perfect positive correlation). We generally seek to set baseline correlations high enough that the corresponding stress correlations approach the historical rolling peaks. This method seeks to ensure that assets that tend to experience sharp losses at the same time are not unduly rewarded for potentially illusory diversification benefits.

## Summary

The result of our analyses is a series of inputs that produce a picture of how we believe portfolios are likely to behave on average through time. The true value of the analysis is in understanding the relationships between asset classes rather than accurately predicting performance over finite periods of time. Our CMAs are intended to reflect the behaviour of asset classes over several market cycles. Stress assumptions are also examined, since the characteristics of asset classes are constantly changing. A dynamic model is employed to manage the numerous assumptions required to estimate portfolio characteristics under different base currencies, time horizons, and inflation expectations.

## About SEI's capital market assumptions

SEI Investment Management Corporation (SIMC) our U.S. asset management affiliate, develops forward-looking, long-term capital market assumptions for risk, return, and correlations for a variety of global asset classes, interest rates, and inflation environments. These assumptions are based on historical analysis, current market assessments, and qualitative reasoning. We believe this approach is more impartial than using pure historical data, which is often biased by a particular time period or event.

The asset class assumptions are aggregated into a diversified portfolio, so that each portfolio can then be modeled through time using a Monte Carlo simulation. This approach enables us to develop scenarios across a wide variety of market environments, preparing our teams for a variety of possible outcomes. We believe our approach enables our clients to make more informed decisions in their selection of investment strategies.

For more information on how SIMC develops capital market assumptions, please refer to the SEI paper, "Executive Summary: Developing Capital Market Assumptions for Asset Allocation Modelling." Further information on the actual assumptions used may be requested from your SEI representative.

*CMAs are not predictions of how asset classes will perform or reliable indicators of future performance; instead, they are expected long-term characteristics of asset classes. The below figures are SEI's mean estimates for select asset classes. They do not represent all asset classes SEI analyzes nor should they be considered projections for any SEI investment products. Different tools and models can simulate various market conditions using these assumptions as inputs. CMAs are used in the strategic asset allocation process, for asset/liability studies, and in proposal-generation systems. All assumptions are pre-tax and gross of any fees or expenses related to investing.*

Capital Market Assumptions (Return and Risk in CAD)				
Asset Class	Arithmetic Return	Previous Arithmetic Return	Difference	Risk
<b>Equities</b>				
Canada Large Cap	8.78%	8.08%	0.70%	20.00%
Canada Small Cap	9.58%	8.88%	0.70%	24.00%
U.S. Large Cap	8.91%	8.21%	0.70%	18.44%
U.S. Large Cap (H)	8.51%	7.81%	0.70%	19.00%
U.S. Small Cap	9.75%	9.05%	0.70%	22.23%
U.S. Small Cap (H)	9.35%	8.65%	0.70%	23.00%
Global Managed Volatility	9.12%	8.48%	0.64%	12.56%
International Large Cap	9.31%	8.78%	0.53%	20.69%
Emerging Market Equity	11.31%	10.61%	0.70%	29.15%
<b>Fixed Income</b>				
Canada Core Fixed	4.20%	3.40%	0.80%	7.00%
Canada Long Duration Fixed Income	4.00%	3.50%	0.50%	11.00%
Canada Short-Term Bonds	4.20%	3.20%	1.00%	4.00%
Canada Real Return Bonds	4.50%	3.50%	1.00%	11.00%
U.S. High Yield	7.49%	6.79%	0.70%	15.40%
U.S. High Yield (H)	7.08%	6.38%	0.70%	12.50%
<b>Liquidity</b>				
Canada Cash	3.20%	2.50%	0.70%	1.20%

Source: SEI.

## Important information

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 is for educational purposes and should not be relied upon by the reader as research or investment advice regarding the funds or any stock in particular nor should it be construed as a recommendation to purchase or sell a security, including futures contracts. There is no assurance as of the date of this material that the securities mentioned remain in or out of the SEI Funds. There are risks involved with investing, including loss of principal. Diversification may not protect against market risk. There are other holdings which are not discussed that may have additional specific risks. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavourable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Bonds and bond funds will decrease in value as interest rates rise.

High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index. Information provided by SEI Investments Canada Company, a wholly owned subsidiary of SEI Investments Company, is the Manager of the SEI Funds in Canada.

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