SEI New ways. New answers.®

SEI's Investment Philosophy: A Proven Model

In today's 24-hour-a-day global investment environment, it is easy to feel overwhelmed with the ever-expanding universe of investment choices. Often, investors will follow market trends as an alternative to seeking sound advice. But, trying to achieve financial goals by pouring all of one's assets into emerging markets today, telecommunications tomorrow, and Japanese small-cap stocks next week, is not a guarantee for achieving a sound financial plan. It's a risk/reward strategy that offers considerable risk with potentially minimal reward. It's also an unbalanced and uncoordinated approach – a practice that contradicts our investment philosophy.

For over 40 years, SEI has relied upon an investment philosophy that focuses on investors' goals and objectives.

This philosophy is based upon six principles:

1. Asset allocation
2. Portfolio design
3. Investment manager selection
4. Portfolio construction and management
5. Tax management
6. Risk management

These principles work together to deliver a program that offers investors personalization, diversification, coordination and management. It's a strategy geared towards achieving both short- and long-term investment goals that make sense in any financial climate.

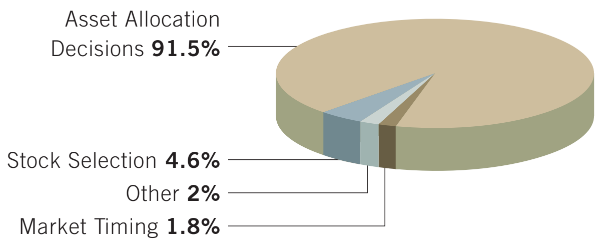
1 Asset Allocation: The First and Most Important Step

Contrary to the message that the fast-paced, e-trading environment of the 1990s instilled in many investors, market timing and stock selection are not the keys to reaching investment goals. Ultimately, the most important step in the investment process is the first step – deciding how to allocate assets among broad asset classes such as stocks, bonds and cash. This process has come to be known as asset allocation.

The importance of asset allocation is well-established within the investment industry and has been demonstrated and proven, time and again. Particularly noteworthy is a well-known 1991 landmark study,* sponsored by SEI and expanded in 1993, that concludes asset allocation – not market timing or stock selection – is the primary factor in determining why different portfolios have different return results.

So the most important step requires properly defining objectives and then building the appropriate asset allocation strategies to support them. Asset allocation at SEI is a unique process by which an investor's objectives are carefully defined and then aligned with multiple strategies built using various assets. The key to asset allocation is diversification among the various asset classes (stocks, bonds, cash alternatives) in accordance with the established objectives.

Sources of Portfolio Volatility and Returns



Source: Financial Analysts Journal, May/ June 1991

Source: Brinson, Singer and Beebower (1991)

2 Portfolio Design – The Search for New Sources of Return

The effort to launch a new fund begins with an evaluation of factors that have the potential to generate alpha – returns in excess of the benchmark – across our equity, fixed-income and alternative investment portfolios. We are looking for sources that have demonstrated long-term staying power across multiple markets in a given geographic region. Alpha sources are classified into four broad categories, allowing us to create portfolios that are not simply diversified between equity and fixed-income strategies, but also diversified across the underlying alpha drivers.

We also categorize these alpha sources by the phase of the economic cycle (Recovery, Expansion, Stress and Distress) in which they are expected to outperform.

Projections regarding how the portfolio may react to phases of the economic cycle, along with an identification of alpha sources, complete the thesis. At that point we can begin to evaluate potential investment managers.

Phases of the Economic Cycle

3 Investment Manager Selection – Designed to Deliver More Consistent Performance

We have found that identifying, hiring and managing specialist money managers helps to deliver more consistent performance. We call this process "managing the managers," an area in which SEI has long been a leader.

Money managers who specialize in a particular area of a market have the experience necessary to perfect a specific investment style. They not only know where to seek opportunity, but how to anticipate favorable and unfavorable changes. This focus may produce more consistent results than using generalist managers who tend to "roam" the markets or drift from one style to another, often outside of their firm's core competencies. To implement our asset allocation strategies, SEI utilizes a global network of specialist money managers whose management styles complement each other. We develop forward-looking expectations regarding how a manager will execute a given investment assignment, and environments in which the related investment strategy should outperform or underperform.

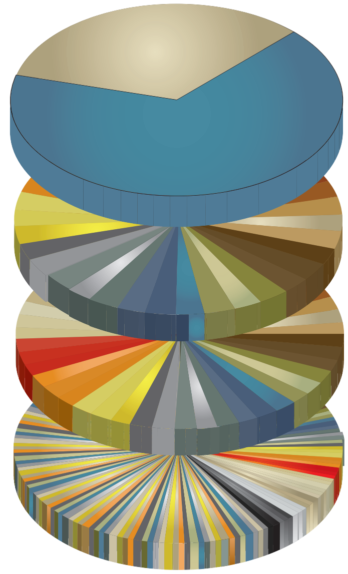
We use multiple managers within each investment style. For example, in the small cap growth sector, using multiple managers with a highly differentiated investment process and expertise in different specialties, called styles can ensure diversification within the sector. While diversification is not a guaranteed protection against market risk it may help to manage risk and enhance returns. SEI's investment team of more than 100 analysts, many of whom hold the Chartered Financial Analyst (CFA) and other advanced designations, oversees the selection of managers, tracking and managing consistency regarding manager performance, risk management and daily manager monitoring.

70 Managers Selected and Assigned to SEI Portfolios

4 Portfolio Construction and Management: An Integral Part of the Investment Process

The number and variety of investment choices, or asset classes, keep growing all the time – U.S. equity, international equity, U.S. and foreign fixed income, emerging markets, REITs, hedge funds – the list goes on and on. Each market and each segment within each market can be associated with different characteristics, return potential and risks. So SEI believes that a division of assets is only the beginning of the asset allocation story. Success requires diversifying the portfolio structure itself.

For example, the U.S. equity market has four distinct sub-asset classes: large cap value, large cap growth, small cap value and small cap growth. Because no one can consistently predict where the next source of alpha will come from, you may want to consider diversifying your portfolio across as well as within these asset classes. In other words, you shouldn't just own "stocks" but also make sure you have a mix of large and small cap, growth, value and even alternative investments. And this discipline should be exercised across all the asset classes involved. This integral part of the investment process can provide the potential for greater consistency and less volatility.

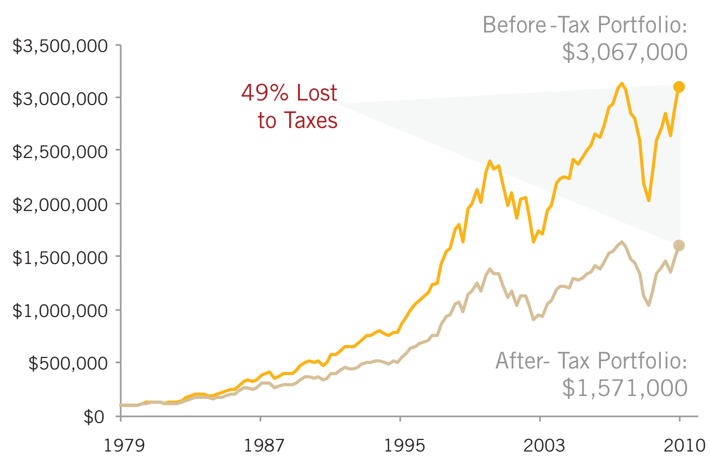


Portfolio Construction

5 Tax Management: Never Ignore the Tax Implications of Investing

Taxes play an integral role in our investment process. In the mid-1990s, SEI completed ground-breaking research into the effect (usually negative) of taxes on investors' total portfolios. As a result, we employ a special focus on tax management to help control tax implications within your portfolio and to help you enhance after-tax returns. Because we all know that when it comes down to it, it's not the money you earn – it's what you keep. And if you are a taxable investor, not taking taxes into consideration can directly affect your chances of meeting your life and wealth objectives. So we make tax sensitivity an ongoing process, from portfolio structure to continuous monitoring to manager selection, portfolio management and ongoing monitoring.

Taxes Reduce Performance Over Time - Growth of $100,000*



Source: Parametric Portfolio Associates: 60% Russell 3000; 40% Barclays Capital Aggregate; No Liquidation. The Russell 3000 and Lehman Aggregate are unmanaged indices and are not available for individual investment. Interest income and dividends are taxed annually at historical top marginal tax rates; capital gains are realized at 50% per year and are taxed at the historical long-term capital gains tax rate. Past performance is no guarantee of 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.

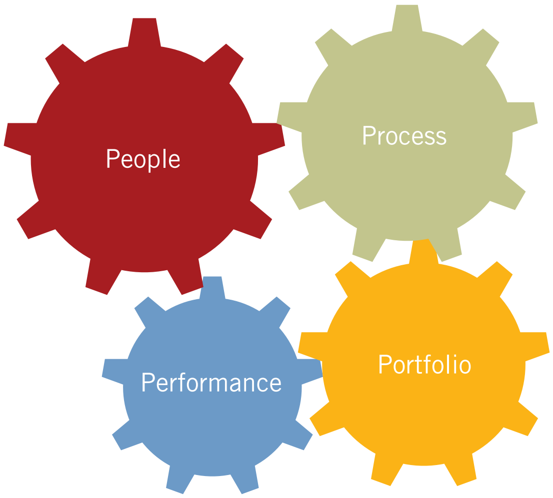
**A hypothetical tax-free $100,000 portfolio (invested 60% in stocks and 40% in bonds) held for 29 years would have grown to about $2.2 million. If the portfolio was taxed like an average mutual fund, it would have lost 50% of its value, due to taxes paid and earnings lost on that money, Tax-managed investment strategies are designed to minimize capital gains distributions and maximize after-tax returns.*

6 Risk Management – Keeping the Investment Progress on Track

Natural market movements often cause portfolio allocations to "drift" from their original positions as different sectors of the market appreciate or depreciate over time. For example, a portfolio consisting of 60% stocks could see that percentage increase substantially if the stock market appreciates, resulting in unintended risk. Or, your objectives may shift over time as your personal situations change.

SEI addresses such inevitable change through its two-step process of continuous risk management. First, the asset mix is systematically rebalanced to its target points, helping to reduce risk and keep your strategies on track. Next, through ongoing monitoring and manager reviews, SEI ensures that its managers' investment styles remain consistent with their assigned objectives.

After a manager is chosen, SEI analysts continually monitor the philosophy, discipline, consistency and talent, checking portfolio holdings and trades, and ensuring the "purity" of the investment portfolio. For example, performance can suffer if managers invest outside of their assigned mandate. As a result of SEI's monitoring, managers who deviate from their philosophy or fail to achieve stated goals are subject to replacement. SEI's investment team also includes a separate risk management group of analysts to maintain objectivity and look at the entire spectrum of SEI's investment offerings to ensure risk objectives are being met.



Beyond Performance

A Strategic Alliance

Investing with SEI in this proven approach is a strategic alliance between investors, investment professionals and SEI. An investment professional is essential to the SEI approach; only a qualified investment professional can understand an investor's individual goals well enough to develop and monitor a tailored asset management program. Once that program is established, SEI's investment solutions offer the diversity and clarity of purpose to fit virtually any type of strategy.

We believe that the application of this philosophy will add value by enhancing returns and reducing risk, thereby increasing the likelihood of investors achieving their goals. For more information on how SEI's investment approach can help you achieve your financial goals, please contact your financial professional.

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. Diversification may not protect against market risk. Past performance is not a guarantee of future results.

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