SEI New ways. New answers.®

Destination: SOUND DESIGN

SEI's Investment Process and Philosophy

The non-negotiable features of a sound investment strategy

When you're in the market for a new car, some things are non-negotiable. Superior construction and thoughtful design. Affordability and efficiency. Above all, reliability. Your new ride must get you where you want to go – safely and without question.

You should demand the same in your investments – reliability, quality design and construction and efficiency. Your road to retirement or other long-term goals requires an investment strategy that's built with the long haul in mind, that strives to produce results under all conditions. You'll find those qualities in our investment strategies.

1 Asset Allocation: The important first step

Before determining the right investment vehicle, you should define your investment objectives. With goals clearly set, asset allocation, or the specific mix of stocks, bonds, and cash is put into place. The importance of asset allocation cannot be overstated. SEI sponsored a landmark 1991 study that concluded that asset allocation – not market timing or stock selection – is the primary factor in determining why different portfolios exhibit different return results.*

2 Portfolio Design: In search of staying power

Where does investment return come from? How do we seek returns in excess of a benchmark, known as "alpha"? Whether equity, fixed income or alternatives – we're looking for alpha sources with long-term staying power across all markets and geographic regions. We also categorize these potential alpha sources by the economic environment (Recovery, Expansion, Stress or Distress) in which they are expected to outperform. And because we understand the different types of alpha and their underlying drivers, we design highly diversified portfolios – not just between equity and fixed income, but also across underlying alpha drivers as well.

After identifying potential alpha sources and then projecting how a portfolio might react throughout each economic cycle, we're ready for the next step – evaluating potential investment managers.

3 Investment Manager Selection: Finding consistency

We've found that money managers who specialize in a particular market or style will often know where opportunities exist and can anticipate favorable and unfavorable changes. We believe such managers produce more consistent results than generalists who drift from one style to another, often outside their core competencies. We believe that identifying, hiring and managing specialist money managers helps to deliver more consistent performance. We call this process "managing the managers," a process which SEI pioneered. We also develop expectations regarding how a manager will execute a given investment assignment and the environment in which the strategy should outperform or underperform.

*Source: Brinson, Singer and Beebower (1991)

Importantly, we use multiple managers within each investment style to achieve diversification. In small-cap growth, for example, six managers provide a highly diversified investment approach. While diversification does not guarantee protection against market risk, it may help to manage downside risk and enhance returns.

The result is a global network of specialist managers whose styles complement each other. SEI's investment team of 100+ analysts, many of whom hold the Chartered Financial Analyst (CFA) designation, oversees manager selection, performance tracking and ongoing monitoring. They're crucial to performance consistency and helping to keep investors on track.

4 Portfolio Construction and Management: Focusing on the road ahead

The number of choices available to investors today appears endless – U.S. equity, international equity, U.S. and foreign fixed income, emerging markets, REITs and hedge funds, to name a few.

Each market segment exhibits different characteristics, return potential and risks. So we believe that division of assets is only the first step in helping investors down the road. Success requires diversifying the portfolio structure itself. For example, the U.S. equity market has at least four distinct sub-asset classes: large-cap value, large-cap growth, small-cap value and small-cap growth.

Because no one can consistently predict which segment will outperform in the future, we structure our equity portfolios across all of them. You don't just own "stocks," but rather a mix of large and small cap, growth, value, and perhaps, alternative investments. We focus on diversification and diligent portfolio construction – designed to keep you focused on the road ahead.

5 Risk Management: Staying on track to your goals

Like driving conditions, the markets and economy are subject to sudden change. SEI addresses these inevitable changes through continuous risk management.

First, the asset mix in your portfolio is systematically rebalanced to its target. This should help to reduce risk and stay on track.

Through ongoing monitoring and manager reviews, SEI ensures that our managers stay within their core competencies and the assignments they've been given. SEI analysts monitor the manager's philosophy, discipline, consistency and ability. We check portfolio holdings and trades, ensuring the "purity" of the portfolio. Managers who deviate from their philosophies or fail to achieve stated goals are subject to replacement.

SEI's investment team also includes a separate risk management group to maintain objectivity and examine the entire spectrum of SEI's investment offerings – seeking to ensure risk objectives are being met.

6 Tax Management: Keeping more after taxes

The impact of taxes could keep you from reaching your financial destination. That's why in the mid-1990s, SEI completed ground-breaking research into the effect of taxes on an investment portfolio. As a result, we focus on tax management to help potentially enhance after-tax returns. Remember, it's not what's earned – it's what's kept. Our investment process is designed to help you keep more.

What's your financial destination? Together we can help you get there.

That's our philosophy. Think of us as a quality automobile, designed to help you reach your ultimate financial destination. Whether you're investing for retirement, a college education, or leaving an estate to your family, we believe that our investment strategies can help you navigate the sudden twists and turns found on many financial roads.

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There are risks involved with investing, including loss of principal. International investments may involve risk of capital loss from unfavorable 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 as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. 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. Diversification may not protect against market risk. There is no assurance the goals of the strategies discussed will be met.

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