

Manager Selection and Monitoring

SEI Multi-Step Manager Selection Process Ensures Premium Talent is Hired and Retained

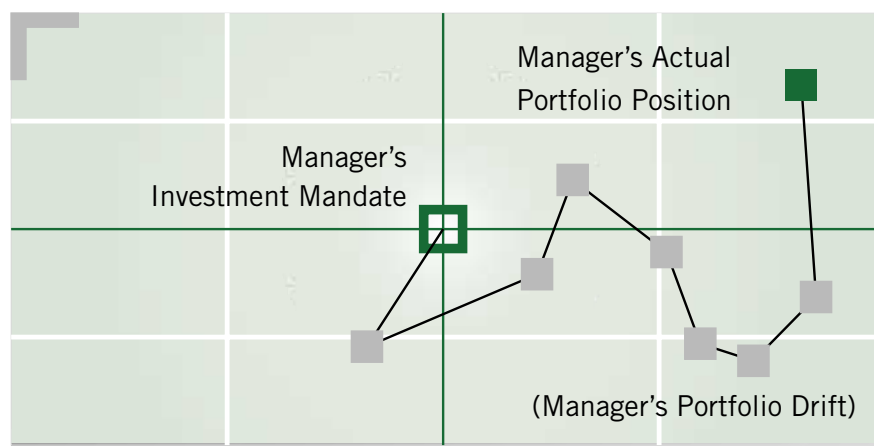
SEI Investments takes a highly disciplined approach to investing, based on years of research and experience. SEI has over 30 years of providing manager analysis and performance evaluation. Historically the nation's largest pension consulting firm, our credentials have included being the performance "report card" for such firms as Fidelity Investments, Goldman Sachs, Salomon Brothers, Alex Brown and many others. These organizations looked to SEI to determine how well their managers were performing.

To implement our asset management strategies, we select the very best investment talent from a global network of institutional money managers who specialize in specific sectors of the market. In effect,

SEI acts as the "manager of managers," carefully selecting and continually monitoring more than 43 of the world's leading specialist money management firms who deliver their expertise through SEI's cost-effective, investment products. Today, our philosophy is applied to more than \$78 billion in client assets.

The use of multiple specialist managers is one of the key principles of our investment philosophy. Our research has shown that a manager's tendency to drift from an area of the market for which they were hired (such as large cap value moving to large cap growth or large cap growth to small cap growth), accounts for much of the volatility of a manager's returns. This is because it is virtually impossible to "time" the market and add value by guessing which style of investing will be in favor. For this reason, SEI Investments creates portfolios with a combination of specialist managers who complement one another with practically no security overlap.

Large Cap Value

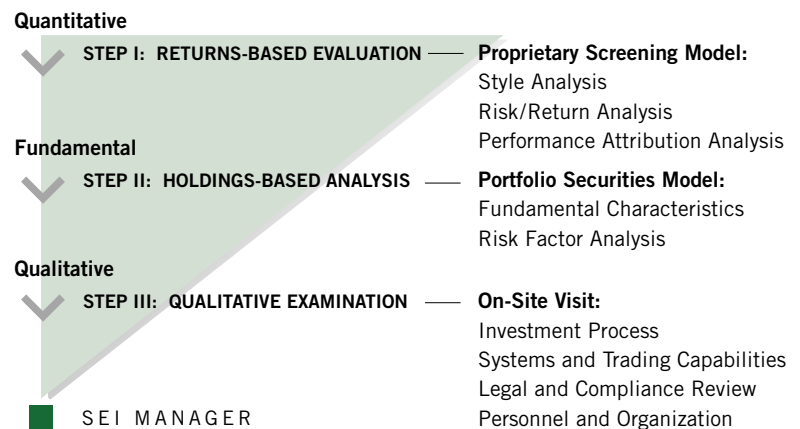


Managers who "drift" from one area of the market to another create uncontrolled risk and may result in significant underperformance.

Selection of Specialist Money Managers – A Step-by-Step Approach

SEI's selection process, based on years of experience examining thousands of money managers, begins with quantitative analysis of each manager and ends with a qualitative evaluation of the organization. SEI has invested millions of dollars in technology, research and personnel to develop a sophisticated investment process. A special group within SEI, the Investment Management Unit, has over 50 experienced analysts who are dedicated to the implementation and oversight of the investment process. Their responsibilities include the selection of managers, performance optimization and risk control, as well as daily monitoring of the specialist managers.

SEI's time-tested approach relies on a comprehensive three-step process to find superior specialist managers.



This disciplined process identifies skillful managers and eliminates managers with style drift.

STEP 1: RETURNS-BASED EVALUATION

This quantitative research phase starts with a database of quarterly returns of over 10,000 equity investment managers and 6,000 fixed income managers. Returns for these managers are compiled quarterly from sources such as Nelson's Money Manager Database, Lipper Analytical Services, Morningstar and Mobius, as well as data supplied directly to SEI from specific managers. By using a combination of both proprietary and industry analytical tools, the SEI analyst is able to narrow down this list to a manageable number for any specific search.

Equity Manager Selection:

SEI'S GLOBAL EQUITY SCREENING MODEL

- Analytical tool which is able to evaluate each manager universe on over 100 factors
- Enables SEI to create universes of managers who exhibit style-specific traits
- Narrows list of potential manager candidates to approximately 50 for further analysis.

STYLESCAN ®

- Proprietary analytical tool that evaluates manager's correlation to the appropriate style-specific market index over 16 quarters
- Identifies managers who have consistent market capitalization and price/book measures relative to the appropriate market index
- Software attributes each unit of incremental return against the appropriate market index to either specific stock selection or style drift
- Risk analysis assesses level of risk being taken to achieve excess return
- Narrows list of potential managers for a further search to 15 – 25.

Fixed Income Manager Selection:

SEI'S GLOBAL FIXED INCOME SCREENING MODEL

- Analytical tool that evaluates various statistical measures such as R2, tracking error, manager alpha, residual return and downside risk
- Enables SEI to rank managers within a certain specialist category
- Analyzes manager's composite returns against a market index to identify style attributes
- Narrows list of potential fixed income managers for a further search to 15 - 25.

STEP 2: HOLDINGS-BASED ANALYSIS

Equity Manager Selection:

Fundamental analysis is the next step in the manager evaluation process. This analysis is used to compare actual portfolio characteristics to the appropriate market index at both a single point and over time. Important factors which are considered here include market capitalization, portfolio valuation, industry distribution, portfolio beta and BARRA's 13 risk factors. All factors are evaluated relative to the characteristics of the appropriate market index. Tools used are:

- BARRA Analytics and the Wilshire Atlas Systems are used to monitor risk factors and performance attribution
- BARRA is used to attribute and assign portfolio return to one of these categories:
 - Beta Policy
 - Industry Contribution
 - BARRA Risk
 - Stock Selection
- Wilshire's Atlas Software provides another framework to gather fundamental knowledge by analyzing a

manager's holdings, isolating manager style and attributing returns

- From this step, SEI is able to identify managers whose return enhancement comes from stock selection with variability caused by other factors minimized
- Narrows list of equity manager candidates to five.

Fixed Income Manager Selection:

On the fixed income side, we determine whether the manager has been compensated for any risk assumed versus the benchmark. Tools used are:

- Wilshire Software used to analyze holdings, isolate manager style and attribute returns
- Manager decisions are evaluated versus the specific determinants of risk and return. It determines whether the managers have assumed risk away from benchmark exposures that benefit investors or have neutralized those areas that do not benefit investors
- Narrows list of fixed income manager candidates to five.

STEP 3: QUALITATIVE EXAMINATION

Equity and Fixed Income:

The next step in the manager search process is for an SEI analyst to conduct an on-site visit and interview potential manager candidates. Experience gained from hundreds of manager visits helps identify managers who will add incremental value over the benchmark and complement existing fund managers. This qualitative research phase of the selection process includes:

- Intense review of money manager's organization
- In-depth discussion with portfolio managers and research analysts
- Close scrutiny of manager's investment process
- Evaluation of manager on over 100 factors pertinent to a successful investment process.

If both sides are comfortable with the potential relationship, the manager will be assigned to either:

- SEI Style-Specific Fund - as a new sub-style or replacement for another manager
- "Farm Team" - list of managers able to replace current SEI sub-adviser.

SEI'S SELECTION PROCESS ENSURES THAT ONLY THE MOST TALENTED SPECIALIST MANAGERS WHOSE INVESTMENT PHILOSOPHY AND PAST PERFORMANCE MEET SEI'S HIGH STANDARDS ARE CHOSEN.

SEI's Rigorous Monitoring Process – Keeps Investment Talent On Track

Analyzing Every Trade; Every Day

SEI's "manager of managers" investment process requires the organization to continually evaluate its current managers, while also searching for new specialist managers.

Managers who are included as sub-advisers in SEI's funds are subject to a rigorous, on-going monitoring and oversight process. We analyze manager activities and performance on a *daily, weekly, monthly, quarterly* and *annual* basis. This analysis evaluates everything from daily security trades to complete organizational reviews.

Specific actions are required of the SEI investment analysts at each step of this monitoring process to ensure the manager is performing within the guidelines for which they were hired. In addition, the SEI analyst must manage the mix of managers in their area of the market to provide an overall structure and risk level that

is consistent with the appropriate benchmark.

SEI's continual monitoring of its multiple specialist money managers is an integral step in our investment process. It ensures that holdings are closely monitored, risk is carefully managed, and investment performance is driven by each manager's individual security selection. Those managers who fail to achieve stated goals, or who deviate from their stated philosophy, are subject to replacement.

Only the Most Talented Investment Managers are Selected

SEI's selection process ensures that only the most talented specialist managers whose investment philosophy and past performance meet SEI's high standards are chosen. Once selected, the managers are continually monitored to ensure that their investment style and performance remain consistent with the objective of their respective portfolio.

Daily Monitoring

- Analysis of security trades to assure adherence to style criteria.

Weekly Evaluation

- Analysis of performance and portfolio characteristics for sub-adviser and fund
- Cash holdings are evaluated to ensure managers remain fully invested at all times.

Monthly Analysis

- Attribution of fund performance and characteristics using analytical tools such as Wilshire Atlas, BARRA Performance Analysis and BARRA Aegis systems
- More than 40 individual measures, ranging from sector weighting breakdown to country allocations for international managers, are examined for dispersion and return attribution relative to the benchmark
- Discussions with the managers occur monthly where we focus on manager's specific decision rationale.

Quarterly

- Intensive review of the manager, utilizing tools mentioned above
- In-depth discussion with the managers reviewing performance, concerns about the portfolio, expectations of both parties for the quarter and any organizational changes which might have taken place.

Annual Review

- Review by SEI Funds' Board of Trustees for contract renewal of each manager.