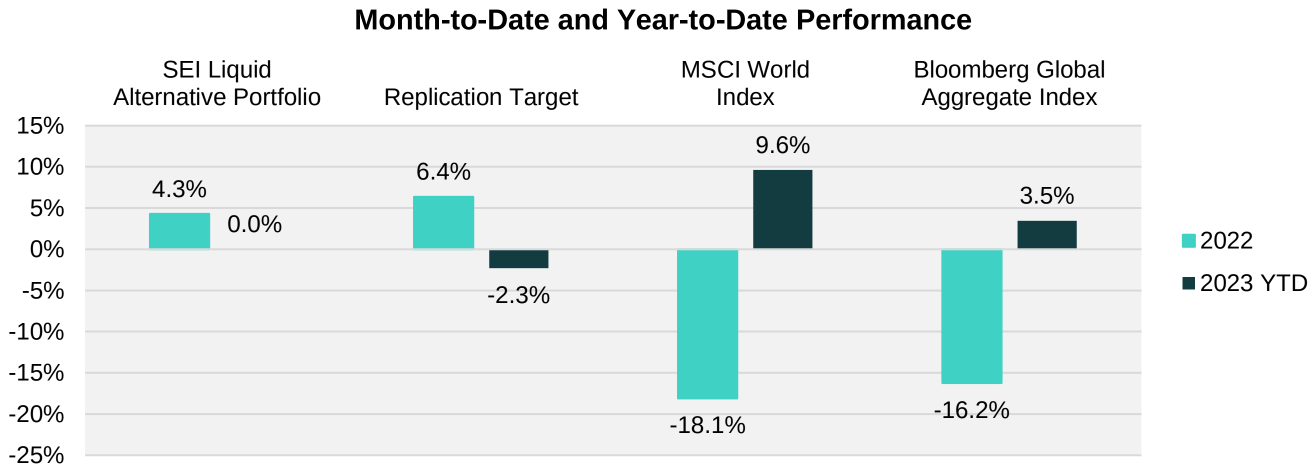
SEI LIQUID ALTERNATIVE FUND

APRIL 2023 Update

Dear Colleagues:

The Portfolio[1] rose **0.65%** in April and is now flat in 2023. Broadly speaking, hedge funds generated meaningful alpha last year as both equity and bond markets declined, but have struggled to participate in the rebound in both stocks and bonds this year.



*Source: DBi and Bloomberg

This is a challenging macro environment. The controlled demolition of First Republic Bank at month end (and Credit Suisse a month ago) showed that both regulators and large banks are committed to avoiding another GFC. Yet, with deposit flight at regional banks (when SVB collapsed, the media alerted people that they could earn 3x the interest on bank deposits in money market funds), serious

[1] Performance of the portfolios managed by DBi, net of sub-advisory fees. Please consult SEI directly for performance of individual share classes.

investors are worried that regional banks will sharply curtail lending. This is occurring as the impact of the Fed's manic pace of hiking last year continues to reverberate through economy. And now, we are forced to watch a game of chicken in a dysfunctional Washington DC over the debt limit – where both sides are threatening to blow up the credit markets over a large increase in spending, or a slightly less large increase. Through this lens, we should all put on our crash helmets for a hard landing. Bond markets seem to think the Fed will be conducting triage next year, while growth is trouncing value once again – but mostly because artificial intelligence has made the case that a handful of tech stocks will further dominate the economy. And yet… the economy continues to defy the pessimists and inflation remains uncomfortably high. Many of the worst fears of the past year – crude oil at $200, gas rationing in Germany, a covid collapse in China's economy, inflation bursting through 10%, widespread social unrest and recently a full-global banking crisis – have not materialized. From our perch, the overriding sense is that no one has a good crystal ball on this one, and we're staring at a number of widely divergent paths. Few investors want to be too far out over their skis right now. Our portfolio reflects this hesitancy.

The Strategic Alpha (Multi-Strategy) replication portfolio returned **0.3%** in April and is up **3.5%** year to date. The Target portfolio of Equity Long/Short, Relative Value and Event-Driven hedge funds is up an estimated 1.8% year to date. Since inception, the replication portfolio has delivered an estimated 85% of pre-fee returns, with a correlation of around 0.80, and approximately 161 bps per annum of alpha. Last month, gains on EAFE stocks were largely offset by losses in US small/mid-cap stocks, while other positions were largely flattish; returns on cash account for the majority of gains last month. We remain underweight equities with a value bias.

The Tactical Alpha (Managed Futures) replication portfolio gained **1.2%** in April and is down **-4.9%** year-to-date; both figures are modestly behind the Target portfolio of hedge funds, which are not subject to UCITS constraints. Since inception, this replication portfolio has generated a cumulative return of 51%, approximately 24% higher than that of the target hedge funds, with a correlation of approximately 0.8. Last month, gains in currency and equity positions were partially offset by losses in Treasury futures, where the portfolio remains short. Our interpretation of the latter position is that, while some managed futures hedge funds exited Treasury shorts in the days and weeks following SVB, more longer-term trend followers have maintained some, if less, exposure.

Despite the opacity of the macro picture today, we believe the opportunity set for hedge funds will be robust over the coming years. A decade of valuation divergence is likely to revert, which can create compelling opportunities for investors who are largely indifferent to long-only benchmarks. The inflation trade may have seen its best days, but history suggests that the distortions of the 2010s will reverberate through markets for years – and create the kinds of compelling trading opportunities across asset classes that we saw in 2022. By following some of the best minds in the investment business, we hope to continue to deliver alpha to you – with the operational benefits of a daily liquid UCITS fund.

All the best,

The Dynamic Beta Team