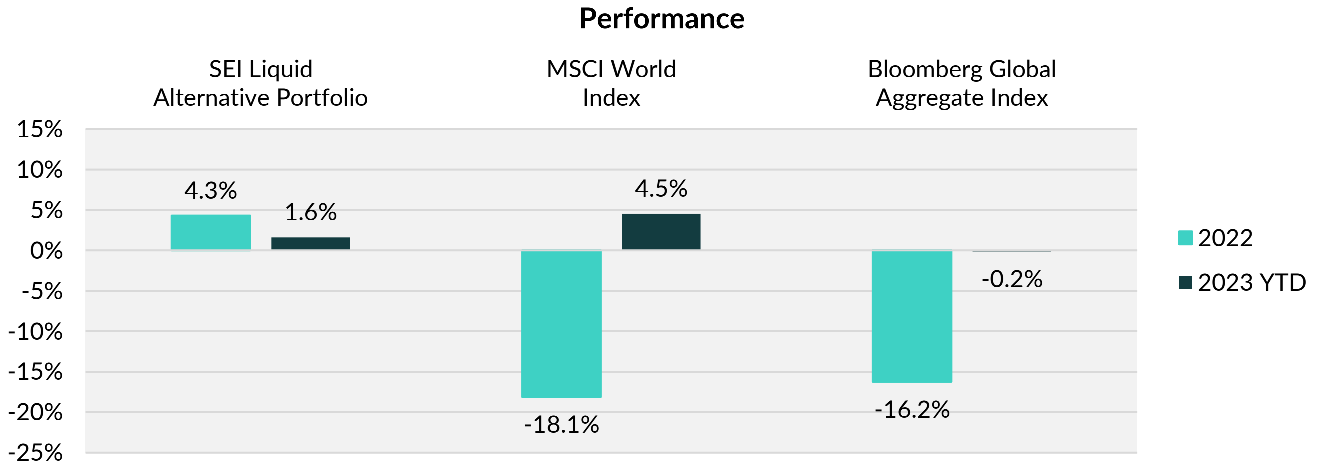
SEI LIQUID ALTERNATIVE FUND

FEBRUARY 2023 Update

Dear Colleagues:

The Portfolio[1] rose **0.7%** net in February and is up **1.6%** net year-to-date. The MSCI World index declined -2.4% while the Bloomberg Global Agg dropped -3.3%. The "strategic alpha/beta" (Multi-Strategy) portfolio rose **0.4%**; meanwhile, the "tactical alpha" (Managed Futures) gained **1.1%.**



*Source: DBi and Bloomberg

In the January letter, we discussed how the Goldilocks camp – forecasting a gentle economic slowdown, a steady drift lower in inflation and, later this year, a Fed ready to refill the punch bowl – was driving up risk assets. In February, the Cassandras were back in force as inflation figures came in "too hot" and the Fed, apparently irritated by the market's premature exuberance, jawboned uncooperative markets. Bonds sold off – the Ten-Year Treasury yield to within spitting

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

distance of the psychologically important 4% level – and gave up the January bounce; equities declined but remain up for the year.

As you know, we tend to lean into the Cassandra camp and have a few observations. Spending – whether for individuals or governments – is quite addictive and it's difficult to see a material pull back without some meaningful economic pain or wealth destruction. Further, a large part of the market desperately hopes for a quick return to the Go-Go 2010s; we tend to think that the last decade will land in the dustbin of history as a unique period of excess: trillions in negative yielding debt, SPACS, meme stocks, near revenue-less companies with $100 billion valuations, imaginary currencies worth hundreds of billions of real dollars, hundred year bonds with low single digit yields, etc. etc. Lastly, whichever side prevails, we are now in our second year of stocks and bonds moving up and down in tandem, which upends one of the core tenets of how tens of trillions of dollars of portfolios are built. All this should lead to sustained volatility in markets and, we think, cements the argument for broad diversification and a prudent focus on avoiding left fat tails.

The Multi-Strategy replication returned **0.4%** in February and is up **3.0%** in 2023. Underweight equity exposure with a value bias limited losses on equity beta, while an inflation hedge in Treasuries generated sufficient profits to enable the portfolio to post a gain for the month. The portfolio remains underweight equities with a non-US developed and value bias – areas that materially underperformed during the 2010s but stand to benefit, on a relative basis, in a world of persistently higher interest rates.

The Managed Futures replication portfolio gained **1.1%** in February and remains down **-0.4%** this year. Gains on short positions in Treasuries were partially offset by losses on equities – the latter exacerbated by an ill-timed rise in EAFE exposure since year end. Today, the portfolio is positioned for higher rates in the US, outperformance of EAFE vs US large cap and emerging markets, and strength in the Euro vs dollar. Interestingly, there is a coherent fundamental narrative underlying the portfolio: higher rates lead to an outperformance of cheaper equity markets – especially Europe – which leads to capital flows that drives up the currency. Of course, managed futures funds do not make such long-term forecasts, but in this case we believe it aligns with a view among many hedge funds that a decade of divergence in valuations will revert to one of convergence.

In the first seven years of the fund, we delivered approximately cash plus 5% (gross). With cash yielding 1.2% on average, this resulted in a gross portfolio return of approximately 6%. Today, with cash yielding more than 4%, our expectations for absolute performance are proportionately higher – a target of perhaps 9% before fees. In the first quarter letter next month, we plan to do a deep dive on alpha drivers and how we expect the building blocks of cash, controlled beta, strategic alpha and tactical alpha to combine to deliver absolute returns over the coming years.

All the best,

The Dynamic Beta Team