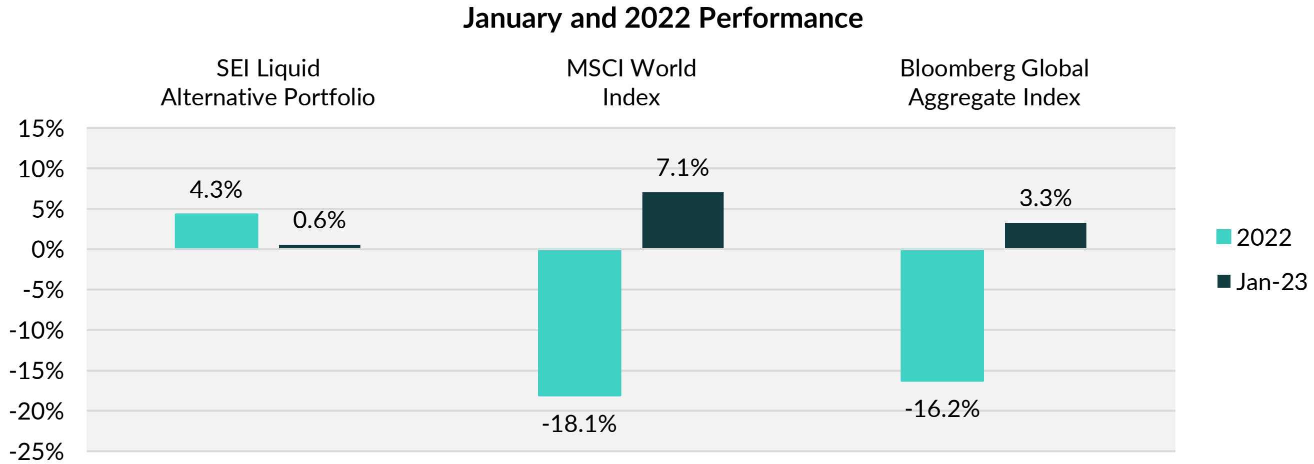
SEI LIQUID ALTERNATIVE FUND

JANUARY 2023 Update

Dear Colleagues:

The Portfolio[1] rose **0.6%** in January and after returning **4.3%** in 2022. With the sharp rebound in risk assets, the Multi-Strategy replication gained **2.2%** while the Managed Futures portfolio lost **-1.9%**. The chart below shows performance of the Portfolio compared to the MSCI World Equity Index and Bloomberg Global Aggregate Bond Index.



*Source: DBi and Bloomberg

Two camps are battling it out in the markets. One – the Goldilocks contingent – believes inflation has peaked and will drift lower, the economy will slow without a major recession, and the Fed will start cutting rates again by year end. For them, 2022 was an unpleasant pause before a return to the Go-Go 2010s. The other – call them Cassandras, and many of them battle hardened macro traders – think inflation will remain stubbornly high, the Fed's job is far from done, higher rates will reverberate through a leveraged market ecosystem, other macroeconomic and geopolitical issues

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

will rear their ugly heads at inopportune times, and a deep recession might be necessary to put the inflation beast back in the bottle. For eighteen months, the Cassandras were right; for the past three or four, and especially in January, the tide has shifted in favor of the Goldilocks crew. One irony is the role reversal: many Cassandras fought the Fed for years, while today the Goldilocks are calling its bluff. Another is that the more the Cassandras win in the near term, the more likely the Fed will have to further dial up rates and rhetoric – essentially what happened after the last gasp of the Transitory trade in July of last year.

The Multi-Strategy replication returned **2.2%** in January after returning **-3.0%** in 2022. Gains on equities were partially offset by losses on modest hedges in the US dollar and long dated Treasuries. The portfolio remains underweight equities – with a non-US developed and value bias -- and has largely exited positions in the US dollar and long-dated Treasuries – both effective hedges last year that appear to have run their course.

The Managed Futures replication portfolio lost **-1.9%** in January after ending 2022 up **15.5%**. We entered the year betting on higher rates and, to a lesser extent, declining equities – the opposite of what happened last month. To take a step back, the idea behind managed futures is to tactically ride "market waves." Last year, the earthquake of rate hikes caused tsunamis in rates and currencies; today, the seas are very choppy as the camps above fight it out. The portfolio has adapted by selectively rotating into new trades (we flipped from net short to net long equities, exited the last of the Euro short) while maintaining others (the short Treasury position). Consequently, the portfolio is more balanced today than the remnants of "crash protection mode" several weeks ago.

As you know from prior letters, our macro view leans toward the Cassandra camp – not to the more farfetched predictions of social and political disintegration, but that the reversal of a decade of unprecedented fiscal and monetary profligacy will be a struggle over years, not quarters. But we also recognize that macro calls have a very high error rate – and in fact, many of the worst fears last Fall – gas rationing in Germany, economic paralysis in China, an expanded land war in Europe, etc. – failed to materialize. And even when the calls are right, the markets can respond in unexpected ways: e.g., the panicked "dash for trash" last month likely surprised most in the Goldilocks camp. This broad caution drove our decision to focus on the positioning of seventy hedge funds, not one or two, diversified across strategies and sub-strategies, strategic and tactical. We hope their collective judgment will enable us to continue to chart a steady path through these rough seas.

All the best,

The Dynamic Beta Team