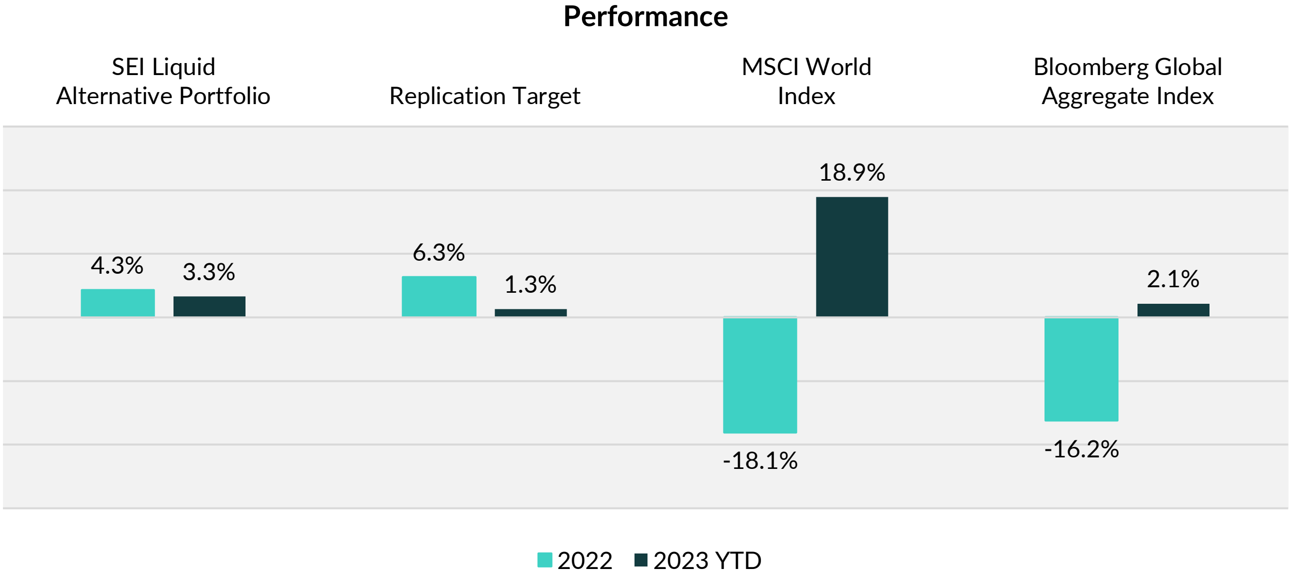
SEI LIQUID ALTERNATIVE FUND

JULY 2023 Update

Dear Colleagues:

The Portfolio[1] gained **1.0%** in July and is now up **3.3%** in 2023, approximately 200 bps ahead of the Target portfolio of seventy leading hedge funds. Equities and bonds both rose again last month.



*Source: DBi and Bloomberg. Data as of July 31st, 2023

This year has been a humbling one for many investors, including most hedge funds. In general, market strategists try to do two things: make the right macroeconomic call and then predict how markets will react. Sometimes they get both right: many hedge funds nailed the inflation trade last year and shorted Treasuries and/or sold the yen. Sometimes they nail the macro call but miss the market reaction: for instance, other investors in 2022 who sought protection instead in gold and

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

TIPS. Sometimes investors miss the macro call but profit anyway: e.g., those who bought tech in January based on a (wrong) taper bet but accidentally ended up long the AI frenzy. Other times they make prudent, probability-adjusted decisions that fail to pan out: we think battle hardened investors who concluded that 500 bps of rate hikes should have, but didn't, break something big falls into this category. Others nail one trade then fumble the next one – something that applies to many of last year's gainers. Lastly, sometimes investors can make the right call (sticky inflation this year) with the right positions (short Treasuries) but have difficulty holding them through extreme market volatility (post-SVB liquidations). In sum, it's been tough out there.

The Strategic Alpha (Multi-Strategy) replication portfolio returned **1.8%** in July and is up **7.3%** year to date. The Target portfolio of Equity Long/Short, Relative Value and Event-Driven hedge funds lost -0.5% last month and up an estimated 2.7% year to date. Since inception, we believe the replication portfolio has delivered over 90% of pre-fee returns, with a correlation of around 0.80, and approximately 191 bps per annum of alpha. Material outperformance of the replication model this year is attributable to our decision to avoid single stocks: single stock longs and shorts add alpha at times but detract at others. This year, the latter is true: according to Goldman Sachs[2], popular hedge fund shorts have outpaced longs by a wide margin -- significant "negative alpha," especially last month. Our portfolio, by contrast, benefited from the broad gains in equities as well as rising rates through a hedge in the 30 Year Treasury. While we continue to be cautiously positioned with a bias to more "value-centric" markets, we have seen a rough doubling of exposure to tech stocks over the past several months.

The Tactical Alpha (Managed Futures) replication portfolio returned **-0.2%** in July and is down **-2.4%** year-to-date; the Target portfolio of hedge funds, which are not subject to UCITS constraints, declined -1.1% last month and is down -1.1% this year. Since inception, this replication portfolio has generated a cumulative return of 55%, nearly double that of the Target hedge funds, with a correlation of approximately 0.80. Last month, gains on a spread trade of US large cap stocks vs emerging markets and EAFE were more than offset by losses in currencies due to a sudden appreciation of the Japanese yen as markets speculated about an end to yield curve control. Broadly speaking, the portfolio currently is positioned for higher rates, outperformance of US and growth stocks, and strength in the US dollar, including against commodity-producing countries.

Please do not hesitate to reach out with any questions or comments.

All the best,

The Dynamic Beta Team

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[2] Source: Bloomberg Goldman Sachs VIP and VISP indices