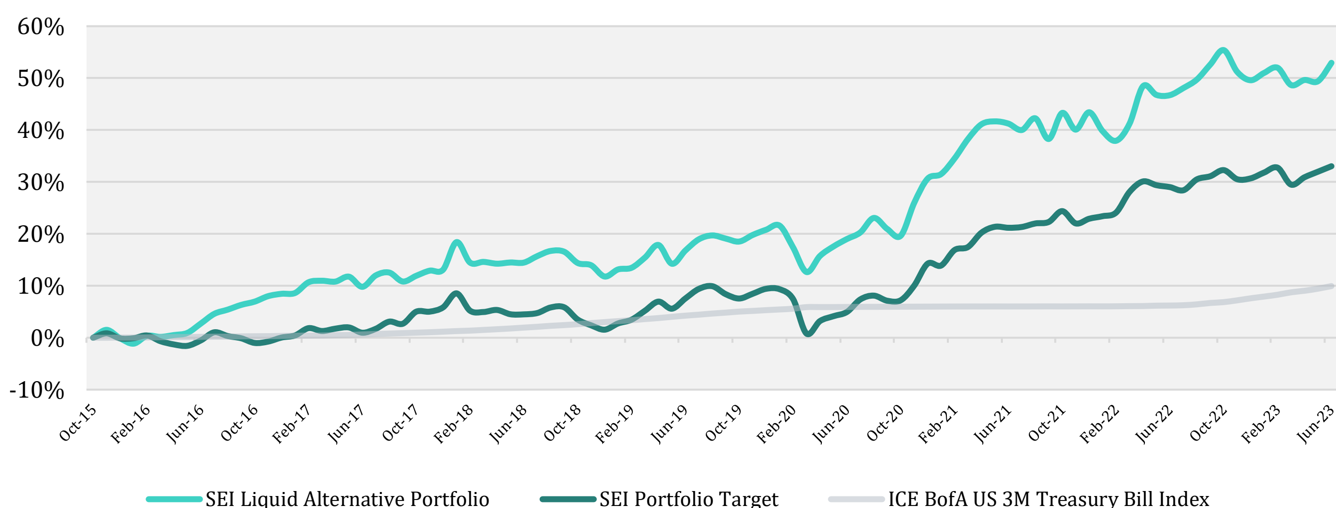
SEI LIQUID ALTERNATIVE FUND

2Q2023 Sub-Advisor Performance Review

The figures below represent the performance of the Fund's Portfolio managed by DBi, net of sub-advisory fees, and are shown in USD terms. Please consult SEI directly for performance of individual share classes.

- The **Portfolio**[1] returned **2.9%** in the second quarter of 2023, in line with the Target hedge funds, and has returned **2.2%** this year (after gaining **4.3%** in 2022).
- The **Strategic Alpha** (replication of Equity Long/Short, Relative Value and Event-Driven hedge funds) portfolio rose **2.1%** and is up **5.4%** in 2023, approximately 250 bps ahead of the Target hedge funds.
- The **Tactical Alpha** (replication of Managed Futures funds) gained **4.1%** and is down **-2.2%** this year, approximately 220 bps behind the Target hedge funds.
- Since inception, the Portfolio has outperformed the Target portfolio of seventy leading hedge funds by 191 per annum, or approximately by two-thirds on a cumulative basis, through fee and expense disintermediation.



Data as of Jun 30, 2023	SEI Liquid Alternative Portfolio	SEI Portfolio Target HFs	ICE BofA US 3M Treasury Bill Index
YTD Return	***2.2%***	*1.8%*	*2.2%*
CAGR	**5.7%**	3.8%	1.2%
Cumulative Return	**52.9%**	33.0%	10.0%
Volatility	**6.3%**	4.9%	0.4%
Max Drawdown	**-7.4%**	-8.3%	0.0%
Sharpe Ratio	**0.69**	0.50	0.00

Source: Bloomberg, DBi. As of 30 June 2023. Data refers to cumulative past performance. Cumulative past performance is not a reliable indicator of future results. The SGMF Liquid Alternative Fund referred to within this letter is not managed against the indices shown in this slide or elsewhere in this presentation or against any other benchmark. This is a UCITS Fund which is not managed in relation to any benchmark. This data is being shown for illustrative purposes only.

MARKET COMMENTARY

Since last Fall, the markets have been like a drunk stumbling across a highway. You watch an eighteen wheeler barrel down and clench your eyes shut -- only to open them seconds later and find that he's still standing. Then it happens again. And again. And, to your utter surprise, you soon see that he's standing on the other side.

Here we are in mid-2023 and we have been grazed, not flattened, by a long list of economic eighteen wheelers: most recently, a potential regional or global banking crisis, US debt default, profits collapse, and even "recession by June." We're still standing.

Now place yourself back in early January. The market gods tip you off: inflation will prove sticky and the Fed will keep hiking. With a wink and a nod, they tell you that the Two-Year Treasury, then 4.4%, will hit nearly 5% by mid-year. Armed with this inside information, would you have bet that the Nasdaq, decimated by higher rates last year, would rise close to 40%, a mid-year record? Or that value would underperform growth by 24%, a tad more than its historic rebound last year? Or that equities would simply ignore the bond market which, with the most inverted yield curve in five decades, has breathlessly screamed recession for months?

We have two observations. As noted, hedge funds have been cautiously positioned this year and are up single digits. While this might seem paltry relative to the 14% gain in the MSCI World, should they have predicted an overnight frenzy in AI that added $5 trillion to tech stocks? On the other hand, those numbers do look healthy relative to the 1% return on the Bloomberg Global Agg – a disappointment given the unexpected headwind of higher rates. This clearly has been a year to manage risk and live to fight another day. Great investors sometimes put on a sensible trade and it doesn't work out – statistical tails do happen, after all. Over time, sensible trades generate alpha. That's our bet, at least.

Further, we would like to remind people about the math of drawdowns. Bold cap headlines on Meta and Tesla tout year-to-date returns of 140% and 113%, respectively – not that both, after 65% drawdowns last year, are down 17% and 27% over eighteen months. The current obsession with respectable yields on corporate credit – and decent 3% total return this year – glosses over the roughly 18% drawdown last year. Investing is a long game and our math should reflect it.

PERFORMANCE REVIEW

The Portfolio gained **2.9%** in Q2 and is up **2.2%** in 2023. The Target portfolio of hedge funds returned 2.7% in the second quarter and is up 1.8% year to date. Since inception in 2015, the Portfolio has returned a cumulative 52.9% compared to 33.0% for the Target – evidence, we think of the value of fee disintermediation – and 13.3% for the Wilshire Liquid Alternative Total Return index – which shows the difficulty of managing hedge fund strategies in regulated, liquid vehicles.

STRATEGIC ALPHA (ELS/RV/ED) - 60% ALLOCATION

The Multi-Strategy replication portfolio gained **2.1%** during the second quarter and is up **5.4%** year-to-date. By contrast, the target portfolio of fifty Equity Long/Short, Relative Value and Event-Driven hedge funds has returned 2.9% this year. We believe our replication models, since inception, have delivered over 90% of the pre-fee returns of the Target with a correlation of 0.80. Gains this year have been driven primarily by allocation to equities, but conservative positioning in equities, plus a value-bias, has limited gains relative to the MSCI World index, which returned 15.1% through June; however, by preserving capital in 2022, the portfolio has outperformed the equity index by over 500 bps over the past eighteen months.

TACTICAL ALPHA (MANAGED FUTURES) – 40% ALLOCATION

The Tactical Alpha portfolio, which seeks to replicate the pre-fee returns of leading managed futures hedges funds, returned **4.1%** in the second quarter and is down **-2.2%** this year. By contrast, the SocGen CTA Hedge Fund index is flat through June. Certainly relative to 2022, this has been a frustrating year for the managed futures space: two steps forward and two steps back. The sharp shifts in consensus remind us of crowds on a boat rushing back and forth from port to starboard: sticky inflation one month, a banking crisis and "imminent" deep recession the next, then sticky inflation six weeks later. This is driving cross-asset volatility and shows up in unusually rapid rotations in trend following portfolios. As of quarter end, the most important positions were a short bet on the Japanese yen, once again the largest gainer this year, and a relative value trade of the S&P 500 vs EAFE and EM (interestingly, the opposite view taken by many fundamental hedge funds).

CONCLUSION

We mentioned in the last quarterly letter that the Fund had been designated by Refinitiv Lipper as the top performing "Alternative Multi-Strategies" fund over the past three and five years. When you dig a bit deeper into the category, you see that asset managers have tried three broad approaches to deliver diversified exposure to hedge fund "alpha" in daily liquid UCITS vehicles: multi-manager, replication and alternative risk premia. We recently wrote a critical editorial about the multi-manager space, which we covered nearly ten years ago and concluded, at the time, that returns would disappoint. We next plan to write about the alternative risk premia space in the coming months – another example of dramatic underperformance relative to unrealistic expectations. The irony is that sometimes the simpler approach – in this case, replication of actual hedge funds – works better in this type of vehicle. While our direct competitors – Goldman Sachs (including the acquired NN Investment Partners fund) and Credit Suisse (now part of UBS) – did not earn awards, they often sit among the top ten performing funds over rolling periods. The award then, we hope, will reflect a broader recognition that some strategies simply work better than others. Kudos for SEI to recognize this back in 2015.

We thank you as always for your support. Please do not hesitate to reach out with any questions or comments.

Sincerely,

The Dynamic Beta Team

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SOURCES

Some of the information presented in this document includes information that has been obtained from third-party sources.
Dynamic Beta is the source and owner of all Dynamic Beta performance information.

GLOSSARY OF TERMS

Alpha represents the portion of a fund return not attributable to beta.
Annualized Standard Deviation measures the annualized volatility of an asset over multiple time periods.
Beta is a measure of systematic risk of a fund compared to a market index.
Compounded Annual Return measures the annual rate of return of an asset over multiple time periods.
Maximum Drawdown measures the peak to trough decline of investment performance over a given period of time.
Sharpe Ratio measures the risk-adjusted returns of a fund and is a ratio equal to the annualized excess returns of the fund divided by its annualized standard deviation.

INDEX DEFINITIONS

The SG CTA Index is an index published by Société Générale that is designed to reflect the performance of a pool of Commodity Trading Advisors (CTAs) selected from the largest managers open to new investment and report returns on a daily basis. The index is equal-weighted and rebalanced annually. (Source Bloomberg. Ticker: NEIXCTA Index)

The MSCI World Index is an index maintained by MSCI that reflects the performance of large and mid-cap equities across 23 developed markets with net dividends reinvested. (Source Bloomberg. Ticker: M1WO Index)

Additional definitions available upon request.

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[1] The Portfolio reflects the performance of the managed accounts, net of sub-advisory fees, managed by DBi. Please contact SEI for share class-level performance.