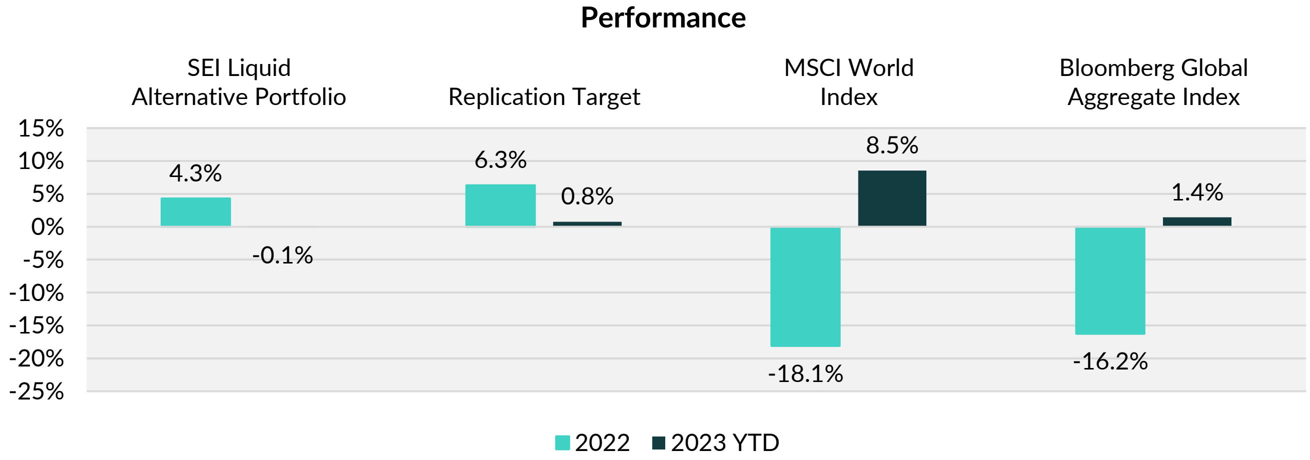
SEI LIQUID ALTERNATIVE FUND

MAY 2023 Update

Dear Colleagues:

The Portfolio[1] declined **-0.16%** in May and is now down **-0.13%** in 2023. Equities were flattish last month, with tech stocks soaring on AI-driven exuberance; bonds broadly declined as inflation remained stubbornly high; and hedge funds continued to tread water as caution about macro headwinds limited risk taking.



*Source: DBi and Bloomberg

Hedge funds, broadly speaking, nailed the inflation trade: defying expectations, inflation returned with a vengeance, this reverberated through markets and hedge funds generated meaningful alpha. Since last Fall, hedge funds have maintained a view that inflation would prove stubborn and the reversal of a decade of monetary policy would prompt a series of "rolling crises." That view has

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

largely been validated: far from refilling the punch bowl later this year, the Fed is now poised to keep hiking. Consistent with the macro view, our portfolios have been conservatively positioned: for instance, underweight equities with a bias to cheaper stocks that might benefit in a world of higher rates, or bets that rates were more likely to rise than fall.

And yet, investors also have faced a wall of alarmist macro predictions. Gas rationing in Germany! The collapse of the US regional banking system! A hard recession by June! A US default! This inherent contradiction – too hot vs ice cold – has underscored the difficulty of making long-term predictions. And in response, markets keep whipsawing investors: the overnight banking crisis upended the inflation trade with a violent (but temporary) unwind in Treasuries. At the other end of the spectrum, a handful of stocks tied to AI – for some, an unprecedented boom to productivity or, for others, the end of civilization – suddenly took off and upended (perhaps temporarily) the great "value convergence trade of the 2020s."

The punch line is that the markets have been wildly unpredictable. Our fund, and hedge funds overall, are largely flattish this year with equities up (or, better said, a few equities up a great deal) and bonds up slightly. Some of last year's brightest hedge fund stars are this year's dogs, and vice versa. Caution and diversification have been justified and prudence has protected capital in a dangerous market. And yet big moves and high uncertainty also generate new opportunities, and we are eager to see how the hedge fund exposures shifts over the coming months.

The Strategic Alpha (Multi-Strategy) replication portfolio returned **0.2%** in May and is up **3.7%** year to date. The Target portfolio of Equity Long/Short, Relative Value and Event-Driven hedge funds is up an estimated 2.1% year to date. Since inception, the replication portfolio has delivered over 90% of pre-fee returns, with a correlation of around 0.80, and approximately 155 bps per annum of alpha. Exposure to tech stocks delivered gains but was more than offset by losses in our larger position EAFE equities – in essence, the AI frenzy overwhelmed the impact of higher rates, which ordinarily should favor value over growth. A short position in the 30-year Treasury bond and long position in the US dollar added to performance – harkening back to the winning trades of 2022. As of month end, the portfolio remains slightly underweight equities versus historical standards, overweight EAFE and value stocks, has seen an increase in exposure to tech stocks, and holds modest hedges in Treasuries and the US Dollar.

The Tactical Alpha (Managed Futures) replication portfolio returned **-0.7%** in May and is down **-5.5%** year-to-date; both figures trail the Target portfolio of hedge funds, which are not subject to UCITS constraints. Since inception, this replication portfolio has generated a cumulative return of 50%, approximately 20% higher than that of the Target hedge funds, with a correlation of approximately 0.80. Last month, gains in a short position in emerging markets equities helped to partially offset losses in EAFE. The portfolio benefited from rising rate expectations, gains in commodity currencies and the decline in the Yen. Overall, the portfolio has struggled this year with the sharp whipsaws, such as the temporary and violent reversal in Treasuries during March.

We appreciate your vote of confidence and, as always, please do not hesitate to reach out with any questions or comments.

All the best,

The Dynamic Beta Team