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With Traditional Markets ‘Raging,’ SEI’s Shetty Sees Opportunity in Alternatives

“Bonds Aren’t a Ballast”: SEI’s Nathan Shetty on Infrastructure, Commodities, CLOs and Long-Volatility Strategies for a Reflationary Market



Nathan Shetty
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Chuck Jaffe, in this episode of The NAVigator podcast, interviewed Nathan Shetty, Chief Investment Officer at [SEI](#). Shetty explains why investors now turn to alternatives for true diversification rather than extra return, now that bonds are no longer a ballast. He argues that inflation is here to stay, and he prefers shorter-duration, inflation-hedged assets like infrastructure and commodities over real estate. He also covers interval-fund liquidity, CLO credit risk and why his AI view is “not anti-AI, but pro-productivity.”

TOPICS DISCUSSED

- Why investors now own alternatives to manage risk and truly diversify rather than to boost returns, since bonds have not been a reliable ballast since 2022
- How supply shocks, red-hot AI capex, deglobalization, demographics and deficits support SEI’s view that inflation is here to stay and higher rates are a return to normal
- Why rate risk matters within alternatives: real estate is exposed to rising rates, while infrastructure and commodities look compelling in a reflationary market
- How discretionary global macro and trend-following strategies, with their long-volatility profiles, can add real diversification to a multi-asset portfolio
- Why an interval fund’s liquidity should match its least liquid holding, and why higher financing costs make credit analysis critical in CLOs even without systemic risk
- Why SEI’s AI view is “not anti-AI, but pro-productivity,” favoring sectors outside the AI ecosystem that can grow margins without spending the capex

The discussion is educational in nature and intended to help investors and advisors better understand the tools, trade-offs, and data points involved in evaluating income-focused strategies.

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THE CONVERSATION**CHUCK JAFFE**

Nathan Shetty, Chief Investment Officer at SEI, is here. We're talking about current market and economic conditions and what they're doing for alternative investments and more. Now on The Navigator.

Welcome to The Navigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The Navigator is brought to you by the Active Investment Company Alliance, an industry organization representing the entire closed-end fund business, from investors and users up to fund sponsors, creators, and managers. If you're looking for excellence beyond indexing, The Navigator will point you in the right direction. Today, we're talking with Nathan Shetty, Chief Investment Officer at SEI, where he oversees the team that runs the SEI Alternative Income Fund, a non-listed closed-end interval fund. And you can learn more about the firm and everything it does at SEIC.com. If you want to learn more generally about closed-end funds and interval funds and business development companies, check out AICAlliance.org, the website for the Active Investment Company Alliance. Nate Shetty, thanks for joining me again on The Navigator.

NATHAN SHETTY

Chuck, nice to be here.

CHUCK JAFFE

Let's first talk about these market conditions. I should point out you're coming back on The Navigator. You were here because you used to work at Nuveen, where you were the former head of multi-asset, and you've taken the approach as Chief Investment Officer at SEI, where you guys are

still alternative managers, et cetera. But that means you're looking at all the conditions, and we've got really interesting conditions right now. So help us understand: this market, which has gotten us back to equities being at record highs, there seems to be less focus on alternatives right now than there was just a year or so ago in terms of what the media is doing. But you're always focused on alternatives. So what is this market setting up for you right now, and what is it guiding you towards as sweet spots?

NATHAN SHETTY

I love the question, Chuck, largely because it helps differentiate in the past why, whether they're institutional or wealth managers, why they were approaching the alternative space. And I would say a decade or two ago, it was because they were trying to enhance returns. This was the low return environment, financial repression, interest rates were incredibly low. Expected real returns across traditional asset classes were abysmal at best. I'll say in today's environment, real expected returns, nominal expected returns, all look a lot more attractive. So now the question is, why would we incorporate alternatives? And to your point, the mass media is probably not as focused on it because traditional markets are raging. And I'll say it's largely now in the realm of risk mitigation and diversification. It's been clear since 2022 that bonds aren't a ballast. Mainly, sovereign rates are not a ballast to multi-asset portfolios, which then begs the question: If I'm going to have and run a diversified, truly as opposed to pseudo-diversified, portfolio, where might I look? And that's really where alternatives come in: ultimately, how do I complement my growth exposures, i.e. equities, with something that's actually truly diversifying? And that's really where our efforts in alts are focused these days.

CHUCK JAFFE

In terms of that focus, are you going to different instruments? Because if you take a look at this market and this economy, you've got sticky inflation, you've got higher interest rates, at least on the short term, but actually on the long term as well, if we're looking at Treasuries and what's been happening there. So is that pushing you in different directions?

NATHAN SHETTY

Absolutely, and we are believers that inflation is here to stay and is likely starting to resume moving upward. Now, I can come on to the rationale and where that inflation is coming from. There are some short-term drivers that are both supply side as well as demand side related. On the supply side, clearly commodities and the energy shock is a contributing factor. But on the demand side, real growth is looking really impressive, as is nominal growth, which incorporates inflation as well. The capex investment, AI, I mean, it's really red hot, and the two coincide with one another. On the long term, you've got deglobalization, demographics, deficits. Those are all contributing factors to inflation. This is putting a lot of pressure on short-term and long-term interest rates, and we think, again, this is a return to normal. While the backup has been incredible, this isn't out of the realm of normalcy. So now, with bonds backing up in this manner, we have to understand and recognize what

sorts of alternative investments might be at risk from duration. I mean, alts is a pretty broad category. There's a whole host of exposures and instruments that we're digging into, because we care more not about the label, but about the economic exposure it's bringing to a multi-asset portfolio, and we don't want risk on rates duration. Let me give you an example: real estate, for example, by virtue of how it's financed, tends to be a long-duration asset. Yeah, there's a real component to it, but it tends to be a long-duration asset. It will succumb to a further backup in interest rates. Infrastructure, on the other hand, tends to be shorter duration and hedged to inflation. That seems like a very interesting and compelling place. Whether on the private side or public markets, infrastructure seems quite compelling with this backdrop and environment. And of course, aligning with this reflationary backdrop, commodities look quite interesting. Then we can go a level deeper and talk about alternative strategies, not just instruments and exposures, but how might we deploy strategies that align with this regime and this environment? And two come to mind. We run portfolios in both of these: discretionary global macro and trend-following strategies are both alternatives with long volatility profiles that can really complement a multi-asset portfolio and embed that diversification benefit. So there's a lot to play with in the alt space, whether we're talking about instruments or strategies, to incorporate them in a more meaningful way in multi-asset portfolios.

CHUCK JAFFE

Well, one of the things I believe SEI is known for is the Alternative Income Fund that I mentioned. That is, at least last time I looked, heavy on CLOs. And I'm curious, given the market conditions we have, where we've had this tremendous upside, and we've also seen rates changing, we haven't seen interval issues where we're looking at interval funds having too many problems of, you know, liquidity issues and people want to get their money out and all these other sorts of things. But we also haven't seen all of the benefits of, like, hey, you're locked in, you're going to have to ride with this thing. Are we getting to a market environment where we're going to be testing the mettle of interval funds, how they work, interval fund investors? Can they actually do this the right way? And also the instruments underlying it, because again, with that structure, you guys can take different risks, which CLOs and some of the things happening there would be.

NATHAN SHETTY

Yeah, that's right. Chuck, appreciate the question. I think a few things here. One, the liquidity of an interval fund should be based on the liquidity of its least liquid asset that it holds, and I think sometimes that's lost in translation. That's an important aspect, and they do serve an important role. Second, I mean, we are long-standing. Fifteen years we've been running CLO, particularly CLO equity. We're expert CLO investors. They serve an incredible role if thoughtfully built into multi-asset, multi-strategy portfolios. We don't see credit risk really developing in a way that reflects some of the pressures that we have seen in the more wealth- or retail-oriented private structures, and the desire to redeem or exit, whether it's concerns over valuations or wanting to retain additional liquidity, that's not reflective of the fundamentals. We don't think we're entering some credit cycle

where defaults are absolutely going to skyrocket. Now, what I will say is, it's incredibly important for the active manager to understand the names and the quality that exist. There is no question that there are businesses, and there's going to be CLO structures, that are going to succumb to, as we see it, this heightened and sustained level of higher interest rates. The reason being, if you financed your business with margins expecting all-in borrow costs of whatever, 5% or 6%, and now you're at 10% or 12% or 15% in terms of your overall financing rate because your base rate has ratcheted up, less robust businesses with less robust balance sheets could come under significant pressure. So doing the work, doing the credit analysis, is going to be critical to avoiding some of the defaults. But we're not seeing systemic risk embedded in the credit markets right now.

CHUCK JAFFE

OK, not much systemic risk, but we've got a market that is heightened in its sensitivities. And if what you described happens, we see some blowups in CLOs, that will have an industry impact, particularly in closed-end funds, where you start talking about discounts and what's trading at what kind of sentiment. And because we haven't had big default problems, even as we've watched interest rates rise and all the rest, it would be the first time in a while. So, when you're calling for "we're going to see some problems," are we going to see problems that, even though you say it's not systemic, it's not going to take many to make the market freak out? Is a freakout coming?

NATHAN SHETTY

Obviously, I don't know whether or not a freakout is coming. I don't think anybody can actually forecast whether or not a freakout is coming, but the fundamentals point to an underpinning of growth that's going to enable the music to continue to play, I would say. I think we saw an elevation in some default rates, and they've actually subsided again. We've actually gone through a bit of a blip in some credit concerns, and they have already abated. At some point in time, credit will face issues. At some point in time, risk assets will face issues. At some point in time, the capex cycle, which is absolutely on fire, will have to top off, and the growth that underpins all of this is going to subside. We just don't see it in the near term.

CHUCK JAFFE

You know, you talk about the growth that's underpinning everything. Obviously, as you are looking at some of the alternatives and some of the financing things, et cetera, you can pick industries, you can pick spaces that you want to be in. Right now, how close do you want to be to what's happening in AI? Like, are you "let's be doing the AI direct," "let's be AI-adjacent," "let's be AI infrastructure-supportive," or all of it?

NATHAN SHETTY

Love the question, Chuck. I'll say a key theme that we are looking toward is not anti-AI, but pro-productivity. And the way we're thinking about this from a sectoral standpoint is that those

companies, organizations, and sectors that have really built up the AI ecosystem, whether it's the picks and shovels or the models, so the software, the hardware, are specifically geared to the AI ecosystem. They've had to spend the money in order to develop this technology and ensure the proliferation of this technology. What we would argue is that this is a global, sector-agnostic technology that can benefit margins and productivity, whether it's in the healthcare space, even the energy space, services, goods space, you name it. There are potential benefits to the technology where many of those industries didn't have to spend the capex. Of course, there's an opex component to embedding the technology, but they didn't have to spend the capex to get it going. They are likely to be beneficiaries of continued margin expansion vis-a-vis productivity enhancement, and prices should start to reflect that. So this is to say that it's still an AI-themed trade. I mean, that is what is underpinning everything. But I think there are a multitude of sectors that aren't directly in the ecosystem that stand to benefit, i.e. catch up, from a pricing standpoint.

CHUCK JAFFE

Nate, really interesting stuff. I wish we had a little more time to chat. We'll just have to make time to have you back on The Navigator down the line. Thank you for joining me today.

NATHAN SHETTY

Thanks, Chuck.

The Navigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. Yes, I'm Chuck Jaffe. You can check out my show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more generally about interval funds, closed-end funds, and business development companies, check out AICAlliance.org, the website for the Active Investment Company Alliance. Thanks to my guest, Nathan Shetty, Chief Investment Officer at SEI. He oversees the team that, among other things, runs the SEI Alternative Income Fund, a non-listed closed-end interval fund. You can learn about the firm and everything it does at SEIC.com. The Navigator Podcast has something new for you every Friday, so make plans to join us again next week for more closed-end fund fun. Until then, happy investing, everybody.

Nathan Shetty is Chief Investment Officer at SEI and oversees the team that runs the SEI Alternative Income Fund. You can learn about the fund, the firm, and a lot more at SEIC.com. Visit AICAlliance.org for more on BDCs, closed-end funds, and interval funds.

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