Acadian Asset Management LLC
Emerging Markets Portfolio
First Quarter 2024

Performance

The Acadian Emerging Markets Portfolio returned 5.05% (net of fees) for the quarter, relative to a return of 2.44% for the MSCI Emerging Markets Equity Index.†

Commentary

Global equities ended Q1 on a strong note, up 10.1%, buoyed by optimism surrounding future rate cuts, stellar corporate earnings, and slowing inflation. However, challenges in China's real estate market and tensions in the Middle East weighed on the markets. Regarding monetary policy, all major central banks maintained their interest rates unchanged while suggesting potential rate cuts in June. Japanese equities stood out, outperforming global stocks, on a weak yen and the Bank of Japan's (BoJ's) surprising reversal of its negative monetary policy stance. However, investors were not convinced that the BOJ would keep hiking rates in the future, as the bank said it would continue its quantitative easing policy. Among the major markets, China's performance remained unimpressive, as the country struggled against an ailing property sector, high unemployment, and slowing factory output continued. Nonetheless, the government's recent stimulus measures to shore up the country's ailing economy did bring some relief to investors. Emerging markets lagged their developed counterparts, largely weighed down by China. Notable gains from Indian and Turkish stocks within that region contributed to overall emerging market gains.

Against this backdrop, the Acadian Emerging Markets Portfolio outperformed its benchmark† by 261 basis points for the quarter ending March 31, 2024.

At the country level, stock selection contributed to return, while country allocations were positive. Key sources of positive active return included stock selection in China, a combination of stock selection and an overweight position in Taiwan, a combination of stock selection and an underweight position in South Korea, as well as stock selection within Saudi Arabia and India. Detractors included a combination of stock selection and an overweight position in Thailand and stock selection in South Africa.

From a sector perspective, key sources of positive active return included a combination of stock selection and an overweight position in energy, stock selection in industrials, an underweight position in consumer staples, and stock selection within financials and communication services. Detractors included stock selection in information technology and consumer discretionary.

Outlook

The global economy surpassed growth expectations in 2023 withstanding several headwinds, such as high inflation and central banks' monetary tightening. The momentum continued in the first quarter of 2024 on strong labor markets, fiscal support in China, and cooling inflation. On the monetary policy front, major central banks held rates steady during the period.

The International Monetary Fund (IMF) believes that resilience in the U.S. and emerging market economies will drive global growth in the next two years. It expects the global economy to grow 3.1% in 2024 and 3.2% in 2025. With prices falling faster than expected in most regions, the global lending agency expects headline inflation to cool to 5.8% this year and to 4.4% in 2025.

On the upside, the likelihood of a hard landing has reduced due to disinflation and steady economic growth. Furthermore, as disinflation gains pace, financial conditions could ease further. However, a potential spike in commodity prices due to geopolitical uncertainties could prolong tighter monetary conditions. This may impact developed markets more because emerging markets started raising interest rates sooner and, thus, will likely have more room to cut rates to stimulate growth. The IMF expects growth in developed economies to slow to 1.4% in 2024 from 1.5% in 2023 due to the impact of monetary tightening, leaving a very small margin for policy error on the part of developed markets' central banks. In contrast, macroeconomic conditions for emerging markets have been improving marginally since end-2023, primarily due to resilient global growth and financial conditions easing. However, there is likely to be significant growth divergence across emerging-market economies. Growth is expected to moderate in countries that outperformed in 2023 – i.e., Brazil, Mexico, and India – due to the lagged effects of high interest rates and an eventual slowdown in the U.S. economy.

The U.S. Energy Information Agency (EIA) expects global demand for oil to grow in 2024, albeit at a slower pace. However, global oil production is likely to suffer due to OPEC+ extending crude oil production cuts, causing a significant reduction in oil inventories and increased oil prices. The EIA expects the Brent crude oil spot price to average $88 per barrel in the second quarter. Furthermore, persistent uncertainty due to attacks targeting commercial ships crossing the Red Sea shipping channel will likely lead to a further escalation in oil prices.

The OECD expects U.S. GDP to skirt a recession and grow 2.1% in 2024 due to cooling inflation and the much-anticipated interest rate cuts. On the monetary policy front, markets have priced in the first Fed rate cut in June. The Fed expects to cut rates thrice in the coming months.

The European Central Bank (ECB) believes that its monetary policy will result in a drop in growth, from 5.4% in 2023 to 2.3% in 2024. The ECB is expected to slash rates in June given the latest projections that show that inflation will hit the 2% target by 2025. The central bank also cut its growth forecast to 0.6% from 0.8% earlier. Meanwhile, the recession in the U.K. may last another quarter. However, the BoE signaled that rate cuts might be in the cards at the next meeting.

The Reserve Bank of Australia expects growth of the Australian economy to remain subdued in the near term as cost-of-living pressures and inflation continue to weigh on household consumption. However, the central bank is expected to cut its cash rate by 75bps in H2 2024.

The Bank of Japan ended its negative-rate era by hiking rates for the first time in two decades on expectations of hefty pay hikes following this year's annual wage negotiations. This is likely to boost demand and prices after years of economic stagnation.

China's economic woes are likely to continue in the near term, with its property-sector crisis and weak consumer demand keeping economic growth subdued. The IMF feels that in the absence of a proper policy response to its real estate crisis, China's GDP growth could drop to 3% in 2024.

India is likely to remain the fastest-growing economy in 2024, driven, the OECD believes, by an improved macroeconomic policy framework, strong investment in infrastructure, and steady gains in employment. It expects India's economy to grow 6.2% in 2024.

The IMF projects that the Brazilian economy will grow 1.7% in 2024 on strong domestic demand an expanding oil output.

The World Bank expects Indonesia's economic growth to ease slightly – from 3.7% in 2023 to 3.2% in 2024 – as commodity prices gradually fall. However, it believes that private consumption and business investment will continue to drive the country's economic growth.

Performance data quoted represents past performance. Past performance does not guarantee future results. Annualized performance as of March 31, 2024 is: 20.65% (1 Year); 5.56% (5 Years), and 4.28% (10 Years). The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Total expense ratio for the fund is 1.32%. Shareholders may pay a redemption fee of 2% when they redeem shares held for less than 90 days. For performance data current to the most recent month end, please call 1-866-AAM-6161. The fund's benchmark was changed March 1, 2012 to the MSCI Emerging Markets Index. Prior to that, the benchmark had been the IFC Investable Index.

Past performance is no guarantee of future performance and may differ significantly from future performance due to market volatility.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Mutual fund investing involves risk including loss of principal. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. The fund is non-diversified.

To determine if this fund is an appropriate investment for you, carefully consider the fund's objectives, risk factors, charges, and expenses before investing. This and other information can be found in the fund's full and summary prospectuses, which can be obtained by calling 1-866-AAM-6161. Please read the prospectus carefully before investing.

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