



Acadian Asset Management LLC Emerging Markets Portfolio

Second Quarter 2019 Fund Review

Investment Objective

The objective of the portfolio is to provide diversified exposure to emerging markets equities and achieve a return in excess of standard capitalization-weighted emerging markets indices.

Review and Outlook

Emerging markets equities softened this quarter against the backdrop of slowing growth, a relatively strong U.S. dollar and most notably, depressed global trade.

Chinese equities fell as domestic consumption appears insufficient to power the economy past its trade troubles with the U.S. and the connected decline in exports. While investors are encouraged by the prospect of renewed U.S.-China trade talks, evidence is piling up that the ongoing trade conflict is sapping both domestic demand and investor confidence.

Indian equities were relatively flat as markets grappled with the legitimacy of India's economic statistics and the central bank's credibility and autonomy from direct political control. Indian Prime Minister Narendra Modi's recent landslide victory engendered hopes that he will roll out an increasingly important reform agenda, though optimism is tempered with recollections of his mixed record of economic reform to date.

Conversely, Turkish equities reacted enthusiastically to the symbolic and pivotal defeat of President Erdogan's candidate for Istanbul mayor. This landmark result signifies a potential political rebalancing and the end to Erdogan's 25-year dominance of Turkey's economic capital even as he remains in power nationally.

In Latin America, Brazilian equities were relatively unscathed from the downgraded economic forecast and renewed fears of state interference in the economy. Despite a slew of negative news and scandal, the flagship pension reform plan remains in play and waiting on congressional approval. The reform is ultimately expected to restore confidence in Brazil's fiscal position and attract foreign investors. Mexican equities were dampened by President Trump's threats of tariffs on Mexican goods aimed at curbing illegal immigration. On a positive note, headway was made to ratify the U.S.-Mexico-Canada Trade Agreement.

Looking ahead, EM sentiment improved in response to the Fed and ECB's shift to a more accommodative stance. Still, weakening global trade and persistent financial strains from market tensions have impeded growth prospects. Trade fears have contributed to a strong U.S. dollar, keeping emerging market currencies under pressure, particularly in countries susceptible to currency fluctuations. June's G-20 meeting seems to have led to the resumption of bi-lateral trade discussions; however, it is unlikely that the U.S.-China trade dispute will end anytime soon.

Portfolio Structure

The portfolio was broadly invested across more than 20 emerging markets during the period with a continued focus on a combination of positive macro-economic market and industry attributes along with attractively valued stocks with improving earnings growth, sustainable cash generation and favorable price-based qualities. Entering the second quarter, key overweight positions included Brazil, Turkey, Korea, energy and materials stocks. Meanwhile, Taiwan, India, China, consumer discretionary and consumer staples were the portfolio's biggest underweight positions.

Over the quarter, the portfolio's overweight position in Korea grew larger. An overweight position in Brazil was pared but remained greater than the benchmark weight. An overweight position in Thailand shifted to an underweight position. Meanwhile, an underweight position in Taiwan was trimmed but remained below the benchmark weight.

Portfolio Performance

The portfolio returned +0.74% in U.S. dollars for the three months ending June 30, 2019. A standard emerging markets index, such as MSCI Emerging Markets*, had a USD return of +0.46% for the period.

The portfolio outperformed its benchmark. Country allocations drove outperformance as stock selection yielded neutral results. With regard to stock selection, the portfolio saw the strongest results in Brazil, Korea and South Africa. Stock selection in China, Taiwan, Thailand and Poland offset these gains. From a country allocation perspective, the portfolio benefitted most from overweight positions in Brazil and Turkey, along with a relatively smaller allocation to China. An underweight position in South Africa detracted from return. Sector allocations in aggregate yielded positive results owing largely to an underweight position in health care.

**Source of index returns: MSCI. Copyright 2019 MSCI.*

Performance data quoted represents past performance. Past performance does not guarantee future results. Annualized performance as of June 30, 2019 is: -0.55% (1 Year); 1.50% (5 Years), and 5.87% (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 1.40%. 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.

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.

The Acadian Emerging Markets Portfolio is distributed by SEI Investments Distribution Co, which is not affiliated with Acadian Asset Management LLC.