Acadian Asset Management LLC
Emerging Markets Portfolio
Second Quarter 2022

Performance

The Acadian Emerging Markets Portfolio returned -15.71% (net of fees) for the quarter, relative to a return of -11.45% for the MSCI Emerging Markets Equity Index (net).†

Commentary

Both developed and emerging markets declined in the second quarter. However, the MSCI Emerging Markets Equity Index (net) fell 8.07%, outperforming the MSCI World index which fell 14.33% over the same period. Historically high levels of inflation, further impacted by the prolonged Russia-Ukraine war and its impact on food and energy prices across the world, rattled world markets. Aggressive monetary tightening measures by central banks further stoked fears of a global decline. Both stocks and bonds fell as investors continued to price in future rate hikes and the ensuing risks of a recession. Anemic economic data from some major economies also dampened performance of global equities. Meanwhile, the International Monetary Fund (IMF) slashed its global growth forecast for this year by a full percentage point earlier in the quarter and is expected to revise it further downwards in the coming weeks. For emerging markets, the Chinese economy reemerged as a positive figure as COVID-19-influenced curbs were eased and factory activity improved.

Against this backdrop, the Acadian Emerging Markets Portfolio underperformed its benchmark† by 426 basis points for the quarter ending June 30, 2022.

Stock selection detracted from return, while country allocations were negative. Key sources of negative active return included a combination of stock selection and an underweight position in China, stock selection in India, and a combination of stock selection and an overweight position in Taiwan. Contributors included a combination of stock selection and an underweight position in the United Arab Emirates, stock selection in Indonesia, and an underweight position in the Philippines.

From a sector perspective, key sources of negative active return included a combination of stock selection and an underweight position in consumer discretionary, a combination of stock selection and an overweight position in materials, and a combination of stock selection and an underweight position in consumer staples. Contributors included a combination of stock selection and an overweight position in energy and stock selection in communication services.

Outlook

Rising inflation, the war in Ukraine, and recession fears have made for a season of anxiety, which looking ahead, do not seem to be abating. Many central banks are increasing rates in hopes of getting inflation under control. This comes with some risk, especially since global growth appears to be weakening. In Ukraine, it remains unclear when, how, or if a durable peace will be achieved. In addition to the human cost, this has also led to upheaval in the commodity markets and a dampening of economic growth. Six months ago, the OECD predicted that 2022 was on track for mid-4% global growth; now that figure is a less-buoyant 3%. The OECD cites the war in Ukraine and China's zero COVID policy as the primary causes for the dramatic reduction in expectations. Inflation, brought on by a range of factors, including supply-chain problems and surging commodity prices, has risen to levels not seen in years. There are signs of some relief here: commodity prices have retreated somewhat of late and data from the New York Fed tentatively suggests the global supply-chain pressures may have already peaked. In the U.S., inflation rose to 8.6%. In the euro zone, the inflation rate is 8.1%. Across the OECD as a whole, average inflation in April (the most recent month available) rose to 9.2%. Investors are left to wonder whether inflation can be subdued without inducing a recession.

Inflation and weakening growth have been prominent developments within emerging markets in the second quarter. The OECD now forecasts China growing at a 4.4% rate for 2022, down from its previous estimate of 5.1% growth. Other than the COVID year of 2020 itself, this would be China's weakest GDP figure since 1990. Primary causes of the slowdown are inadequate vaccination along with the country's zero COVID policy, which led to well-publicized lockdowns in major cities. The Chinese government did, however, recently shorten the length of quarantine for inbound travelers.

India's GDP for the 2022-23 fiscal year is expected to grow by 6.9%, and weaker global growth is expected to curb India's growth going forward. Inflation is a concern, having risen to 7.8%, and the Reserve Bank of India initiated rate hikes in May.

Economic growth in Brazil looks set to shrink to a barely positive 0.6% this year down from 5% the year before, according to the OECD. The country has a presidential election this October. Currently, the challenger, Lula, is out front and enjoys a double-digit lead over the incumbent, Bolsonaro. At issue will be whether Lula, if victorious, can bring back the robust and widespread growth of his previous tenure as president in 2003-10.

In Mexico, inflation currently stands at 7.9%, and the central bank increased rates in June by 75 bps to 7%, its eighth consecutive hike this cycle. Forecasts call for 2022 GDP growth of 1.9%. April's GDP report came in higher than expected, however, holding out hope for further strengthening ahead.

There is still uncertainty and volatility in emerging markets. However, for long term investors the next five to ten years could prove quite attractive for emerging economies, and we believe that an EM allocation should be part of a balanced portfolio. Acadian's systematic and fundamentally driven investment approach builds an attractively valued and well-diversified EM portfolio to deliver long term excess returns.

Performance data quoted represents past performance. Past performance does not guarantee future results. Annualized performance as of June 30, 2022 is: -22.54% (1 Year); 1.35% (5 Years), and 2.93% (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 1.33%. 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.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed 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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