Acadian Asset Management LLC
Emerging Markets Portfolio
Third Quarter 2022

Performance

The Acadian Emerging Markets Portfolio returned -13.45% (net of fees) for the quarter, relative to a return of -11.57% for the MSCI Emerging Markets Equity Index (net).†

Commentary

Both developed and emerging markets declined in the third quarter. In a familiar pattern, mounting inflation, rising COVID-19 cases in China, a surging U.S. dollar, and escalating trade concerns with Russia weighed on the global markets. Major central banks across the world hiked interest rates to curb inflation, despite fears that this could tip the global economy into a recession. In particular, the Fed continued its aggressive rate hiking, sending global markets into turmoil. As estimates for the Eurozone's inflation rate rose to 9.6% due to surging food and energy prices, the European Central Bank also raised its key interest rate by 75 bps. In addition, Russia halted gas flows to Germany via Nord Stream 1, further intensifying European energy concerns. Meanwhile, a slowdown in China's property sector and declining factory activity has weighed on its economic growth, impacting emerging markets.

Against this backdrop, the Acadian Emerging Markets Portfolio underperformed its benchmark† by 188 basis points for the quarter ending September 30, 2022.

At the country level, both stock selection and allocation effects detracted from active return. Key sources of negative active return included a combination of stock selection and an underweight position in India, a combination of stock selection and an overweight position in Poland, and stock selection in Saudi Arabia. Contributors included stock selection in China and Indonesia.

From a sector perspective, key sources of negative active return included a combination of stock selection and an underweight position in financials, stock selection 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, a combination of stock selection and an underweight position in real estate, and stock selection in information technology.

Outlook

After rallying to start the second half of the year, global stocks fell for much of September, as concerns over aggressive central bank tightening as well as ongoing geopolitical issues weighed on global growth expectations. The OECD noted that world economies are slowing more than it had previously anticipated. As of September, it estimated global GDP growth of 3% in 2022 and only 2.25% in 2023. In the U.S., the equity market's slide reflected growing resignation among investors that the Federal Reserve is unlikely to soften its hawkish stance until there is significant evidence that inflation is truly in check. The dollar has risen significantly as the Fed has rapidly pushed U.S. rates higher. That, combined with anxiety about a global slowdown, has caused commodity prices to fall. Oil, which had traded above $120 (WTI) as recently as June, retreated below $80 by quarter end. Russian oil continued to be purchased – at discounted prices – by China and India. The war in Ukraine continued to dominate geopolitical headlines. By quarter end, Russian President Vladimir Putin had announced a partial mobilization of Russian forces, which was soon followed by the annexation of four Ukrainian provinces. The two Nord Stream pipelines, which send natural gas from Russia to Germany, ruptured in late September. While neither pipeline was operational at the time, the mysterious event further underscored the fragility of Europe's energy security.

While the strong dollar weighed on emerging markets generally, EM economic conditions remained heterogeneous. China's softness looks set to continue, whereas economic activity in India and in oil-producing states held strong.

Specifically, in China, the OECD lowered its 2022 growth forecast from 4.4% in June to 3.2% in September, a consequence of the Covid lockdowns and turmoil in the country's property market. While the OECD foresees growth rebounding somewhat in 2023, to 4.7%, that figure remains weak in the context of the country's recent history. With the exception of 2020, China has not seen growth fall below 6% since 1990. China also prepared for its October 2022 Communist Party Congress, set to reaffirm President Xi Jinping's hold on power.

In India, the Reserve Bank raised rates in a bid to tamp down inflation, which lingered around 7% in August. The OECD forecasts 2022 GDP growth to come in at 6.9%, falling to 5.7% in 2023. Growth in India has mostly landed in roughly the 4-8% range for the last several decades. In the quarter, India overtook the U.K. to become the world's fifth-largest economy.

Oil producers continue to benefit from the pricing environment that has prevailed since the beginning of the war in Ukraine. Thanks largely to strength in the oil sector, Saudi Arabia looks set to grow at 9.9% this year, the OECD said. This would be among the fastest rates in the world at present. The Saudi government says that it does not intend to let increased oil revenues lead to largesse in spending. Strong 2022 growth is also forecast for Kuwait, which, at 8.2% per the IMF, would make this year its strongest in more than a decade.

In Brazil, inflation fell below 10% in August for the first time this year. The presidential election went into a runoff between the incumbent, Bolsonaro, and the challenger, Lula. The result was something of a surprise, with Bolsonaro outperforming expectations. The runoff may force both contenders to offer more concrete economic proposals than they have done heretofore.

Performance data quoted represents past performance. Past performance does not guarantee future results. Annualized performance as of September 30, 2022 is: -28.62% (1 Year); -3.01% (5 Years), and 0.75% (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.

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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