Acadian Asset Management LLC
Emerging Markets Portfolio
First Quarter 2023

Performance

The Acadian Emerging Markets Portfolio returned 6.77% (net of fees) for the quarter, relative to a return of 4.02% for the MSCI Emerging Markets Equity Index (net).†

Commentary

Both developed and emerging markets outperformed in the first quarter. Although energy and food prices eased, the central banks kept raising rates as inflation remained well above their target rate. Geopolitical tensions persisted, with no end in sight to the Russia-Ukraine war and the U.S.-China tensions continuing after the 'spy balloon' controversy. The reopening of the Chinese economy boosted the global markets. Markets remained resilient amid weak economic forecasts and the current banking turmoil. Stocks gained due to ebbing fears of inflation and falling energy prices across the globe. There was some financial turbulence after Silicon Valley Bank (SVB) was shut down by the California Department of Financial Protection and Innovation. Losses from the realization of interest rate risks related to securities held by SVB rattled the markets. The Swiss government brokered the rescue of Credit Suisse by UBS. Timely intervention of the US government and the Fed to resolve the banking crisis boosted investors' confidence. Inflation in Eurozone eased on declining energy prices. Fears that high prices might force the European Central Bank (ECB) to continue hiking rates, weigh on the sentiments.

Against this backdrop, the Acadian Emerging Markets Portfolio outperformed its benchmark† by 275 basis points for the quarter ending March 31, 2023.

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

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

Outlook

The Federal Reserve raised rates by 25 basis points at its March meeting. Fed Chair Jerome Powell observed in his remarks that the unrest in U.S. banks is likely to tighten conditions on its own. As a group, Fed members currently project one further quarter point rate hike this year. Inflation in the U.S. is expected to fall to 2.5% in 2024. According to the Bureau of Labor Statistics, the consumer price index in the U.S. was up 6.0% YOY in February, the smallest such increase since September 2021.

The European Central Bank raised rates by 50 basis points in March, as it strove to keep inflation in check, despite the struggles at Credit Suisse. Europe's energy supplies remain adequate for now, thanks to the mild winter and expanded liquified natural gas storage. Preparation for next winter still presents a challenge, though, as the weather may be less mild, and a reopened China may mean greater competition for LNG. GDP growth in the euro area is predicted to fall from last year's 3.5% to 0.8% this year and a mere 0.3% in powerhouse Germany.

The OECD foresees U.K. GDP growth falling to -0.2% this year and inflation dropping to 6.7% for the year.

In Japan, GDP is forecast by the OECD to rise by 1.4% this year from 1% last year. Inflation is due to hold steady this year at 2.5%. Kazuo Ueda, an academic economist, will take over leadership of the Bank of Japan in April. Ueda told the Japanese Diet that he planned to continue monetary easing until 2% inflation is sustainably achieved.

In China, GDP growth is due to rise to 5.3% this year after a relatively weak 3.0% in 2022. The country's reopening continues apace, with a late-2022 surge in COVID cases coming to an end in January. China has dropped its COVID-era restrictions on foreign tourists as of this March.

In India, GDP is expected to fall from 6.9% last year to 5.9% this year. This would nonetheless be the highest figure among major economies. The UN projects that India will overtake China in population this year. The median age in India is now 28, whereas that in China is 39.

Elsewhere in emerging markets, the Brazilian central bank's series of rate hikes—which brought interest rates of nearly 14%—has succeeded in lowering inflation substantially, from 9.3% last year to an expected 5.4% this year. In Saudi Arabia, growth is due to moderate from last year's scorching 8.7% to 2.6%.

Apart from outliers such as Argentina (85%) and Turkey (44.6%), inflation in most emerging market countries is projected to remain at levels broadly consistent with those of the developed world. Indeed, in China, prices are set to rise a mere 2.2% this year.

Performance data quoted represents past performance. Past performance does not guarantee future results. Annualized performance as of March 31, 2023 is: -12.64% (1 Year); -1.08% (5 Years), and 1.74% (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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