Acadian Asset Management LLC
Emerging Markets Portfolio
Second Quarter 2023

Performance

The Acadian Emerging Markets Portfolio returned 5.00% (net of fees) for the quarter, relative to a return of 1.04% for the MSCI Emerging Markets Equity Index.†

Commentary

Global equities ended the quarter with a gain of 7.1%, after posting slightly positive returns in April, selling off in May, and rallying in June, as inflation fears ultimately diminished with the fall of global energy prices. However, while global inflation cooled somewhat, core inflation remained sticky, causing most major developed markets' central banks to maintain their hawkish stances. Japanese equities have been a standout within developed markets as the economy benefits from their central bank's quantitative easing. Global markets were further impacted by the debt ceiling impasse in the U.S. which kept investors on the side-lines for most of May. Chinese equities exerted a downward pressure on emerging market returns. However, in June, they experienced a significant rally due to the anticipation of additional economic stimulus. Investors observed that several emerging market economies performed better than anticipated, and the decline in inflation has placed emerging market central banks in a relatively advantageous position compared to their counterparts in developed markets.

Against this backdrop, the Acadian Emerging Markets Portfolio outperformed its benchmark† by 396 basis points for the quarter ending June 30, 2023.

At the country level, stock selection contributed to relative return, as did country allocation effects marginally. Key sources of positive active return included stock selection in China, a combination of stock selection and an overweight position in Taiwan, and an overweight position in Hungary. Detractors included stock selections in both South Korea and Indonesia, as well as an underweight position in Mexico.

From a sector perspective, key sources of positive active return included a combination of stock selection and an overweight position in information technology, a grouping of stock selection and an overweight position in energy, and a combination of stock selection and an overweight position in industrials. An underweight position in financials detracted from active return.

†Source of index returns: MSCI. Copyright 2023 MSCI.

Outlook

Policymakers continue to face a stiff challenge of restoring price stability without kneecapping economic growth. Inflation rates have come down, but in many regions they remain well above central banks' target levels. The OECD forecasts below-trend global growth of 2.7% in 2023, followed by 2.9% in 2024. The euro area has slipped into recession, partly due to high food and energy costs. Commodity prices have been falling, and that should also help in the fight against inflation. Particularly, energy prices have declined significantly in recent months, with Brent crude trading at $74 currently, down from $86 at the start of the year (and $122 last June). The composition of inflation may be decisive in the months ahead.

In the U.S., the OECD forecasts GDP to rise by 1.6% in 2023. The headline inflation rate fell to 4% in May, down from a peak above 9% in mid-2022. At its June meeting, the Federal Reserve paused its long series of rate hikes but indicated further increases may be in store. While leading economic indicators and an inverted yield curve may suggest a slowdown ahead, employment remains robust for now.

GDP growth in the euro area looks set to fall to 0.9% for 2023. Though energy prices have come down, the euro area remains vulnerable to further energy shocks. Eurostat, the European Commission's statistics agency, said that GDP in the euro area contracted by -0.1% in Q4 2022 and by the same amount in Q1 2023, indicating a technical recession has begun. High energy costs associated with the Ukraine war are a likely culprit.

Inflation is proving particularly sticky in the U.K., coming in at 8.7% in May, unchanged from the month before. In response, the Bank of England raised rates in June by 50 basis points.

Japan recorded better-than-expected GDP growth in Q1 of 2.7%. This was particularly noteworthy in as much as the nation narrowly avoided a recession late last year. After a negative Q3, Japan had grown by a mere 0.1% in Q4 2022.

China has lifted COVID restrictions, but the economy remains muted. Softness in the housing market together with weak consumer spending are among the causes. The central bank cut rates in June, in a bid to spur activity. Still, the OECD expects China's GDP to rise 5.4% in 2023.

In India, GDP growth should decline to 6% this fiscal year before rebounding to 7% in FY 2024-25. Inflation has dropped to 4.3% in May, down from a high of 7.8% in April 2022.

Brazil's GDP growth is due to decline to 1.7% this year. Inflation in the country sank to 3.9% in May 2023, down from 9.8% in June 2022. The central bank's policy rate currently stands at 13.75%. President Lula, calling for lower rates, said it is "irrational" that rates are so far above the level of inflation.

In Turkey, voters elected President Erdogan to serve another term. Inflation is somewhat in retreat, having dropped to 39% from a peak of 85.5% late last year. The central bank, led by a new governor, raised rates in June from 8.5% to 15%. Low rates had long been a key element in Erdogan's agenda.

Performance data quoted represents past performance. Past performance does not guarantee future results. Annualized performance as of June 30, 2023 is: 8.82% (1 Year); 2.46% (5 Years), and 3.32% (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 1.49%. 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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