



Acadian Asset Management LLC

Emerging Markets Portfolio

Fourth Quarter 2023

Performance

The Acadian Emerging Markets Portfolio returned 8.22% (net of fees) for the quarter, relative to a return of 7.93% for the MSCI Emerging Markets Equity Index.[†]

Commentary

Global equities rallied 9.8% in Q4. Markets began the quarter weighed down by deteriorating business conditions, challenges in China's property market, and escalating geopolitical tensions in the Middle East but register impressive gains in November and December on the back of softer inflation data, declining crude oil prices, and higher expectations of rate cuts by central banks. Most major central banks halted their rate-hiking sprees, convinced that their monetary tightening was finally yielding the desired results – slowing inflation and cooling job markets. The U.S. Federal Reserve signaled that it would cut borrowing rates three times in 2024. Investors, however, priced the Fed cutting six times (or 150bps) starting in March of 2024, boosting market gains. Emerging markets lagged their developed counterparts due to China's underperformance during the period. China continued to struggle with an ailing property sector, high unemployment, slowing factory output, and deflation.

Against this backdrop, the Acadian Emerging Markets Portfolio outperformed its benchmark[†] by 29 basis points for the quarter ending December 31, 2023.

At the country level, stock selection contributed to return, while country allocations were negative. Key sources of positive active return included stock selection in both India and China. However, an overweight to China erased some of its gains. A combination of stock selection and an overweight position in Taiwan also contributed. Detractors included a combination of stock selection and an underweight position in South Korea, a combination of stock selection and an overweight position in Indonesia, and a combination of stock selection and an underweight position in Brazil.

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

[†]Source of index returns: MSCI. Copyright 2024 MSCI



Outlook

The global economy demonstrated resilience in the second half of 2023, despite high inflation and monetary tightening by the central banks. Toward the end of the year, cooling inflation and signs that the central banks were done with their rate-hike spree boosted sentiment across global economies and markets. The OECD expects global growth of 2.9% in 2023 before weakening to 2.7% in 2024, due to high interest rates. The intergovernmental organization believes that global growth will remain highly dependent on fast growing Asian economies. As inflation abates further and real income strengthens, the OECD expects the world economy to grow 3% in 2025.

The OECD expects headline inflation to return to levels consistent with most central banks' targets by the end of 2025 provided there are no further large shocks to food and energy prices. The annual headline inflation is likely to gradually fall to 5.2% and 3.8% in 2024 and 2025, respectively, from 7.0% in 2023.

On the downside, high interest rates and price pressures may take a toll on global economic activity. Developed economies, particularly, are likely to suffer the most from the lingering impacts of high interest rates in 2024. This is partly because emerging markets started raising interest rates sooner and, thus, will likely have more room to cut rates to stimulate growth. The International Monetary Fund (IMF) expects developed economies' growth to slow to 1.5% in 2023 and 1.4% in 2024 from 2.6% in 2022, due to the impact of monetary tightening, leaving very small margin for policy error from the developed markets' central banks. Emerging market and developing economies, on the other hand, are projected to witness a modest decline in GDP growth to 4% in both 2023 and 2024 from 4.1% in 2022.

The U.S. Energy Information Agency expects the global demand for oil to grow at a slower pace in 2024. It expects demand to rise by 1.3 million barrels per day next year, slightly lower than the expected 1.8 million barrels per day in 2023. Furthermore, the production of US crude will likely continue to boom in 2024, making up for the expected production cuts by the OPEC.

The OECD expects GDP growth in the U.S. to reach 2.4% in 2023 before slowing to 1.7% in 2024 as policy tightening takes effect. It expects the U.S. economy to skirt a recession in 2024, pointing to a soft landing. On the monetary policy front, the Fed left key rates unchanged at its last meeting and hinted at a possible dovish pivot in 2024, with rate cuts on the horizon.

Growth in the euro area, which had been impacted by energy price shocks and the Russia-Ukraine conflict, is projected at 0.6% in 2023 before slightly improving to 0.9% in 2024. The ECB believes that its monetary policy will lead to a fall in headline inflation from 5.4% in 2023 to 2.7% in 2024 and 2.1% in 2025 before reaching 1.9% in 2026. The central bank may implement its first rate cut in June 2024 if wage data shows moderation. Meanwhile, the IMF forecast that U.K. GDP will grow 0.6% in 2024.

The RBA expects growth in the Australian economy to remain below the trend over 2023 and 2024, as cost of living pressures and higher interest rates continue to weigh on household consumption. The central bank is expected to slash its cash rate by 75 bps in H2 2024.

The Bank of Japan (BOJ) left rates unchanged at -0.1% at its December meeting and stated that it would continue its yield curve control policy. The BOJ has yet to raise rates this cycle, despite higher inflation than the 2% target. Yet there is speculation by markets that the BOJ will adjust their yield curve control policy in the first half of 2024.

The OECD expects China's economy to grow 5.2% in 2023 before falling to 4.7% in 2024 and 4.2% in 2025 (both below China's target of 5% growth), due to the ongoing stress in the real estate sector and continued high household saving rates. A sluggish housing market, weak consumer confidence, lack of



policy measures by the Chinese government to shore up the economy will remain as the top downside risks in 2024.

India continues to be the fastest-growing economy in 2023 and economic forecasters expect that to continue in 2024. The OECD believes that slowing inflation, improving purchasing power, surging services exports, and public investment will continue to drive the economy in 2024. It expects India's economy to grow 7.2% in 2023 and 6.3% in 2024.

The Central Bank of Brazil projects that the Brazilian economy will grow 1.52% in 2024. It expects inflation at 4.46% in 2023 and 3.93% in 2024, improving from the current 4.68% and ahead of the National Monetary Council's targets of 3.25% in 2023 and 3% next year.

Indonesia's economy has remained largely resilient in 2023 on slowing inflation. The World Bank, however, projects that its economic growth will ease slightly from 3.7% in 2023 to 3.2% in 2024 as the commodity boom loses steam gradually. It believes that private consumption and business investments will continue to drive the country's economic growth.

Performance data quoted represents past performance. Past performance does not guarantee future results. Annualized performance as of December 31, 2023 is: 22.62% (1 Year); 6.40% (5 Years), and 3.66% (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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