Alternative Income

ACADIAN DEFENSIVE INCOME FUND - CLASS A

MARCH 2024

Acadian Defensive Income Fund - Class A seeks to provide investment returns in excess of the Reserve Bank of Australia (RBA) cash rate over rolling three-year periods before fees and taxes, with a relatively low degree of volatility. This will be achieved by combining cash and fixed interest investments with long and short equity holdings chosen using Acadian Australia's equity investment process. Sophisticated portfolio construction techniques will be used to implement this in a way that limits equity market exposure.

APIR Code	FSF0973AU
Inception Date	19 December 2008
Management Cost	0.45%
Buy / Sell spread	0.1 / 0.1%
Exit Unit Price	0.9409
Product Size	$93 million
Benchmark	RBA Cash Rate

PERFORMANCE

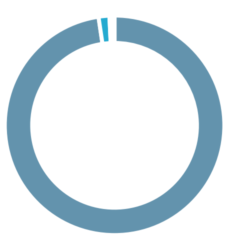
	FUND (GROSS)	FUND (NAV)	BENCHMARK	VALUE-ADDED VS. BENCHMARK
One-Month Return	0.9	0.8	0.4	0.5
Three-Month Return	2.4	2.2	1.1	1.1
Year-to-Date Return	2.4	2.2	1.1	1.1
One Year Annualized Return	6.3	5.7	4.1	1.5
Three Year Annualized Return	4.4	3.8	2.1	1.7
Five Year Annualized Return	2.9	2.3	1.5	0.8
Ten Year Annualized Return	2.9	2.2	1.6	0.5
SINCE INCEPTION ANNUALIZED RETURN	3.9	3.2	2.5	0.7

TOP TEN HOLDINGS

	% OF PORTFOLIO
GOODMAN GROUP	1.0
XERO LTD	1.0
A2 MILK CO LTD	0.9
BRAMBLES LTD	0.9
AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	0.9
VIVA ENERGY GROUP LTD	0.9
SEVEN GROUP HOLDINGS LTD	0.9
SCENTRE GROUP	0.9
VENTIA SERVICES GROUP PTY LTD	0.9
WEBJET LTD	0.9
NUMBER OF SECURITIES	193
% OF PORTFOLIO FOR TOP 10 CURRENT HOLDINGS	9.3
% OF NON-BENCHMARK PORTFOLIO HOLDINGS	6.0

CURRENT POSITIONING - REGION

% OF GROSS EXPOSURE



AU/NZ	97.7%
NAM	1.6%
EUR	0.5%
UK	0.3%

CURRENT POSITIONING - SECTOR

% OF GROSS EXPOSURE

FIN	16.2%
MAT	15.0%
IND	14.2%
REI	13.6%
DIS	12.9%
HTH	6.6%
STP	6.0%
COM	5.9%
TCH	4.6%
ENR	4.1%
UTL	0.8%

ACADIAN DEFENSIVE INCOME FUND - CLASS A

QUARTERLY REVIEW

Fund Performance and Activity

The Fund's market neutral component contributed 1.88% to returns for the quarter. Long positions contributed 5.69%, while short positions detracted 3.81%. Key sources of positive returns included long exposures to consumer discretionary and financials. Detractors included short exposures to financials and information technology.

The Fund's cash position contributed 0.17% to returns for the quarter.

Key Holdings[1]:

Positive:

Our long exposure to The a2 Milk Company Ltd was rewarded with 40 basis points of active return as share prices rallied 45.2% in the period. The company continues to benefit from the strong performance of its infant milk formula label, particularly in China. It now expects its full-year revenue for the current year to grow marginally from 2023.

Negative:

Our short exposure to Lovisa Holdings Ltd, a retailer of fashion jewelry and accessories, cost the fund 35 basis points of active return as share prices rallied 46.2% in the period. The company has been benefiting from solid sales and profit growth and continued store expansion across the world.

Market Review

Australian equities (S&P/ASX 300 Accumulation Index) rallied 5.4% in Q1 2024 due to cooling inflation, hopes of a soft landing by the global economy and indications of rate cuts by major central banks. The Reserve Bank of Australia (RBA) held the rate steady at 4.35% throughout the period, due to easing inflation and signs that economic growth had slowed drastically, on high borrowing costs. The central bank acknowledged that while the CPI has continued to decline, progress has been slower than expected. Economists believe that the RBA will wait for further signs that inflation is cooling before cutting rates in the latter half of the year. While inflation remains above the RBA's target, the apex bank is confident that it will return to 2-3% range by 2025. While goods price inflation had softened during the period, strong domestic demand and cost pressures kept service inflation consistently high. Australia's manufacturing-sector woes continued in the first quarter, with the manufacturing PMI declining to 47.3 by the end of the quarter due to a sharp decline in output, high interest rates and declining export orders. Consumer confidence also remained low amid concerns about the near-term outlook for the economy. Fuel prices remained high, and household savings remained under pressure, due to high borrowing costs. On the labour-market front, data released in February showed that unemployment fell to its lowest level since September 2023, decreasing to 3.7%.

From a sector perspective, information technology (+23.6%) was the largest contributor, and real estate (+16.2%) the second largest. Materials stocks (-6.3%) fell the most during the period.

Market Outlook and Strategy

The global economy surpassed growth expectations in 2023 withstanding a number of headwinds, such as high inflation and central banks' monetary tightening. The momentum continued in the first quarter of 2024 on strong labor markets and cooling inflation.

The International Monetary Fund (IMF) believes that resilience in the U.S. and emerging market economies will drive global growth in the next two years. It expects the global economy to grow 3.1% in 2024 and 3.2% in 2025. With prices falling faster than expected in most regions, the global lending agency expects headline inflation to cool to 5.8% this year and to 4.4% in 2025.

On the upside, the likelihood of a hard landing has reduced due to disinflation and steady economic growth. Furthermore, as disinflation gains pace, financial conditions could ease further. However, a potential spike in commodity prices due to geopolitical uncertainties could prolong tighter monetary conditions. This may impact developed markets more as emerging markets started raising interest rates sooner and, thus, will likely have more room to cut rates to stimulate growth. The IMF expects growth in developed economies to slow to 1.4% in 2024 from 1.5% in 2023 due to the impact of monetary tightening, leaving a very small margin for policy error on the part of developed markets' central banks. In contrast, macroeconomic conditions for emerging markets have been improving marginally since end-2023, primarily due to resilient global growth and financial conditions easing. However, there is likely to be significant growth divergence across emerging-market economies. Growth is expected to moderate in countries that outperformed in 2023 – i.e., Brazil, Mexico, and India – due to the lagged effects of high interest rates and an eventual slowdown in the U.S. economy.

The U.S. Energy Information Agency (EIA) expects global demand for oil to grow in 2024, albeit at a slower pace. However, global oil production is likely to suffer due to OPEC+ extending crude oil production cuts, causing a significant reduction in oil inventories thus increasing oil prices. The EIA expects the Brent crude oil spot price to average $88 per barrel in the second quarter. Furthermore, persistent uncertainty due to attacks targeting commercial ships crossing the Red Sea shipping channel could also lead to further escalation in oil prices.

Meanwhile, the Reserve Bank of Australia expects growth within the Australian economy to remain subdued in the near term as cost-of-living pressures and inflation continue to weigh on household consumption. However, consensus estimates are forecasting the RBA to cut its cash rate by 75bps in H2 2024.

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[1]Top contributing/detracting individual positions over the period as measured by basis point impact. This should not be considered a recommendation to buy or sell any specific security.

WANT MORE INFORMATION?

If you are a Financial Adviser or Wholesale Client:

Please contact Mark Mukundan, SVP, Director, Wholesale Markets – 0411 615 685 or contact Acadian on (02) 9093 1000 or email us at australiaclientservice@acadian-asset.com

If you are a Personal Investor or Retail Client:

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