



Acadian Asset Management LLC

Emerging Markets Portfolio

Second Quarter 2024

Performance

The Acadian Emerging Markets Portfolio returned 7.12% (net of fees) for the quarter, relative to a return of 5.12% for the MSCI Emerging Markets Equity Index.[†]

Commentary

Momentum from the first quarter continued into the second as global equities grew 3.0%. Concerns over inflation and interest rates eased. However, persistently tight labor markets kept core inflation stubbornly high, influencing market participants to price in fewer rate cuts than previously expected. In terms of monetary policy, the major central banks opted to hold rates steady during the period, except for the European Central Bank, which slashed rates for the first time in five years. In other major markets, policy support from the Chinese government to stabilize the country's struggling property sector led to gains for Chinese stocks. Despite the lackluster showing by Latin American markets, emerging markets as a group outperformed their developed counterparts due to strong performance across many Asian equities. Regional outperformance by Chinese, Indian, and Turkish stocks supported gains.

Against this backdrop, the Acadian Emerging Markets Portfolio outperformed its benchmark[†] by 200 basis points for the quarter ending June 30, 2024.

At the country level, both stock selection and allocation effects contributed positively to portfolio returns. 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 both South Korea and Mexico. Detractors included a combination of stock selection and an underweight position in South Africa, an overweight position in Thailand, and a combination of stock selection and an underweight position in Turkey.

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

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



Outlook

The global economy ended the first quarter of 2024 on a strong note, buoyed by optimism surrounding future rate cuts, excellent corporate earnings, and slowing inflation. The momentum continued into the second quarter as concerns around inflation and interest rates eased. Major central banks opted to hold rates steady during the period, except for the European Central Bank (ECB), which slashed rates for the first time in five years. China's government introduced new stimulus measures aimed at stabilizing its struggling property sector, sparking renewed optimism for an economic recovery.

The International Monetary Fund believes the global economy will remain resilient, with growth holding steady as headline inflation starts returning to target. The global lending agency estimates headline inflation to cool to 5.9% this year and 4.5% in 2025, driven by lower energy prices and continued easing of supply chain pressures. It believes inflation in advanced economies will return to their targets sooner than emerging markets. Meanwhile, core inflation is projected to decline more gradually. In terms of economic growth, it expects the global economy to grow at 3.2% in 2024 and 2025.

The IMF believes that the likelihood of a hard landing has reduced amid disinflation and steady economic growth. Furthermore, as disinflation gains pace, financial conditions could ease further. Meanwhile, 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.

The U.S. Energy Information Agency (EIA) expects global demand for oil to grow in 2024, albeit at a slow pace. However, global oil production is likely to suffer due to OPEC+ extending production cuts, causing a significant reduction in oil inventories and increased oil prices. The EIA expects the Brent crude oil spot price to average \$83.25 per barrel in the third quarter, and persistent uncertainty due to geopolitical tensions will likely lead to further hikes in oil prices.

The OECD expects U.S. GDP to grow 2.6% in 2024 as cooling inflation eases monetary policy conditions. The Federal Reserve is expected to start slashing rates by the end of this year as inflation slows to target. American businesses will continue to reel from high capital costs, which will likely limit capital expenditure and increase unemployment.

Growth in the euro area is expected to increase slightly, to 0.7%, in 2024 as energy prices ease, permitting disinflation to continue. Inflation is expected to return to the 2% target by mid-2025, allowing the ECB to slash rates every quarter until the deposit rate bottoms out by the third quarter of the next year. In the U.K., energy, food, and core goods prices will continue to weaken; however, there are no signs of a slowdown in services sector inflation. This is likely to push inflation high again in the second half of the year. On the policy front, several experts estimate that the Bank of England will slash rates in August.

The Reserve Bank of Australia expects the growth of the Australian economy to remain subdued in the near term as restrictive interest rates amid high cost of living continue to weigh on household consumption. The central bank believes that the process of bringing inflation to target is not likely to be smooth, as rate hikes have not had much impact in curbing prices.

Japan's GDP is expected to slow in 2024 as high inflation weighs on consumption and real incomes. Meanwhile, business optimism remains high as the capital investment plans of the country's large manufacturers have been revised higher by 11.1%, building a case for the Bank of Japan to hike rates once again in the third quarter. This is likely to boost demand and prices after years of economic stagnation.



China's economic woes are likely to continue in the near term, with its property-sector crisis and weak consumer demand keeping economic growth subdued. The IMF feels that in the absence of a proper policy response to its real estate crisis, China's GDP growth could drop to 3% in 2024.

India is likely to remain the fastest-growing economy in 2024, driven, the OECD believes, by an improved macroeconomic policy framework, strong investment in infrastructure, and steady gains in employment. It expects India's economy to grow 6.2% in 2024.

The IMF projects that the Brazilian economy will grow 1.7% in 2024 on strong domestic demand and expanding oil output.

Performance data quoted represents past performance. Past performance does not guarantee future results. Annualized performance as of June 30, 2024 is: 23.09% (1 Year); 6.93% (5 Years), and 4.18% (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 1.32%. 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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