Alternative Income

Responsible Investment Leader 2024

ACADIAN DEFENSIVE INCOME FUND - CLASS A

DECEMBER 2024

The 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	0.46%
Buy / Sell spread	0.10%
Exit Unit Price	0.9941
Product Size	$144 million
Benchmark	RBA Cash Rate

PERFORMANCE

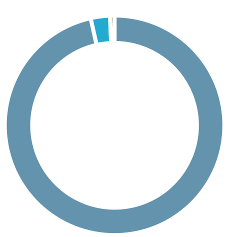
	FUND (GROSS)	FUND (NAV)	BENCHMARK	VALUE-ADDED VS. BENCHMARK
One-Month Return	0.9	0.9	0.4	0.5
Three-Month Return	4.3	4.2	1.1	3.1
Year-to-Date Return	13.9	13.3	4.4	8.9
One Year Annualized Return	13.9	13.3	4.4	8.9
Three Year Annualized Return	8.1	7.5	3.2	4.3
Five Year Annualized Return	4.9	4.3	2.0	2.3
Ten Year Annualized Return	3.7	3.1	1.8	1.3
SINCE INCEPTION ANNUALIZED RETURN	4.4	3.7	2.6	1.1

TOP TEN HOLDINGS

	% OF PORTFOLIO
COMPUTERSHARE LTD	1.0
COLES GROUP LTD	1.0
TECHNOLOGY ONE LTD	1.0
PRO MEDICUS LTD	1.0
ARISTOCRAT LEISURE LTD	1.0
NEWS CORPORATION	1.0
JB HI-FI LTD	1.0
QUBE HOLDINGS LTD	1.0
BENDIGO AND ADELAIDE BANK LTD.	1.0
BRAMBLES LTD	1.0
NUMBER OF SECURITIES	300
% OF PORTFOLIO FOR TOP 10 CURRENT HOLDINGS	9.8
% OF NON-BENCHMARK PORTFOLIO HOLDINGS	12.0

CURRENT POSITIONING - REGION

% OF GROSS EXPOSURE



AU/NZ	95.9%
NAM	2.8%
EUR	0.7%

CURRENT POSITIONING - SECTOR

% OF GROSS EXPOSURE

FIN	15.7%
IND	14.3%
DIS	14.2%
MAT	13.3%
REI	10.8%
HTH	7.1%
STP	6.6%
COM	6.6%
ENR	5.7%
TCH	4.7%
UTL	1.2%

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QUARTERLY REVIEW

Fund Performance and Activity

The portfolio outperformed its benchmark, the RBA Cash Rate, by 3.1% for the quarter ending December 31, 2024. The Fund's market neutral component contributed 3.83% to returns for the quarter. Long positions contributed 0.74%, while short positions contributed 3.09%. Key sources of positive returns included exposures to real estate and materials.

The Fund's cash position contributed 0.35% to returns for the quarter.

Key Holdings[1]:

Positive:

Our long exposure to Pro Medicus Ltd., an Australia-based healthcare informatics company, was rewarded with 37 basis points of active return as share prices rose 45% over the quarter. The company continues to benefit from new contracts and a strong project pipeline. Pro Medicus signed nine new contracts over the last year with a combined minimum total contract value of $245 million. Additionally, strong revenue growth in North America remains a key tailwind for the stock.

Negative:

Our short exposure Arcadium Lithium plc, a producer of lithium chemicals products, cost the portfolio 53 basis points of active return as share prices rallied more than 100% in the period. The company's shares have been rallying on news of its potential takeover by Rio Tinto. A successful merger of the two companies could boost Arcadium's ability to supply the lithiuma material which has become extremely crucial in the race for dominance in the EV and renewable energy industries.

Market Review

Australian equities (S&P/ASX 300 Accumulation Index) fell 0.8% in Q4 2024 to end an otherwise exceptional year on a low, as high interest rates and geopolitical tensions took a toll on the Australian economy. However, tax deregulation prospects following the US elections in November offered some support to the market.

While the US Federal Reserve (Fed) slashed rates twice in the quarter, the Reserve Bank of Australia (RBA) left rates unchanged, as inflation, although cooling, remained above its target. The RBA decided to leave the cash rate on hold at 4.35% during the last meeting, a level it has been at since November 2023. However, the RBA took a more dovish stance in the accompanying statement, given the weak economic activity and slowing inflation. This softening in the RBA's tone resulted in markets pricing in a rate cut in February 2025. The RBA believes that its restrictive monetary policy was working as anticipated, with inflation cooling to the target level. The central bank expects growth in household consumption to increase with the rise in income growth.

Australia's consumer confidence fell 2% by the end of the quarter before settling at 92.8 points in December, reversing the positive momentum from the previous months. Consumers' outlook on the Australian economy remained bleak after GDP growth weakened in Q3, sparking fears of job losses amid inflationary concerns. Meanwhile, views on economic conditions for the next 12 months slipped to 91.2, while unemployment expectations rose by the end of the quarter. Despite the overall pessimism, consumers remained confident about the current conditions of the economy, highlighting that the economy has remained in better shape vs a year ago.

From a sector-wise perspective, materials (-11.8%) was the largest detractor, followed by real estate (-6.1%). Financial stocks (+5.9%) gained the most during the period.

Market Outlook and Strategy

The global economy ended the last quarter of 2024 on a high note. Lower inflation and declining wages led central banks to continue cutting interest rates. However, markets also grappled with uncertainty around the incoming Trump administration's trade policies. The Fed reduced rates twice during the period, lowering the federal funds rate to between 4.25% and 4.5%. In Asia, the Bank of Japan (BoJ) decided to tread cautiously on rate hikes amid uncertainty around U.S. President-elect Donald Trump's future economic policies. While the Chinese markets suffered somewhat due to concerns over potential U.S. tariffs on Chinese goods, anticipation of fresh stimulus measures from the Chinese government reversed some of the losses at the end of the quarter.

The Organisation for Economic Co-operation and Development (OECD) believes the global economy will remain resilient in the face of macroeconomic challenges in 2025. Economic growth is likely to stabilize. Concerns over interest rates decreased with central banks cutting rates amid falling inflation, which is now back to central-bank targets in most major economies. Labor markets have also eased, although unemployment rates remain near historical lows. The OECD raised its growth outlook for the global economy recently, estimating growth of 3.2% in 2024 and expecting the global economy to grow 3.3% year-over-year both in 2025 and 2026.

Meanwhile, inflation in the OECD economies is expected to ease further, to 3.8% in 2025 and 3.0% in 2026 from 5.4% in 2024, as monetary policies remain restrictive in most economies. Headline inflation is likely to continue falling, led by significant declines in food, energy, and goods price inflation.

The US Energy Information Agency (EIA) expects global oil production to increase by 1.6 million barrels per day in 2025, close to 90% of which is expected to be from non-OPEC+ countries. This is due to the continued production restraint announced by OPEC+. At its December 5 meeting, the body announced it would delay production increases until April 2025. The EIA expects the Brent crude oil spot price to average $74/b in 2025 as oil markets are anticipated to remain balanced. However, persistent geopolitical tensions, particularly in the Middle East, remain a potential risk.

The OECD projects Australia's GDP to grow 1.9% and 2.5% in 2025 and 2026, respectively. Australia's economy will likely recover gradually in 2025, after experiencing the slowest growth in 32 years in 2024 due to sticky core inflation and high interest rates. Inflation has been slowly easing; however, stagnant labor productivity growth due to weakening demand may keep inflation high. The Reserve Bank of Australia believes growth in household consumption will rise as income growth increases in 2025.

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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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