This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID / KID before making any final investment decisions.

FUND COMMENTARY – Q1 2024

CT (Lux) Enhanced Commodities

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Since: 01/08/2022

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Since: 01/08/2022

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Since:

Fund Information

You are investing in a fund that is actively managed in reference to the benchmark below. Please refer to the Prospectus and KIID for the Fund objective.

Fund Benchmark: Bloomberg Commodity Index

Inception Date: 29/06/2010

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 6*

Summary

- The Bloomberg Commodity index returned 2.2% in US dollars for the quarter.
- Gross of fees, the fund returned 4.8%, beating its benchmark.
- Agriculture and energy exposures were the biggest contributors to relative returns. Metals exposures were neutral in aggregate, as a detraction from base metals was offset by a contribution from precious metals.

Market Background

Commodities registered a modest rise in the first quarter (Q1) of 2024. The Bloomberg Commodity index posted 2.2% in US dollars for the quarter. Among risk assets, commodities were an outlier in Q1, retreating in January and February while most equity markets registered robust gains amid increasing optimism of a 'soft landing' for major economies and strong corporate results, especially among large-cap technology companies. These supportive drivers helped stocks overcome the headwind of rising bond yields in the first two months of the year, as expectations about the pace of monetary easing in 2024 were dialled back versus bullish market expectations at the end of 2023. Commodities finally joined the ongoing risk rally in March, supported by a combination of falling Treasury yields, rising geopolitical risks and stabilising expectations of US rate cuts. For the quarter overall, the benchmark 10-year Treasury yield rose 32 basis points (bps) to 4.20% and the US dollar strengthened.

US economic data remained resilient for the most part. According to the final estimate from the Bureau of Economic Analysis, annualised GDP growth for Q4 was 3.4%, while a widely watched gauge of business activity showed manufacturing activity accelerated sharpy in March. However, growth in services activity softened to the weakest pace in three months. Signs of cooling continued to appear in the labour market: while non-farm payrolls were generally robust, the unemployment rate ticked up and average hourly earnings growth softened. Consumer price inflation came in above expectations in February, as did producer price inflation, causing some commentators to question whether the Fed might delay rate cuts longer than expected.

In China, concern grew about the heavily indebted property sector as a Hong Kong court ordered the liquidation of property giant Evergrande in January. Elsewhere, the closely watched National People's Congress in March did not deliver any significant policy changes, with the government setting a 5% GDP growth target for 2024. There were concerns over disinflation, with consumer prices in December falling modestly year on year, although more recent data appears to reveal an uptick following the Lunar New Year festivities. More positively, the People's Bank of China cut its five-year loan prime rate (LPR) by a larger-than-expected 25 bps to 3.95% in February, but kept the one-year LPR unchanged at 3.45%. There was also positivity around increased tourism revenue thanks to a festive travel boom. In March, industrial production exceeded expectations, boosted by strong growth in exports. While growth in headline retail sales over the first two months of 2024 disappointed, strength in autos, recreational goods and alcohol and tobacco provided a glimmer of hope for a recovery in consumer confidence. Less positively, the fall in house prices accelerated, increasing concerns about the country's troubled property sector.

Against this backdrop, livestock, oil-based energy, softs and precious metals were the strongest areas of the market. At the other end, grains and base metals ended the period lower.

*The Fund integrates sustainability risks into the investment decision making process and is categorised as Article 6 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). Please refer to www.columbiathreadneedle.co.uk for further disclosures. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus.

Performance

12M Rolling Period Return in (USD) - as at 31 March 2024

Past performance does not predict future returns and future returns are not guaranteed.

	03/23-03/24	03/22-03/23	03/21-03/22	03/20-03/21	03/19-03/20	03/18-03/19	03/17-03/18	03/16-03/17	03/15-03/16	03/14-03/15
Fund (Gross) %	1.86	-9.37	47.37	37.96	-20.70	-7.14	4.24	10.27	-17.56	-28.60
Index (Gross) %	-0.56	-12.49	49.25	35.04	-22.31	-5.25	3.71	8.71	-19.56	-27.04

Source: Columbia Threadneedle Investments as at 31/03/2024. Gross of fee fund returns are time-weighted rates of return net of commissions transactions costs and non-reclaimable taxes on dividends interest and capital gains using pricing of investments which is either the last traded price or a bid basis. Cash flows are factored as of the end of the day and exclude entry and exit charges. Index returns include capital gains and assume reinvestment of any income. The index does not include fees or charges and you cannot invest directly in it. The return of your investment may change as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation.

For detailed information on Fund Changes please see Significant Events - Threadneedle (Lux) Funds PDF available on www.columbiathreadneedle.com/en/changes

In gross terms, the fund returned 4.8%, outpacing the benchmark Bloomberg Commodity index by 260 bps.

Portfolio positioning within energy and agriculture – particularly softs – contributed most to the outperformance. Our base metals exposures detracted, but the impact was entirely offset by favourable positioning in precious metals.

Energy

The energy allocation was the top contributor to relative performance in Q1, reflecting favourable positioning in natural gas and our deferred positioning along the forward curve in Brent crude oil. However, gains were partially offset by unfavourable positioning elsewhere, most notably in West Texas Intermediate crude.

Energy posted moderate gains for the quarter, led by oil-based energy. Prices rose as increased tensions in the Middle East prompted fresh worries about supply disruption, and OPEC+ supply cuts helped tighten inventories. Towards the end of the period, the market tightened further as oil refineries in the northern hemisphere prepared for the summer driving season.

Tensions in the Middle East continued to escalate over the quarter. In January, the US and UK launched joint retaliatory strikes against Houthi rebels in Yemen. Tensions in the region rose further as three US soldiers were killed and 40 others were injured by a drone strike on a US logistics support base located in Jordan, near the border with Syria. Crude oil prices were supported as the Energy Information Agency (EIA) reported falling crude production and inventories, and news that Libya's largest oil field – which produces approximately 300,000 barrels per day – had been shut due to protests over fuel prices and economic inequality.

In February, ongoing attacks on shipping in the Red Sea continued to drive worries about supply disruption and, towards the end of the month, it was reported that OPEC+ would probably extend its voluntary output reductions into Q2 and potentially through to the end of the year. In early March, the group confirmed an extension of its output cut of 2.2 million barrels per day during Q2.

Crude continued to rally in March, as Ukrainian drone strikes on Russian oil refineries and attacks on ships in the Red Sea continued. Prices were further supported by the EIA changing its forecast from a supply surplus in 2024 to a supply deficit; the agency also cut its supply growth forecast in anticipation that OPEC+ cuts would remain in place over the second half of 2024. Oil prices were also supported in March by improved manufacturing and industrial data from China and an unexpected mid-month withdrawal of US crude oil inventories.

On the other side, concerns over demand from China persisted. In February, the EIA forecast that consumption in China over 2024 would only grow by around 2% owing to the country's sluggish recovery following Covid shutdowns. The EIA also reported a rise in crude oil inventories for the last week of March; while this is in line with the seasonal profile, it was unexpected given the ongoing supply curbs and strong refinery demand.

After OPEC+ crude oil production cuts were extended until June, the EIA lowered its forecast for global production growth in 2024 and projected a large reduction in oil inventories in Q2. Correspondingly, the agency boosted its forecasts for the average price of Brent crude in Q2 to $88, up $4 per barrel versus the prior forecast. The average price for Brent over the whole of 2024 was forecast at $87 per barrel.

Natural gas continued to plunge, reinforcing the weak trend of Q4 2023. Prices fell materially in January, despite a mid-month jump as consumption reached a record high amid plunging temperatures. Although US gas inventories experienced the third-largest weekly withdrawal on record, this still left stockpiles around 7% above the five-year average by the end of January. Prices thereafter resumed their downward trend as temperatures rebounded to above-average levels.

Gas fell to the lowest NYMEX Henry Hub price since the early 1990s in March. The EIA projected natural gas inventories at 37% above the five-year average as the winter heating season ended, contributing to negative sentiment. This was expected to keep Henry Hub spot prices at under $2 per unit in Q2. The EIA noted that the average price of $1.72 in February was a record low when adjusted for inflation; this was due to reduced consumption in both the residential and commercial sectors. Production was forecast to fall slightly for the rest of the year given relatively moderate demand and low prices.

Gasoline registered a robust double-digit gain, with most of the gains occurring in the first half of the quarter. In early January, US gasoline inventories were reported to have risen by 10.9 million barrels for the week, bringing total inventories to the highest level since 2022. However, a severe winter storm disrupted Gulf Coast gasoline processing later in January, causing inventories to fall 11% to a three-year low. The impact was partially mitigated as drivers were also hampered by the bad weather, but prices nevertheless trended higher over the rest of January.

In March, the EIA forecast slower growth in global liquid fuel consumption, increasing by 1.4 million barrels per day in 2024 and 1.2 million in 2025. This was due partly to slower demand growth in China, improved vehicle efficiency and weaker growth after the post-pandemic recovery. The EIA also predicted that miles travelled in the US would hit a record high in 2024 and 2025, owing to growth trends in population and employment, as well as economic growth. However, improving fuel efficiency and the increasing use of electric vehicles (EVs) was expected to result in gasoline demand falling 4% in 2024/25 compared to 2019. In March, the EIA projected average US retail gasoline prices of $3.5 per gallon in 2024; this was lower than the 2023 average, although prices for May through July were projected higher year over year.

Metals

Our base metals exposures detracted most from relative returns in Q1, due mainly to an unfavourable above-benchmark stance in zinc. However, the impact was moderated by a positive contribution from beneficial positioning in precious metals, specifically the overweights in gold and silver.

Base metals finished Q1 slightly lower, as performance across the sub-sector continued to diverge. Copper advanced, nickel fell slightly, while aluminium registered a larger fall. However, zinc was the weakest among the sub-sector, dropping almost 10%.

Over Q1, industrial metals were impacted by an evolving investor outlook regarding the path of the Federal Reserve's monetary policy over 2024, with investors becoming less optimistic about the timing of the first rate cut and the total extent of rate cuts in 2024. The sector also faced modest industrial demand, given moderate growth in China. However, prices were underpinned by limited supplies. The sub-sector was supported by the prospect of interest-rate cuts and, in March, expectations of an improvement in the global economy as data from China ticked up. Some banks issued bullish forecasts for metals, including aluminium, as industrial production improved. Stock market strength was also a tailwind.

Copper registered gains amid supply concerns following the shutdown of a Panamanian mine operated by First Quantum, due to protests regarding social and environmental issues. Shortly after, a group of 19 Chinese smelters pledged to control smelting capacity via measures such as delaying the start-up of new projects, raising expectations of a deficit in 2024. Meanwhile, copper ore grades at existing mines are declining, resulting in higher extraction costs. Warmer weather in March provided support amid hopes that construction demand would pick up. More broadly, the ongoing adoption of EVs and charging facilities is expected to lead to increased demand, while a moderate drop in copper inventories on the London Metal Exchange (LME) suggested improving supply and demand fundamentals.

Nickel had mixed fortunes over the quarter: concerns over new US sanctions on Russia were supportive in February, although the new sanctions did not include metal supplies. As nickel is an alloy in the production of stainless steel, reports of a 13% increase in stainless steel production in China may have also lent support, along with signs that the EV sector in China was restocking nickel. On the other side, increased nickel supplies from Indonesia helped temper gains, with a bounce off the lows in February reversing course in mid-March.

Aluminium prices weakened amid moderate demand and ample supply. In January, prices were pressured by rising inventories in Asia and on the LME, where inventories were also up over 20% since mid-December. Falling aluminium inventories on the LME in March helped prices rebound partially, however, as did concerns that Russia could be hit with new sanctions that could limit aluminium supply to the EU.

Zinc prices were also hurt by modest demand and rising inventories. Despite production cuts in recent months, demand growth – especially in China – continues to lag supply. Relatively weak manufacturing and construction in Europe is also weighing on zinc, as the bulk of supply is used to galvanise iron and steel to protect it from corrosion. LME zinc inventories jumped 38% in February.

Precious metals outperformed the index in Q1, despite a shaky start. Headwinds included rising Treasury yields, a strengthening dollar and rising equity markets, which limited gold's safe-haven appeal. However, precious metals found some support towards the end of February as core yields eased, before rallying substantially in March, helped by strong physical demand and a surge in central-bank demand. The Peoples Bank of China was the largest central-bank buyer of gold in 2023, and the bank has continued to buy significant quantities over the year to date. Retail investors in China were also significant gold buyers, as they sought an alternative to investing in the struggling property sector. Gold touched a record high at the end of the quarter, as safe-haven demand increased owing to geopolitical uncertainty and the impending US election. The yellow metal was also buoyed by growing expectations of an upcoming US rate cut, which makes non-interest-bearing gold more attractive.

Silver (a part industrial and part precious metal) was initially impacted by uncertainty regarding industrial demand but followed gold higher on expectations that industrial demand would hit record highs in 2024 due to increasing use in photovoltaics and the autos sector.

Agricultural Products

Agriculture exposures made a key contribution to relative performance in Q1. In softs, the off-benchmark stance in cocoa added significant value, far outweighing a slight detraction from the underweight in coffee.

In grains, positioning in corn and wheat added value modestly, while positioning in soybeans was detracted fractionally.

Our livestock exposures were supportive for relative performance, largely due to positioning in live cattle.

Agriculture was mixed in Q1, boosted by strength in livestock and, to a lesser extent, softs. Grains weakened, however. The best-performing agricultural commodity was cocoa, which is an off-benchmark allocation; prices ended the quarter up over 140%. On the other side, soybeans ended the quarter materially down.

In grains, wheat prices fell as ample supply and modest demand (especially from China) continued to pressure prices, as did increased export competition. Ukraine's wheat exports have improved, and Russia has also contributed a significant amount to the global wheat export market. Meanwhile, a contraction in livestock herd sizes, driven by drought and high feed costs, weighed on demand for feed, further adding to the negative tone for grains.

In March, the US Department of Agriculture (USDA) raised its global wheat production and trade forecasts, but they still remained lower than 2023's record levels. Global consumption was forecast to reach a record level due to higher feed and residual use. Global stocks are still forecast to reach their lowest levels since 2015/16.

Corn retreated in Q1. Prices weakened in January and February after the USDA raised its global corn production forecast, and higher production from Brazil weighed on the market. However, prices recovered partially in March after the USDA reduced its supply forecast. It also reduced its trade and import forecasts for 2023/24. US corn shipments to China were expected to drop sharply as Brazilian shipments to the country increased substantially. US exports were also impacted by a rebound in exports from Argentina amid improved growing conditions. However, the US was expected to increase shipments to Mexico, with surging demand for livestock feed increasing the latter's corn imports to record levels. Ongoing drought and low levels of water for irrigation has limited Mexico's domestic corn production.

Soybean prices also tumbled. The USDA's March 2023/24 global forecast featured lower production, crush and ending stocks compared to the prior month. Ending stock projections were also lowered.

In softs, sugar delivered a robust gain. In January, severe floods in Australia impacted production, especially Queensland, where 95% of the country's sugar is grown, with some farms losing 60% of their crop following a cyclone. The USDA increased its 2023/24 sugar supply projection in January, citing record-high sugar production forecasts and larger imports. The high level of US sugar production was due to record levels of sugar beet production. However, Mexico's sugar production was expected to decrease to its lowest level in a decade. Sugar prices were pressured in February and March by a significant increase in sugar production in Brazil. According to Brazil's sugarcane industry association UNICA, annual sugar output for the 2023/24 crop year through January was up 25.5%. In addition, more sugarcane was being used for sugar versus ethanol compared with the prior year. This news was partially offset by ongoing reports of production issues and export restrictions in India, the world's second-largest producer, where below-average rainfall during the monsoon season weighed on sugar output. Additionally, the International Sugar Organisation increased its forecast for a global sugar deficit in 2023/24, helping balance market sentiment.

Cotton was similarly strong over the quarter. In January, prices increased following a poor harvest from Pakistan. However, the USDA reported that Mexico's 2023/24 cotton consumption plunged to the second-lowest level in nearly 30 years due to increasing competition for imports from countries in Asia. Cotton continued to rally in February, as the USDA reduced its forecast for global 2023/24 cotton ending stocks by almost 700,000 bales due to lower beginning stocks and reduced production. On the demand side, consumption in China and Vietnam was projected to increase but this was offset by falling consumption in Turkey, the US and Thailand. The USDA also noted that the US is the world's largest importer of cotton products, but that cotton product imports for calendar year 2023 were the second lowest in over 20 years. Two factors contributed to this trend: retailers drawing down inventories and retail buyers exercising caution ahead of the 2023 shopping season because of recession worries. However, 12-month retail clothing store sales had recently and unexpectedly hit a record high, thanks to an increase in discretionary spending, robust employment and solid wage growth. In March, the USDA upped its 2023/24 forecasts for cotton production, consumption and trade estimates, but marginally reduced its ending stocks projection. US output was projected to fall to the lowest levels in almost 40 years.

Cocoa rallied strongly, posting a gain of over 100%. Prices hit a record high over the quarter as robust demand outpaced lagging supply, creating a global shortfall. Supply continued to be impacted by extreme weather due to El Niño, leading to poor growing conditions in West Africa. According to the International Cocoa Organisation, arrivals into ports in Ivory Coast and Ghana since the season started were down 28% and 35% respectively since the prior season. Wildfires and crop disease also weighed on the supply side, while post-Covid demand recovery tightened the supply-demand balance.

Coffee was the outlier, with only a modest rise. Prices advanced in January, as world coffee stocks were projected to fall to their lowest level in 12 years, according to the USDA, while global consumption was projected to reach a new record high. Shipping disruption in the Red Sea may also have played a role. Coffee posted losses in February, as the International Coffee Organisation reported that exports of roasted coffee beans increased 7.6% in January 2024 compared to a year earlier. Global coffee production was projected to increase 5.8% annually in 2023/24, while global consumption was expected to normalise following disruptions related to the pandemic. Consumption was forecast to rebound 2.2% year on year in 2023/24 and the world coffee market was forecast to be in surplus by 1 million bags.

Livestock prices rallied in Q1. Cattle prices in Australia were supported by rainfall that helped revitalise pastures while, in the UK, a trade deal to import beef from Canada fell through.

On 31 January, the USDA reported that, as of 1 January, cattle and calf numbers in the US had fallen 2% year on year. The US cattle herd was the smallest since 1951 owing to higher slaughter rates due to drought, elevated feed prices and high interest rates. The reduction in breeding stock could take several years to be reversed, even if decisions to increase the herd size were made in the near term.

In March, the USDA raised its 2024 red meat production forecast, due to an increase in beef and pork. It also upped its cattle price forecasts for 2024 given a recent uptrend in prices and strong demand for fed cattle.

US exports of beef were projected to fall 8.3% year on year, given lower 2024 beef production due to tightening cattle supplies and export competition from other countries. The USDA also noted that fed cattle supplies were higher year on year. However, a sharp fall in the number of calves placed into feedlots is expected as the year progresses, resulting in lower production in late 2024. The USDA raised its hog price forecasts for Q2 and Q3 given strong demand. US pork exports are forecast to rise 4.6% annually, amid higher output and less competition from the EU.

Outlook

Going forward, we expect some consolidation in the asset class over the short term. In the medium to long term, we remain constructive on commodities as we expect continuing production-growth bottlenecks and a lack of investment to drive commodity prices.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The Fund may enter into financial transactions with selected counterparties. Any financial difficulties arising at these counterparties could significantly affect the availability and the value of Fund assets.

The Fund invests in markets where economic and regulatory risk can be significant. These factors can affect liquidity, settlement and asset values. Any such event can have a negative effect on the value of your investment.

The Fund's assets may sometimes be difficult to value objectively and the actual value may not be recognised until assets are sold.

The Fund may invest materially in derivatives (complex instruments linked to the rise and fall of the value of other assets). A relatively small change in the value of the underlying investment may have a much larger positive or negative impact on the value of the derivative.

Leverage occurs when economic exposure through derivatives is greater than the amount invested. Such exposure, and the use of short selling techniques, may lead to the Fund suffering losses in excess of the amount it initially invested.

The Fund invests in derivatives rather than physical securities. Therefore there is a risk that the price of the instrument does not accurately reflect the price of the underlying security/commodity.

As the Fund gains exposure to Commodities, it is exposed to factors affecting a particular industry or commodity for example, weather, embargoes, tariffs and international economic, political and regulatory developments and trading activities in commodities and related contracts.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying to the Fund are set out in the "Risk Factors" section of the prospectus.

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