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) UK Equities

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Fund Manager
Since: 31/08/2023

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Fund Manager
Since: 01/12/2023

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: FTSE All-Share Index

Inception Date: 06/12/2011

Fund Currency: GBP

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- The FTSE All-Share index returned 3.6% for the quarter.
- Gross of fees, the fund outperformed the FTSE All-Share.
- Top relative performers included CRH and Intermediate Capital.
- We initiated several new positions over the quarter.

Market Background

The FTSE All-Share index returned 3.6% for the quarter. The period was marked by growing anticipation of a "soft landing" for major economies. At the same time, however, fading recession fears and some disappointing inflation readings saw investors dial back their expectations for the pace of monetary policy loosening this year. Inflation has been especially sticky in the UK, and, for much of the quarter, the Bank of England (BoE) was seen as a likely laggard in terms of cutting rates. This weighed on the UK equity market, which was also hampered by its relatively low exposure to technology names. Globally, the technology sector outperformed over the quarter as the "Magnificent 7" stocks continued their stellar run from 2023 amid further optimism around AI. However, UK equities outperformed in March, when the BoE struck a more dovish tone. A rise in oil prices also proved a tailwind for the UK stock market given its sizeable exposure to energy names.

The BoE kept rates on hold at both its meetings over the quarter. In March, for the first time since late 2021, none of the nine-strong Monetary Policy Committee voted to hike rates. At the post-meeting press conference, Governor Andrew Bailey acknowledged that inflation was "moving in the right direction". Indeed, a day earlier, data from the Office for National Statistics revealed that headline consumer price inflation had unexpectedly fallen to a two-and-a-half-year low of 3.4% in February. The decline in core inflation (which excludes volatile components such as food and energy prices) also exceeded forecasts.

Other data showed that GDP growth was negative for the fourth quarter (Q4) of 2023, indicating that the economy slipped into a technical recession. But more recent indicators pointed to a rebound in growth in Q1 2024. The composite purchasing managers' index showed continued expansion over the quarter, aided by strength in services. Moreover, in March, the index covering the manufacturing sector finally moved out of contractionary territory. Recent housing-market indicators were also encouraging thanks to rising property prices and falling mortgage costs.

Meanwhile, as debt markets reopened in 2024, the UK again became a magnet for takeover and private equity bids. The quarter saw a number of sizable offers for UK-listed businesses, with bids at premiums in excess of 30% to the prevailing share prices.

Most sectors in the benchmark posted positive returns over the quarter. Industrials fared best amid increased optimism about the outlook for the global economy. Healthcare, technology and energy also outperformed, as did financials thanks to strong earnings from banks. The only sectors to post negative returns over the period were real estate, utilities and materials. Real estate and utilities were impacted by initial worries that interest-rate cuts might be delayed. The utilities sector was further pressured by Thames Water's troubles; the indebted water company's shareholders refused to inject the capital needed to shore up its finances. Meanwhile, materials were negatively impacted by bouts of weakness in prices of industrial metals amid concern about slowing demand from China.

*The Fund promotes environmental or social characteristics and is categorised as Article 8 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 (GBP) - 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) %	9.58	7.14	1.11	33.15	-20.26	3.76	0.30	18.33	3.42	8.49
Index (Gross) %	8.43	2.92	13.03	26.71	-18.45	6.36	1.25	21.95	-3.92	6.57

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

Gross of fees, the fund returned 4.1% over the quarter and outperformed the FTSE All-Share.

Both sector allocation and security selection contributed to relative returns, particularly the former. The overweight in industrials and underweight in utilities added most value, although the overweight in materials detracted. Meanwhile, security selection was particularly beneficial in materials, although there was a negative contribution from industrials.

At the stock level, top relative contributors included CRH and Intermediate Capital.

Shares of building materials business CRH hit a record high in February in the wake of the firm's Q4 and full-year 2023 results, with earnings rising 15% year on year and beating previous forecasts, driven by growing spending on infrastructure in the US. Revenues also increased year on year. Moreover, the firm extended its current share buyback scheme until May and expressed optimism about the outlook for 2024. CRH is a high-quality cyclical business with a strong balance sheet. It also boasts strong pricing power and, therefore, a competitive advantage in the developed-market aggregates business. In addition, the company stands to benefit from increased government spending on infrastructure in the US and the UK. CRH is also an industry leader in the transition to renewable energy for transportation and sustainable building materials.

Intermediate Capital issued an encouraging trading update for its fiscal Q3 in January, which indicated an increase in fee-earning assets under management. The firm also reported that it had hits its fundraising targets ahead of schedule. Intermediate Capital boasts a global reach, and its fund management business is expanding and has strong growth prospects. Meanwhile, the company's private-equity division invests in private debit, credit and equity financing. Although the firm has a book of its own business – trading at a significant discount – its model is capital-light.

The zero weights in miners Rio Tinto and Glencore also added value; we do not hold these stocks as they do not align with the fund's sustainability mandate. Shares were pressured amid concerns over the impact of China's property sector woes on demand for key commodities. Both companies also reported a fall in earnings for 2023 owing to downward pressure on many commodity prices.

On the other side, the lack of exposure to Rolls-Royce and BAE Systems weighed on relative returns in a strong quarter for both stocks. Rolls-Royce continued its strong momentum from 2023, boosted by optimism about higher income from maintenance contracts as engine flying hours have risen amid the post-Covid recovery in global travel. This was reflected in increased sales and profits in 2023. BAE also announced a jump in revenues and earnings for the same year, aided by an expanding order book amid increased defence spending by major governments.

The holding in Watches of Switzerland was also a hindrance. Shares fell after the company reported a decline in sales for its fiscal Q3, citing a difficult festive trading period, especially in the UK. Management also unveiled more conservative assumptions for growth in 2024, particularly in light of the change in the product mix from its key brand, Rolex.

Activity

We initiated several new positions over the quarter, notably Baltic Classifieds, Computacenter, Intertek and Haleon.

Baltic Classifieds is an online portal business with a dominant market position in the Baltic region, covering the automotive, real estate, jobs and generalist sectors. The company has a strong franchise, balance sheet and cashflow. It is growing organically and has the potential to further monetise its client base.

Computacenter is an IT reseller focused on large enterprises. The firm is well placed to benefit from Microsoft-led IT spending growth, with good opportunities to scale its US operation through acquisitions.

Intertek is a well-regarded business with expertise in the assurance, testing, inspection and certification market. While growth has been slower in recent years, the company now has an opportunity to increase growth and expand margins. The company has been impacted by its exposure to consumer products testing, given the destocking in end markets alongside wage inflation. However, these headwinds should abate going forward. With cost savings in place and growth in higher-margin assurance products, the outlook from here should be more positive.

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Haleon is a consumer healthcare business that was demerged from GSK in 2022. The firm boasts strong brands such as Sensodyne, Centrum and Panadol, and the sector is supported by the trend in self-medication and favourable demographics. Haleon's shares have been weighed down by overhang from its large shareholders Pfizer and GSK. However, these stakes are now being sold down, which should pave the way for markets to refocus on the company's attractive fundamentals.

We also initiated a position in real-estate investment trust Shaftesbury Capital by switching out of Derwent London. Shaftesbury owns unique and culturally important assets in the West End of London, including in Soho and Covent Garden. Rents are recovering, and Shaftesbury's portfolio should benefit from a rebound in domestic and international tourism. Moreover, the company's focus on improving the energy efficiency of buildings should position it well for the energy transition. We favour Shaftesbury over Derwent given our preference for prime retail over London offices, where growth in demand remains muted and the industry faces pressure to refurbish buildings faster to meet new energy-efficiency requirements and the evolving use of office space.

Aside from the aforementioned Derwent, we sold WPP and BT. WPP is enduring a difficult spending environment, particularly from its tech-related customers. While there is value in BT, challenges such as the very competitive landscape and substantial capex requirements make a path to realising this value unclear. We therefore feel there are better options elsewhere.

We took some profits in RELX following the stock's strong performance over the last 12 months.

Outlook

UK equities are still trading at very attractive valuations relative to global peers. Consequently, the shares of UK-listed global firms remain deeply discounted compared to their overseas counterparts. This should continue to support inbound M&A bids and stoke interest from private-equity firms.

After a tough couple of years for the UK economy, there now appear to be grounds for cautious optimism. A range of forward-looking lead indicators are moving upwards. Inflation is coming down reasonably rapidly; along with lower taxes, this should pave the way for an improvement in real incomes. Wage growth – a key area of focus for the BoE – is also coming down, albeit with more volatility. Household balance sheets are in good shape, which means that consumer spending – a source of weakness in 2023 and a major factor in the economy's sluggish growth – is set to recover this year.

Moreover, the housing market has improved. In terms of monetary policy, the BoE's focus on lagging indicators, such as inflation and wage growth, mean that rate cuts may materialise somewhat later than previously anticipated.

Overall, we will continue to focus on company fundamentals and use volatile markets to top up and buy favoured stocks to deliver solid risk-adjusted returns.

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 invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the Fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the Fund.

The Fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe, and may impact the performance of the Fund positively or negatively relative to a benchmark or other funds without such restrictions.

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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