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) US Contrarian Core Equities

Guy W Pope
Fund Manager
Since: 12/10/2011

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: S&P 500 Index

Inception Date: 12/10/2011

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- US equities advanced in the first quarter, with the S&P 500 index returning 10.6%.
- Gross of fees, the fund outperformed its benchmark.
- The positive relative return was due to favourable sector allocation; stock selection detracted slightly.
- Among individual holdings, American Tower, Take-Two Interactive Software and Newmont Corporation were the top relative detractors.
- Nvidia, General Electric and eBay were top relative contributors.

Market Background

The US equity market delivered an impressive gain in the first quarter (Q1), with the S&P 500 index posting 10.6% and registering several new highs along the way.

With corporate earnings largely flat outside of the largest technology-related stocks, the rally was primarily driven by increasing valuations. Investors were willing to pay higher prices for two key reasons. Firstly, economic growth remained firmly in positive territory despite aggressive interest-rate increases by the Federal Reserve over the past two years. Secondly, Fed Chair Jerome Powell indicated that the US central bank was likely on track to begin cutting interest rates in 2024 following a meaningful decline in inflation. While expectations for the number and timing of potential cuts fluctuated considerably, Powell's statements provided the markets with confidence that rates had peaked for this cycle. Together, these factors bolstered investor risk appetite and drove a sustained rally in stock prices. By the end of the quarter, the S&P 500 index had registered gains for five consecutive months and 18 of the prior 22 weeks.

Although mega-cap technology stocks performed well as a group amid ongoing enthusiasm about the prospects for AI, market leadership broadened to include sectors that had lagged in 2023. Among these were more economically sensitive sectors such as energy, financials and industrials. Mid- and small-cap stocks, while also logging gains, continued to trail large caps. The Russell MidCap index gained 8.6% in the quarter, while the small-cap Russell 2000 index returned 5.2%.

*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 (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) %	34.80	-8.61	12.64	61.18	-4.92	7.00	11.43	15.71	2.19	11.99
Index (Gross) %	29.88	-7.73	15.65	56.35	-6.98	9.50	13.99	17.17	1.78	12.73

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 10.8% in dollars over the quarter, outperforming the benchmark S&P 500 index.

The fund's outperformance versus the benchmark was attributable to favourable sector allocation; stock selection detracted slightly overall. In terms of sector allocation, the portfolio's overweight to communication services and underweight to consumer discretionary were the largest contributors, followed by the underweight to real estate. On the other side, the below-benchmark stance in utilities detracted modestly. Stock selection detracted most within communication services, followed by financials, energy and materials. More positively, our stock picks in the consumer discretionary sector made the largest contribution to relative performance, followed by our picks in industrials and technology.

Among individual stocks, American Tower was the largest individual detractor, followed by Take-Two Interactive Software and Newmont Corporation.

American Tower released its Q4 and full year-2023 financial results in late February. While the small Q4 earnings beat and above-expectations headline guidance looked good, it included the India business which American Tower is under contract to sell. Stripping that out put the guidance below consensus and also made the sale of the India business a headwind for 2025, based on comparable financial results. As a result, American Tower sold off due to soft carrier-activity guidance and general investor scepticism around the company's forecast of improving carrier activity in the second half of 2024. American Tower is a long-term holding in the fund and has mostly been a relative contributor. The tower industry has a very attractive business model (with annual escalators, high incremental margins, low capex and high barriers to entry) and American Tower is a leading operator in the group.

In its most recent earnings release in February (for fiscal Q3 to 31 December 2023), Take-Two reduced its outlook for the full year, reflecting reduced expectations for mobile advertising and sales of *NBA 2K24*, and a potential delay in the release of *Grand Theft Auto VI*. At the end of March, Take-Two also announced that it will acquire Gearbox Entertainment for $460 million. The downgrade of the company's guidance notwithstanding, Take-Two should be able to leverage *Grand Theft Auto,* along with its other titles, to take share within the large and growing industry. At the same time, the company stands to benefit from improving industry trends, including the transition from package software to digital distribution and mobile improvement. The release of *Grand Theft Auto VI* is on the horizon and will probably still launch in fall/winter of 2025, which would build excitement for Take-Two. The large video game market provides plenty of opportunity for growth: annual worldwide sales are over $115 billion and Take-Two's release schedule has become more developed, which should lead to more consistent title releases.

Newmont's stock price has declined as production shortfalls and higher costs have negatively impacted the company's financial results. Following its acquisition of Newcrest last November, Newmont provided guidance for the combined Newmont/Newcrest entity in its 2024 outlook, released in late February, along with Q4 and full-year 2023 financial results. Both production and costs were negative relative to most expectations, and the company also cut its dividend, which came as an unwelcome surprise. Newmont is the world's leading gold producer and has good assets in stable jurisdictions, a largely stable production profile, and strong financial discipline supported by a base case price assumption for gold of $1,400 per ounce. The company also had expectations of declining costs through time, although recent cost increases have disappointed on that front. Over the longer term, the combination with Newcrest has the potential to be positive, given the probability of an enhanced risk profile and an improved free cash-flow profile.

At the other end of the portfolio, Nvidia, General Electric and eBay were the top relative contributors. The fund's underweight to Tesla also bolstered relative returns.

Nvidia, the graphics chipmaker leading the boom in AI, not only boosted its stock price in Q1, it also sparked a broad-based global rally, especially for stocks with exposure to AI proliferation. In March, Nvidia held an analyst day, following a speech by CEO Jensen Huang and an investor Q&A session. Management's confident tone continues to underscore just how Nvidia is enabling AI for all, using technology and software, and by improving performance and lowering costs. The company has high expectations for future growth driven by new AI applications. Nvidia is arguably one of the best positioned companies, if not the best company, for investors to get exposure to AI trends.

General Electric was one of the fund's top relative contributors last year and this solid run continued into Q1. Following the spin-off of GE Healthcare in 2023, the last phase of GE's simplification journey – the separation of GE Aerospace and GE Vernova (GE's power and renewables assets) – was finalised in the first few days of Q2. As a standalone business, GE Aerospace is expected to generate over 50% of revenue and nearly 80% of profit from the commercial after-market service associated with its engines. GE Aerospace sales should grow, driven by the continued recovery in air traffic, an ageing fleet and strong pricing power, as well as the delivery ramp of GE's LEAP engine. GE Vernova is a leading manufacturer of turbines, equipment and services for gas, steam, nuclear and hydro-electric power generation with a renewables portfolio of wind and grid solutions. After years of operational issues in the power and renewables segments, GE Vernova is nearing an inflection point in fiscal year 2024, driven by continued strength in the gas power business, the exit from its low-margin steam business, and a meaningful improvement in renewables profitability due primarily to a recovery in onshore wind and a reduced headwind from off-shore wind.

Shares in e-commerce giant eBay were down approximately 17% over the trailing one-year period when the stock hit the team's screen and was added to the portfolio in January of this year. The firm is a solid free-cashflow generator and recent restructuring at the company should support margin expansion. As we get further away from the pandemic (which saw eBay's sales strengthen dramatically), the comparisons with prior periods will get easier and the company's prospects of returning to modest growth should improve.

The fund's underweight to Tesla continues to benefit relative returns. While the company's Q4 financial results were largely in line with lowered investor expectations, management's outlook disappointed, with guidance for both 2024 auto volumes and auto gross profit margins vague and directionally soft. In addition, production of the next gen product lineup is set for late 2025, weakening the bull case for growth in the medium term. Tesla has undeniable leadership in electric vehicle manufacturing, design, cash generation and platform development, with long-term opportunities stemming from myriad of new businesses. However, the company is in an intermediate period of slower demand and greater competition globally. Tesla continues to have a solid balance sheet and a self-funded business model.

Activity

Aside from eBay, we established new positions in Biogen, ON Semiconductor and United Airlines. We sold out of Ameren Corporation, Danaher, Match Group, McDonald's, UnitedHealth and ZoomInfo Technologies.

Outlook

As we enter Q2, investor concern about lingering inflation and the Fed's path for interest rates had calmed somewhat. Still, interest-rate expectations continue to be the main driver of investor sentiment. The biggest macro risk to the markets remains the lagged impact of interest rate increases and, by extension, the potential for an economic downturn. The Contrarian Core portfolio is fairly balanced with regard to various economic scenarios, and our Contrarian Core team sees opportunities in the market, focusing on companies that can continue to grow earnings in a potentially tough economic environment.

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 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.

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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