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FUND COMMENTARY – Q1 2024

CT (Lux) Pan European Smaller Companies



Philip Dicken
Fund Manager
Since: 29/08/2018

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: MSCI Europe Small Cap Index

Inception Date: 29/08/2018

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- European equity markets rose in Q1.
- The fund underperformed its benchmark index on a gross basis.
- Key relative contributors included CTS Eventim and ASM International.
- Detractors included CVS and Watches of Switzerland.

Market Background

Global sentiment towards equities remained strong over the first three months of 2024. Increasing optimism that major economies would navigate a soft landing resulted in gains for European equity markets. The fund's benchmark index rose by 3.6% in euro terms.

The question of when interest rate cuts would be implemented continued to preoccupy investors, leading to periods of volatility. Geopolitical tension in the Middle East caused additional volatility in energy prices.

Inflation in major developed markets trended closer to central-bank targets but missed expectations in some instances. As a result, markets scaled back rate-cut expectations. However, central banks in the US, Europe and the UK struck a more dovish tone at their respective March meetings, supporting the ongoing equity rally. Some better-than-expected economic data in the eurozone and UK added to the favourable backdrop in March. The US economy remained mostly resilient. Some strong corporate results also boosted equities, with large technology companies leading the way.

The Bank of England (BoE) gave dovish signals in March amid encouraging inflation data; annual consumer price inflation fell more than expected in February. The decline in core inflation (which excludes volatile food and energy prices) also exceeded forecasts. The BoE left rates unchanged, but Governor Andrew Bailey commented that things were moving in the right direction for a rate cut. The UK's composite purchasing managers' index (PMI) hit a nine-month high in February; it fell back slightly thereafter but continued to indicate growth, suggesting that the UK may have exited recession during the quarter.

Markets also reacted favourably to the European Central Bank's (ECB) March meeting, when the central bank held rates steady while revising down its inflation outlook. Policymakers also noted they were beginning to discuss easing monetary policy, as inflation continued to fall closer to the ECB's target. Eurozone economic data was mixed; manufacturing remained weak, but services have started to rebound and March's preliminary composite PMI for the region almost escaped contraction territory. Consumer confidence also improved, according to data from the European Commission.

Denmark, Italy and Ireland led the outperformers, while Belgium and Germany were weaker. Financials and industrials were the strongest sectors. Laggards included the relatively defensive utilities sector. Real estate was weak too, as high interest rates dampened demand.

Performance

12M Rolling Period Return in (EUR) - 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) %	3.60	-9.42	-6.78	53.45	-9.21	2.94	12.73	12.66	2.10	24.23
Index (Gross) %	11.04	-8.84	1.01	62.98	-16.83	-0.45	6.80	16.97	-2.60	15.04

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.

The past performance information for the period prior to 29 August 2018 is from the Pan European Smaller Companies Fund (a UK authorised UCITS fund launched on 21 November 2005), which merged into this Fund on 06 October 2018.

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

The fund underperformed its benchmark index on a gross basis. Stock selection was unfavourable in aggregate, as was country allocation, but sector positioning was advantageous, especially the underweight exposure to real estate.

Top relative contributors included CTS Eventim and ASM International. CTS Eventim (ticketing and event management) delivered impressive annual results as demand for live entertainment grew. ASM International (semiconductor wafer processing equipment) announced encouraging quarterly results, highlighting strong growth in GAA (gate-all-around). The company anticipates an improvement in the semiconductor market in 2024.

Detractors included CVS and Watches of Switzerland. Shares in CVS fell on news that the UK's Competition and Markets Authority (CMA) is investigating pricing practices in the veterinary sector. Shares in Watches of Switzerland declined after the company reported a difficult festive trading period, especially in the UK. Management subsequently lowered financial forecasts for 2024, particularly due to changes in the product mix for its key brand, Rolex.

Activity

New holdings included Convatec, Safestore and TOMRA. Convatec manufactures medical and surgical equipment. The company continues to grow organically, launching new products, and margins are improving. The new CEO has ambitious plans to improve execution. We switched from Big Yellow into Safestore on valuation grounds. Waste management business TOMRA is well positioned in the collection and recycling sectors and is continuing to expand operations across Europe.

In addition to Big Yellow, other sales included Musti and DiaSorin. Musti's share price had risen strongly; a takeover bid was well received by the market. We sold DiaSorin following softer results and reduced guidance.

Outlook

Markets over the past two years have been dominated by inflation and interest rates after the long period of low inflation and rates ended abruptly. Covid restrictions reduced, demand picked up, the war in Ukraine intensified, supply chains came under pressure, and inflation rose sharply.

Central banks underestimated the inflation problem and had to raise interest rates fast. Tighter monetary policy is now taking effect and inflation is falling. European economic growth has been weak with a backdrop of restrictive monetary policy: the manufacturing PMI remains below 50 (the threshold for expansion), although the services PMI has now started to recover, while slower growth in China has affected Europe's export-oriented economies. The economic picture in the UK has been similar but the composite PMI has returned to expansionary territory.

After falls in inflation, the interest rate environment in both Europe and the US now looks more benign. A recession can be avoided, although this is a delicate balancing act for central banks. Global geopolitical tensions are a concern, as are the possible repercussions for energy prices. There is also some political uncertainty, given November's presidential election in the US, and a general election in the UK.

In European equities, there are reasons to remain optimistic. Earnings have been resilient despite higher interest rates, and over the longer-term, share prices follow earnings. Good companies continue to grow, and we see opportunities in the current market. In managing this fund, our focus is on stock selection. We favour companies that have a competitive advantage and pricing power generated by brands, patented processes, regulatory barriers to entry and strong market positions.

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 holds assets which could prove difficult to sell. The Fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

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.

An investment style bias can impact a Fund's performance relative to its benchmark in a positive or negative way. No investment style performs well in all market conditions. When one style is in favour another may be out of favour. Such conditions may persist for short or long periods. A Fund exhibits a growth style bias relative to its benchmark if the majority of the fund invests in companies with above average growth rates, or good growth potential (based on indicators such as earnings and sales growth) relative to its benchmark. However, there is no guarantee that such companies will continue to show such characteristics in the future. A Fund's investment style may also change over time.

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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