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) European Select

Benjamin Moore
Fund Manager
Since: 01/04/2019

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 World Europe ex UK Index

Inception Date: 18/01/2012

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- European equity markets rose in Q1.
- The fund outperformed its benchmark index on a gross basis.
- Key relative contributors included SAP and ASM International.
- Detractors included Brenntag and Dassault Systèmes.

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 8.3% 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.

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 purchasing managers' index (PMI) for the region almost escaped contraction territory. Consumer confidence also improved, according to data from the European Commission.

The Netherlands and Denmark led the outperformers, while Portugal and the Czech Republic were weaker. Technology, financials and consumer discretionary were the strongest sectors as investors favoured economically sensitive stocks. Laggards included the relatively defensive utilities and consumer staples sectors.

*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 (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) %	19.08	4.11	4.34	38.18	0.21	4.86	6.06	11.28	-8.40	32.03
Index (Gross) %	16.94	4.57	7.37	40.10	-10.37	4.35	1.71	18.54	-12.55	22.81

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

The fund outperformed its benchmark index on a gross basis over the quarter, boosted by successful country and sector selection. Country positioning benefited from the underweight stance in Switzerland, while sector allocation was boosted by the zero weighting in utilities and the overweighting in technology.

Top relative contributors included SAP and ASM International. SAP has performed well during its cloud transition and results were strong. 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 Brenntag and Dassault Systèmes. Chemicals distributor Brenntag has been affected by soft demand in a challenging economic climate. Inflationary cost pressures, destocking, and supply-chain disruption due to issues in the Middle East also impacted earnings. The company intends to embark on a business reorganisation. Shares in Dassault Systèmes (3D design software) dipped following a period of strength. Quarterly results were strong in all areas apart from Asia where software revenue growth was subdued, although performance in China has started to improve. A new CEO has been appointed.

Activity

We opened new positions in Richemont and Publicis. Luxury-goods firm Richemont has strong brands and sales figures, with jewellery (Cartier and Van Cleef) performing particularly well. Publicis was trading on an attractive valuation and leads peers with its technology offering. The advertising and PR agency is continuing to grow revenues, particularly through Epsilon and Sapient.

We sold Roche owing to disappointing results and a soft product pipeline, and Pernod Ricard due to a weakening outlook. STMicroelectronics was sold after the share price bounced in Q4. We prefer semiconductor capital equipment stocks over chip manufacturers.

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.

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.

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 high-conviction fund, our focus is on stock selection. We seek to identify high-quality companies with the pricing power to sustain strong 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 has a concentrated portfolio (holds a limited number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the Fund’s value.

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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