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 Smaller Companies

Mine Tezgul
Fund Manager
Since: 01/12/2019

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: MSCI Europe ex UK Small Cap Index

Inception Date: 23/10/2018

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 CTS Eventim and ASM International.
- Detractors included CompuGroup Medical and LEM.

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 gained 3.5% 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 and Europe struck a more dovish tone at their respective March meetings, supporting the ongoing equity rally. Some better-than-expected economic data in the eurozone 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 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 energy were the strongest sectors, while technology was the weakest. Real estate lagged too, as high interest rates dampened demand.

*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) %	9.56	-4.11	-1.92	56.34	-10.33	2.13	13.27	16.35	6.88	22.62
Index (Gross) %	9.86	-7.05	2.30	63.15	-14.44	-1.31	7.96	20.31	-1.67	15.00

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 23 October 2018 is from the European Smaller Companies Fund (a UK authorised UCITS fund launched on 10 November 1997), which merged into this Fund on 24 November 2018.

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, boosted by successful stock selection.

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 CompuGroup Medical and LEM. CompuGroup Medical released softer-than-expected Q4 results and published weak 2024 guidance. The company remains well placed to benefit from the trend towards the digitisation of healthcare services. LEM had issued disappointing financial guidance for 2024.

Activity

New positions included Comet Holding, TOMRA and Pluxee. Comet Holding is a global producer of IT components with medical applications. The company posted strong results and is well placed to benefit from a recovery in the semiconductor cycle. Waste management business TOMRA is well positioned in the collection and recycling sectors and is continuing to expand operations across Europe. Employment benefits business Pluxee operates in a concentrated market, was trading on an attractive valuation, and exhibits strong organic growth.

Sales included LEM following disappointing guidance, and Musti after a takeover bid.

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 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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