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) Global Select

Neil Robson
Fund Manager
Since: 01/10/2019

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 ACWI Index

Inception Date: 25/01/2019

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Global equities continued to rally in the first quarter (Q1).
- Gross of fees, the fund outperformed its benchmark over the quarter.
- New positions included Procter & Gamble, S&P Global and Xylem.

Market Background

The MSCI All-Country World Index (ACWI) returned 9.6% in local currencies in Q1 of 2024. Sentiment was boosted by increasing optimism that major economies can navigate “soft landings” and strong corporate results, especially among large-cap technology companies. This helped risk assets overcome headwinds from geopolitical tensions in the Middle East and bond yields rising as expectations about the pace of monetary easing in 2024 were dialled back. In March, markets were lent additional impetus as central banks in the US, the UK and the eurozone appeared to turn more dovish, which rekindled hopes that interest-rate cuts would materialise mid-way through the year.

US stocks enjoyed a strong three months amid the ongoing resilience of the country’s economy. Treasury yields rose in January and February when the Federal Reserve (Fed) pushed back market expectations for interest-rates cuts in 2024 due to uneven progress on inflation. However, strong corporate results boosted equities, with large technology companies leading the way amid ongoing AI enthusiasm. The tech rally paused briefly in early March, but sentiment strengthened again following the Fed’s March meeting, amid relief that policymakers’ projections pointed to three quarter-point interest cuts over the year.

European stocks rose as the eurozone’s economic downturn appeared to have passed its nadir, with the composite purchasing managers’ index moving higher over the period and almost escaping contractionary territory in March. Meanwhile, inflation edged closer to the European Central Bank’s (ECB’s) 2% target, resulting in markets anticipating rate cuts by mid-2024. The ECB’s own messaging then turned more dovish in March, helping European equities to a strong finish. UK equities underperformed, partly due to stubborn UK inflation, while strong wage growth early in the year triggered concerns that the Bank of England (BoE) might delay rate cuts longer than other central banks. On the economic front, the UK slipped into a technical recession in Q4 2023, but more recent indicators pointed to a rebound in Q1 2024. UK equities rallied in March due to a larger-than-expected decline in inflation and signals from the BoE that it was getting closer to cutting rates. The pound weakened in this environment, providing a boost to the many overseas earners in the UK market.

Japanese stocks performed well throughout the quarter, aided by strong company earnings and corporate governance reforms. The export-heavy market was also boosted by weakness in the yen. The Bank of Japan maintained a loose monetary policy relative to other key central banks, even as it raised rates for the first time in 17 years and ended its yield curve control in March. Emerging markets (EMs) were impacted by China’s ongoing economic concerns. However, increased stimulus measures from Beijing later in the quarter spurred a modest recovery.

In local currency terms, Japanese stocks fared best, helped by a weak yen. US equites also outperformed the index on the back of sizeable gains in the country’s large tech sector, while Europe ex UK was also ahead of the MSCI ACWI, albeit more modestly. EMs underperformed due to the aforementioned China woes and headwinds from higher Treasury yields. The UK fared worst due to the market’s limited exposure to technology stocks, although it still posted a positive return.

Technology stocks rode the ongoing AI enthusiasm to emerge as the top-performing sector in the ACWI. Communication services followed, while energy stocks also posted strong gains, especially late in the period when oil prices rose. Healthcare, the consumer sectors and materials underperformed. Utilities and real estate brought up the rear as both sectors were particularly sensitive to moderating expectations for interest-rate cuts.

*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) %	31.71	-10.02	3.13	49.76	-2.17	3.88	23.85	13.24	0.10	7.02
Index (Gross) %	23.81	-6.96	7.73	55.31	-10.76	3.16	15.44	15.69	-3.81	5.97

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 25 January 2019 is from the Global Select Fund (a UK authorised UCITS fund launched on 22 January 2009), which merged into this Fund on 26 January 2019.

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 was ahead of its benchmark over the quarter. The outperformance was largely due to favourable security selection, especially in technology. Our picks in materials and healthcare also contributed, but those in financials and communication services detracted. Sector allocation was modestly beneficial: the overweight in technology and underweight in consumer staples proved supportive, but the overweight in materials weighed on relative returns.

At the stock level, Nvidia was the top relative contributor. Nvidia has been the forefront of the AI boom, posting above-expectation Q4 2023 revenues and earnings and announcing a variety of improved offerings over the period, which are expected to drive ongoing growth. This news not only boosted the chipmaker’s stock price but also helped fuel the wider tech rally. We continue to see the firm as a leader in the design and development of 3D graphics processing units, which are used in data centres, gaming and automotive end markets. Nvidia’s products are considered key to the development of AI technology. The firm is also well positioned to benefit from other powerful secular trends, such as the increasing demand for electric vehicles, cloud gaming and emerging omniverse opportunities.

The zero weight in Apple also aided relative performance in a weak period for the stock, with shares falling partly due to concerns about declining iPhone sales in China.

On the other side, HDFC Bank weighed on relative returns as its shares underperformed after quarterly results showed a decline in net-interest margins, despite otherwise broadly positive results. However, we continue to hold HDFC Bank. The company is the leading Indian private-sector lender and boasts robust capital levels and a strong market position. The bank is also increasing financial inclusion in India by providing finance to customers in rural areas and low-income communities.

Activity

New positions during the quarter included Procter & Gamble, S&P Global and Xylem.

Procter & Gamble offers a defensive earnings profile over the shorter term and has historically been a best-in-class earnings compounder. Years of investment in brands, innovation and organisational restructuring has helped deliver a compelling organic turnaround of the business. In addition, the consumer staples giant has an improving growth profile, which is resulting in enhanced operating leverage; in turn, this should support earnings growth. There is also potential for shareholder returns if transitory costs and foreign-exchange headwinds subside. Moreover, we believe that the company should be a key beneficiary of falling interest rates.

S&P Global is a leading global provider of financial market intelligence and analytics. We believe consensus estimates are underplaying the recovery potential for issuance normalisation. This, alongside the commitment to return 85% of free cashflow to shareholders in the form of dividends and buybacks, should support the aims of achieving top-line growth, expanding margins and delivering low-to-mid-teens earnings growth. S&P Global is also set to benefit from incremental cost synergies and productivity initiatives. In addition, the company boasts key competitive advantages based on its strong global brand and integration in the financial services industry, the latter of which creates high switching costs for its customers. In addition, we expect an increase in billed issuance, which should help improve the firm’s financials in the year ahead.

Xylem, the world’s largest pure-play water company, offers products that improve access to safe and clean drinking water. The company has achieved a market-leading position in water flow and treatment systems through a combination of both organic and external investment, including acquisitions such as smart water company Evoqua in 2023. Xylem is harnessing synergies from these acquisitions, which bodes well for earnings growth prospects. Decades of underinvestment in water infrastructure, along with the impact of climate change and population growth, has resulted in increased water stress and pollution in water systems. However, governments around the world are now focused on increasing investment in water infrastructure and smarter water solutions, which could boost demand for Xylem’s products.

We exited PepsiCo given short-term worries around earnings. We also sold out of Sony as we have some concerns around the firm's capital allocation given its conglomerate structure and plans to acquire Indian media assets. Humana was another sale as we believe that the firm's competitive position in Medicare Advantage has changed and clouded the outlook of the business.

Outlook

Markets were narrowly led in 2023 as investor sentiment was dominated by optimism around AI and, especially, the so-called Magnificent 7 tech stocks. Looking ahead, we believe the market rally will broaden as evidence of inflation coming under control and interest rates peaking should see investors refocus on fundamentals. We have already started to see signs of this so far this year.

In this environment, we believe that diversification will remain important as investment to tackle issues such as decarbonisation, deglobalisation and energy efficiency creates a broad opportunity set. Our focus continues to be on building a diversified portfolio of quality businesses that are multi-year compounders, with pricing power and less gearing to the broader economy. We believe that our bottom-up approach will allow us to find these quality growth companies across a range of sectors and geographies.

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.

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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