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 – Q4 2023

CT (Lux) Asia Equities

George Gosden
Fund Manager
Since: 25/01/2019

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 AC Asia Pacific ex Japan Index

Inception Date: 25/01/2019

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Asia ex Japan equities posted positive returns over the quarter.
- Gross of fees, the fund underperformed its benchmark.
- New holdings included Rio Tinto, Wiwynn and PDD.

Market Background

The MSCI AC Asia Pacific ex Japan index rose 7.9% in US dollars over the fourth quarter (Q4). Positive sentiment was driven by a growing belief that the Federal Reserve had reached the end of its tightening cycle and would soon start cutting interest rates, with the resulting decline in Treasury yields and US dollar weakness proving a tailwind for Asian equities.

Within Asia, China was the worst performer and fell back over the quarter. The latest macro data over the period showed retail growth below expectations and negative year-on-year consumer price inflation, while import and export figures were sluggish. The property sector also remained troubled, with declines in residential property prices and property investment throughout 2023. During Q4, Beijing announced additional support for the economy by raising the country's fiscal deficit ratio to 3.8% (from 3%), by approving the issuance of up to 1 trillion yuan (around US$137 billion) of sovereign debt.

Meanwhile, the People's Bank of China kept its main lending rates on hold and injected record liquidity into the financial system as a further measure to jump start the economy. Towards the end of the period, the country's gaming regulator issued new guidelines, including rules governing game operation and limiting app monetisation, which subsequently impacted stocks in the space. This preceded a partial recovery after the regulator approved the release of several games and outlined support for the "healthy development" of the industry.

Taiwan was the strongest market in Q4 as foreign investment flows boosted sectors such as IT and healthcare. Korea also performed strongly and outperformed the index, thanks in part to constructive trends for chip and electric vehicle (EV) battery makers. Export data showed strength, and Bank of Korea officials highlighted this as one of the economy's bright spots.

Indian equities also outperformed. According to the National Statistical Office, quarterly GDP growth to the end of September was stronger than expected, rising 7.6% compared with the same period last year, led by industrial production. However, private consumption climbed only modestly. Indonesia's market underperformed as annual GDP growth slowed in Q3, while Bank Indonesia unexpectedly raised interest rates by 25 basis points (bps) in October to support the currency as the country adjusts to higher oil prices.

The Australian market performed strongly, buoyed by a surge in iron ore prices and hopes that interest rates may have peaked. Having raised its policy rate by 25 basis points (bps) to a 12-year high of 4.35% in November, the Reserve Bank of Australia left rates unchanged at its December meeting. Inflation data proved more encouraging; according to the Australian Bureau of Statistics, consumer price inflation was 4.3% in the 12 months to November, down from 4.9% the previous month.

*The Fund is categorised an Article 8 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) and promote environmental or social characteristics as an objective. 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 December 2023

Past performance does not predict future returns and future returns are not guaranteed.

	12/22-12/23	12/21-12/22	12/20-12/21	12/19-12/20	12/18-12/19	12/17-12/18	12/16-12/17	12/15-12/16	12/14-12/15	12/13-12/14
Fund (Gross) %	0.36	-22.72	-3.31	29.51	29.34	-15.60	45.57	5.95	-7.92	6.74
Index (Gross) %	7.69	-17.19	-2.65	22.75	19.48	-13.68	37.32	7.06	-9.12	3.09

Source: Columbia Threadneedle Investments as at 31/12/2024. 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 Asia Fund (a UK authorised UCITS fund launched on 31 October 1990), 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

The fund lagged the benchmark index in Q4, gross of fees.

Geographically, Australia, Taiwan and Hong Kong were the main detractors as stock selection hampered returns. Additionally, the overweight in Hong Kong was unfavourable. However, on a positive note, Korea and Indonesia added value as stock selection proved rewarding.

On a sector basis, consumer discretionary, materials, financials and communication services subtracted most value due to negative stock selection. Additionally, the underweight in materials and overweight in communication services detracted from returns, although the underweight in consumer discretionary added some value. Top contributors included industrials, where stock selection added value, alongside the overweight in technology and underweight in consumer staples.

Among the key stock-level detractors were holdings in Chroma ATE, Yum China and Galaxy Entertainment. Taiwanese firm Chroma ATE has a successful chip testing business but the company's Q3 results proved disappointing, with revenue down 27% and net income 29% lower against the same period last year. Shares in fast-food restaurant operator Yum China fell sharply on the back of disappointing Q3 results and weaker consumer demand. Net income for Q3 was significantly below consensus estimates. The fund was overweight in Macau resorts operator Galaxy Entertainment, which fell back over the quarter but rallied in December from an oversold position.

Top relative contributors included the overweights in SK Hynix, Lenovo and Goodman. Shares in Korean chipmaker SK Hynix rose in a strong quarter for the technology sector. The company is poised to benefit from the growth in artificial intelligence. Moreover, a number of encouraging updates from US tech companies fuelled hopes that the semiconductor cycle may have bottomed out. Lenovo manufactures consumer electronics, such as laptops, tablets and PCs. The share price was supported by optimism surrounding the company's expanding product offering for AI infrastructure. The firm's solid client base and competitive products are expected to drive returns over the long term. Australian-based real estate firm Goodman develops and manages industrial property investments across the globe. The company has strong growth prospects, with a significant new development pipeline. In December, the shares were buoyed by the likelihood of interest-rate cuts in the US and Australia during 2024 as inflationary pressures have continued to ease.

Activity

During Q4, the largest new positions were Rio Tinto, Wiwynn and PDD. Anglo-Australian miner Rio Tinto should benefit from the increase in the price of iron ore and continuing demand from China's manufacturing sector. The company also recently announced that it intends to begin production at its huge Simandou iron ore mine in Guinea, West Africa a year earlier than expected. Taiwan's Wiwynn manufactures computer storage devices. We are optimistic on the company's future prospects due to its diversified customer mix, as well as its healthy AI server portfolio; we believe both will provide long-term growth momentum. Chinese e-commerce giant PDD (formerly Pinduoduo) has benefited from a positive shift in consumer sentiment, which has boosted demand across its business. We are constructive on the company's advertising and domestic business outlook, and the stock was trading at an attractive valuation.

Taiwanese electronic component manufacturer Yageo was the biggest outright sale during the quarter. We exited Yageo due to reduced upside for the stock, given the weaker-than-expected recovery in demand. Korean steelmaker POSCO was another sale as end demand remains soft, while the near-term outlook for steel profits is expected to be weak, which will impact margins. We also substantially reduced the holding in internet company Alibaba due to macro concerns in China, and the subsequent impact this is likely to have on margins.

Outlook

The near-term catalyst for Asian markets will be rate cuts. Many Asian economies, such as Indonesia and India, are experiencing low inflationary pressure, which is within their respective central bank's tolerance bands. Some central banks have started easing monetary policy already, but we expect the majority to take their lead from the Fed, and the market is predicting rate cuts in 2024.

China's lacklustre post-Covid recovery, property sector woes and geopolitical tensions have been weighing on the overall market. However, we have noted improving policy visibility, especially regarding stimulus, reforms and regulation. Geopolitical tensions will remain a key risk to monitor; while frictions have eased, the underlying issues have not changed. In terms of US-China relations, recent developments with regard to dialogue have been positive. We are also monitoring developments around the Taiwanese elections in January.

North Asian economies have benefited from China's reopening. The semiconductor cycle is showing signs of bottoming out, while inventory destocking has peaked in memory devices and a milder downturn has taken place in logic devices, benefiting the economies of South Korea and Taiwan.

ASEAN economies are demonstrating resilience and stand to gain from the reconfiguration of Asia's supply chains. Indonesia is benefiting from economic momentum thanks to strong consumer demand and commodity prices. Policy reforms in areas like supply-chain downstreaming have stimulated foreign direct investment (FDI) and resulted in a current account surplus. Additionally, Indonesia's central bank has signalled the end of policy tightening.

India is in a structural growth cycle: again, reforms (in this case related to tax, bankruptcy, labour and real estate) have been key, making it easier to do business. The government is focused on infrastructure investment and expanding the country's manufacturing sector, all to encourage FDI. The government has also kick-started a new property and credit cycle, which, over the longer term, should be underpinned by favourable demographics.

Asian stocks are attractive from a valuation perspective, trading significantly below long-term averages and cheap relative to global equities. In our portfolios, we are focusing on quality companies with strong market positions, preferring those with stable earnings, low leverage and pricing power, which should fare better in this 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 invests in markets where economic and regulatory risk can be significant. These factors can affect liquidity, settlement and asset values. Any such event can have a negative effect on the value of your investment.

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.

The fund may invest through the China-Hong Kong Stock Connect programmes which have significant operational constraints including quota limits and are subject to regulatory change and increased counterparty risk.

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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