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) Asian Equity Income

George Gosden
Fund Manager
Since: 01/01/2013

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: 02/04/1999

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 6*

Summary

- The MSCI AC Asia Pacific ex Japan index rose by 2.1% in US dollar terms in the first quarter (Q1).
- The fund outperformed the index, gross of fees.
- We established several new holdings, including KB Financial and MediaTek.

Market Background

The MSCI AC Asia Pacific ex Japan index rose by 2.1% in US dollar terms during Q1. For much of the period, equities were buffeted as stronger-than-expected economic and inflation data, particularly in the US, dampened expectations about the pace of monetary easing this year. Geopolitical tensions in the Middle East also proved a headwind. However, sentiment became more positive In March, thanks to dovish rhetoric from central banks globally, which stoked hopes of interest-rate cuts midway through the year. Strong performance in the technology sector amid AI optimism and fresh stimulus measures in China also supported Asian equities.

Chinese equities delivered a negative return and underperformed the index over the quarter. There was increasing concern about the heavily indebted property sector when a Hong Kong court ordered the liquidation of property giant Evergrande in January. Elsewhere, the closely watched National People's Congress in March did not deliver any significant policy changes, with the government setting a 5% GDP growth target for this year. There were concerns over disinflation, with consumer prices in December falling modestly year on year, although more recent data appears to reveal an uptick following the Lunar New Year festivities. More positively, the People's Bank of China cut its five-year loan prime rate (LPR) by a larger-than-expected 25 basis points (bps) to 3.95% in February, but kept the one-year LPR unchanged at 3.45%. There was also positivity around increased tourism revenue thanks to a festive travel boom, which provided an early sign of a recovery in consumer demand.

Elsewhere in Asia, Taiwanese equities had a stellar quarter and outperformed the benchmark. The rally was led by technology shares, fuelled by continuing excitement around AI. In terms of politics, the outcome of the country's presidential election in January was in line with expectations. The pro-sovereignty DPP candidate William Lai secured the presidency with around 40% of the popular vote. He reiterated a desire for dialogue with Beijing, and pledged to maintain the status quo, which presented a constructive backdrop for the stock market. The KMT, which traditionally favours closer engagement with China, won most of the seats in the Legislature. Korean equities underperformed, in spite of the positive market sentiment around AI. In addition, Korea's Financial Services Commission issued a series of proposals to strengthen the country's capital markets. These included improvements in the rights of minority shareholders and prudential measures in real estate financing.

The Indian market rallied over the quarter and comfortably outperformed the benchmark. Economic data proved encouraging, with the flash estimate of January's purchasing managers' index ahead of forecasts and a robust performance from key exports in December.

While the Australian market rose slightly over the quarter, it was behind the index. Sentiment was dampened by weaker prices for commodities such as iron ore, which hurt the market's heavyweight mining stocks. In terms of economic data, according to the Australian Bureau of Statistics, the consumer price index rose by 3.4% in the 12 months to February, which was the same rate as the previous two months. As expected, at its March meeting, the Reserve Bank of Australia left interest rates unchanged at a 12-year high of 4.35% but the minutes suggested the bank had moved to a less hawkish stance.

*The Fund integrates sustainability risks into the investment decision making process and is categorised as Article 6 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) %	7.39	-11.85	-3.81	73.86	-12.61	-1.75	23.64	16.57	-5.50	4.06
Index (Gross) %	5.61	-8.59	-10.62	59.06	-14.99	-3.24	21.02	18.52	-11.33	6.59

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

In Q1, the fund was ahead of the benchmark index, gross of fees.

At a country level, Taiwan, Korea and China proved most rewarding, helped by positive selection effects. Additionally, the overweight in Taiwan and underweights in Korea and China proved advantageous. The gains significantly outweighed the negative impact of unfavourable stock picks in Hong Kong and Australia, and the overweight in the former.

On a sector basis, most value was added in technology due to the overweight position. Stock choices in utilities and consumer discretionary were also beneficial. The positive impact was partly offset by unfavourable stock choices in financials and the overweight in real estate.

The top contributors included Bajaj Auto and Taiwan Semiconductor Manufacturing Company (TSMC), along with the zero weighting in BHP. Bajaj Auto is one of India’s leading motorcycle manufacturers. The company’s well-diversified revenue base is supporting profitability, while production volumes are continuing to expand. Bajaj is benefiting from the ongoing growth of domestic demand. Meanwhile, chip giant TSMC is a key beneficiary of the growth in AI, as the firm’s biggest clients include Nvidia. TSMC’s Q4 profit and revenue beat analyst estimates, supported by demand for the company’s 3-nanometer technology. Meanwhile, shares in Australian mining giant BHP fell as half-year results were below analyst estimates.

The main detractors included holdings in Lenovo, WHA and HDFC Bank. China’s Lenovo manufactures consumer electronics, such as laptops, tablets and PCs, and had previously performed well amid optimism over the firm’s expanding product offering for AI infrastructure. However, the share price fell in January following a disappointing Q1 sales forecast from US chip manufacturer Intel. WHA is a Thailand-based developer of industrial estates and logistics properties and an important beneficiary of supply-chain relocations. However, the pace of earnings growth is expected to slow in the year ahead. Shares in India’s HDFC Bank declined as the company’s quarterly results were disappointing and there are concerns over the prospects for deposits and net-interest margins.

Activity

Early in the quarter, we sold out of China’s Ping An Insurance and used some of the proceeds to add to our existing holding in China Construction Bank. The latter offers a solid underlying dividend, together with above-average asset quality. While the bank’s lending rates and fee income are likely to remain under pressure in the short term, this appears to be well priced in, given that the stock was trading below half book value. Ping An, owned by Ping An Bank, is a smaller-scale operation and may be more impacted by national service-type concerns.

Elsewhere, we added a new holding in KB Financial, one of Korea’s largest banks. The growth outlook looks poised to improve in line with some positive Korean economic trends, such as the beginning of a cyclical rebound in exports. Corporate governance and capital management continues to improve and the stock may benefit from additional measures to reduce the discount at which Korean equities trade, in line with recent government policy. Another new holding was Taiwan’s MediaTek, a fabless semiconductor design company with customers in the wireless communications and digital consumer markets. MediaTek’s stock had corrected to a very attractive level on inventory concerns. We now believe that signs of restocking momentum and inventory adjustment could cause the stock to be re-rated.

We exited the position in Taiwanese electronic components manufacturer Yageo as we felt there was reduced upside for the stock, given the weaker-than-expected recovery in demand.

Outlook

Asian dividends are expected to grow at a faster rate than inflation, with higher earnings feeding through to a broad-based dividend recovery. Strong balance sheets and robust cashflows should support a faster-than-expected increase in dividends across the region. Simultaneously, Asia’s evolving demographics are likely to result in continuing domestic interest in companies that can pay sustainable, growing dividends over time.

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 market as a whole. To become constructive on the overall market, we need to see the government address these challenges, as well as restoring business confidence. As a result of this and the deflationary environment, we are focused on high-conviction, bottom-up ideas related to three key themes: companies exposed to increasing trade; companies providing value for money to the consumer; and companies focused on total returns.

North Asian economies such as Taiwan and Korea are benefiting from the semiconductor recovery, given increasing demand from AI, smartphones and automotive technology, as well as governments' focus on strengthening supply chains. In addition, Korea's 'value up programme' could provide further tailwinds given the focus on improving corporate value.

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 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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