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) Pan European ESG Equities

Ann Steele
Fund Manager
Since: 01/09/2018

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Fund Manager
Since: 01/09/2009

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 Index

Inception Date: 31/03/1993

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 Novo Nordisk and CRH.
- Detractors included STMicroelectronics and SSE.

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 7.8% 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.

The Bank of England (BoE) gave dovish signals in March amid encouraging inflation data; annual consumer price inflation fell more than expected in February. The decline in core inflation (which excludes volatile food and energy prices) also exceeded forecasts. The BoE left rates unchanged, but Governor Andrew Bailey commented that things were moving in the right direction for a rate cut. The UK's composite purchasing managers' index (PMI) hit a nine-month high in February; it fell back slightly thereafter but continued to indicate growth, suggesting that the UK may have exited recession during the quarter.

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 PMI for the region almost escaped contraction territory. Consumer confidence also improved, according to data from the European Commission.

Ireland, the Netherlands and Denmark led the outperformers, while Portugal, Norway and Finland were weaker. Technology 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) %	17.70	1.79	8.19	43.02	-4.52	2.37	2.45	12.16	-10.35	24.24
Index (Gross) %	15.52	4.49	9.98	36.00	-12.96	6.14	0.12	17.70	-13.25	22.65

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 31 March 1993 is from the (a UK authorised UCITS fund launched on 31 May 2002), which merged into this Fund on .

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 stock selection. Country positioning benefited from the underweighting in Switzerland, while sector allocation was boosted by the underweight exposure to consumer staples.

Top relative contributors included Novo Nordisk and CRH. Novo Nordisk is a dominant provider of diabetes and obesity treatment, with superior technology and scale advantages in insulin production. The market is growing due to a poor western diet and ageing populations. The company announced robust annual results, boosted by high demand for weight-loss drugs. Novo Nordisk is rated AAA by MSCI ESG. CRH delivered strong annual results, despite inflationary pressures. The building materials company continues to expand through acquisitions and is benefiting from infrastructure programmes in the US. The company is rated AAA by MSCI ESG and leads peers with ambitious targets to reduce toxic emissions and waste.

Detractors included STMicroelectronics and SSE. The semiconductor chip manufacturer lowered Q1 financial forecasts due to softening demand from the automotive and industrial sectors. Utilities firm SSE issued a trading statement which highlighted a disappointing performance in renewables, due to adverse weather conditions and operational factors. Nevertheless, the company reiterated its full-year financial guidance.

Activity

We continue to meet companies to discuss financial and non-financial ESG matters. During the quarter we engaged with several companies in this fund. Examples included CRH, LVMH, Publicis and SAP.

After moving its primary listing to the US, CRH’s chair explained that whilst they need to engage with different investors, no significant issues have been raised. Succession plans remain the same – it is likely that the CEO will renew his contract. The chair said CRH will keep options open on recruitment, such as whether the candidate is based in the US or Europe.

We spoke to LVMH on its Scope 3 goals, supply chain resiliency and transparency. Under the Life 360 programme, there has been a focus on technology-based solutions to reduce the environmental footprint of raw materials, through circulating and research. This is a positive step in preparing for shifting consumer behaviour and stricter sustainability regulations. We were impressed by targets to reduce water consumption and dedication to biodiversity welfare. LMVH has acknowledged that the physical risks of climate change have a direct financial impact. The company is implementing measures for farmer, animal and crop welfare, using techniques such as regenerative agriculture. We continue to engage with management.

After a $350m settlement for its involvement in the opioid crisis, we spoke to the corporate and social responsibility director at Publicis to understand oversight and due diligence processes, lessons learned and responsible marketing. Despite the settlement, Publicis did not admit wrongdoing. Management has limited ability to identify controversies tied to clients. Publicis has processes to review new opportunities and monitor clients. Following our engagement, the company is taking this topic seriously, with board oversight and frequent discussions. Responsible marketing is challenging and complex, but the company has demonstrated it is working on ways to improve by developing standards and key performance indicators. We continue to engage with management.

We discussed responsible AI and a bribery settlement with SAP's investor relations team, who outlined the AI governance process, responsibilities of the internal steering committee and external advisory council. SAP said that the onus of AI ethics falls with the developer. While development teams conduct risk assessments, they are reviewed by the steering committee. They highlighted red-line cases of AI involving customers, data protection and bias. Following a bribery settlement, SAP has strengthened its business ethics regarding improving oversight of subsidiaries in high-risk areas, increased compliance communication and training, and has moved its whistleblowing mechanism externally. The US Department of Justice was impressed by SAP’s compliance with the investigation and gave the company a 40% reduction in the penalty.

We started a position in Italian bank Intesa Sanpaolo. UniCredit, which also has a strong presence in Italy, has posted impressive results and we wanted to increase exposure to the region. Intesa Sanpaolo is AA-rated by MSCI ESG. The bank lead peers on human capital development with robust compensation practices. SAP was another new holding; the business has performed well during its cloud transition and published strong results. The company is rated AAA by MSCI ESG and leads its peers in data security and human capital initiatives.

We sold EssilorLuxottica and VINCI to fund other opportunities. Other sales included Pernod Ricard due to a softening outlook.

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. The economic picture in the UK has been similar but the composite PMI has returned to expansionary territory.

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, and a general election in the UK.

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, informed by ESG criteria, and both macroeconomic and thematic views. 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 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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