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FUND COMMENTARY – Q1 2024

CT (Lux) Global Focus



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Since: 01/07/2023



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Since: 01/04/2013

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 ACWI Index

Inception Date: 31/03/1993

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Global equities posted gains over the quarter.
- Gross of fees, the fund outperformed its benchmark.
- New purchases included Applied Materials, Insulet and AMETEK.

Market Background

The MSCI All-Country World Index (ACWI) returned 9.6% in local currencies in the first quarter (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 equities 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.

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) %	29.62	-7.47	8.31	50.08	2.90	11.00	22.50	10.89	2.31	10.71
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.

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 outperformed its benchmark over the quarter. Security selection was the primary driver of the relative gains, adding most value in technology and materials, although there was a negative contribution from financials. Sector allocation was modestly helpful. The zero weights in real estate and utilities proved beneficial, but the overweight in materials detracted.

At the stock level, the zero weight to Apple made the largest positive impact during a difficult period for the stock, partly due to concerns about falling iPhone sales in China.

The holding in Nvidia was also favourable. Nvidia's shares rose in January after the company announced a variety of improved offerings related to AI at the Consumer Electronics Show, as well as an AI chip for the Chinese market designed to comply with US export regulations. The stock continued to rise over the rest of the period after the chipmaker's fiscal Q4 2024 revenue and earnings came in well above expectations, with major year-on-year increases. The firm's revenue projections for Q1 of its 2025 fiscal year were also ahead of analyst forecasts.

On the other side, HDFC Bank weighed on relative returns. Shares underperformed after the firm's Q3 results, released in January, showed a decline in net interest margins for the second quarter running.

Activity

In terms of activity, new purchases included Applied Materials, Insulet and AMETEK.

Applied Materials provides equipment, software and services for manufacturing semiconductor chips. The company is a market leader in the growing wafer fab equipment industry but also boasts strong positions in several other segments, which bodes well for its long-term profitability. Surprisingly strong lagging-edge tool demand from Chinese chip companies adds another tailwind. We remain optimistic that the company will benefit from improving memory fundamentals, strong growth in advanced packaging applications (such as high-bandwidth memory), new etch and deposition intensive transistor architectures (such as "gate all around" transistors) and the overall increasing complexity and number of transistors required for massive new AI processors. Moreover, electronic devices are growing more complex and challenging to test, which should help companies such as Applied Materials over the long term.

Insulet is a medical device company that develops, manufactures and markets an insulin infusion system for people with insulin-dependent diabetes. The company is gaining market share in the US, heading towards a top position in pumps with its Omnipod system. Insulet also has potential to expand beyond the 25 end-market countries it currently serves. The firm's manufacturing facility illustrates its focus on using automation to drive quality and efficiencies, while it also benefits from an experienced leadership team. In addition, Insulet's pay-as-you-go business model with disposable pumps makes it more attractive as a long-term investment.

AMETEK is a global leader in the production of advanced analytical, testing and measurement instruments for the energy, aerospace, power, research, medical and industrial markets. We favour the firm for its diversified revenue base rooted in a history of strong operational execution, returns-focused investments and disciplined acquisition strategy, which should continue to enhance the portfolio and support performance against peers through various cycles.

Sales included the aforementioned HDFC Bank in March. We also sold out of Ashtead and Uber to pursue other opportunities.

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.

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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