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) US Contrarian Core Equities

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Fund Manager
Since: 12/10/2011

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: S&P 500 Index

Inception Date: 12/10/2011

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- US equities advanced in the fourth quarter, with a rally that started in November and lasted through year-end.
- Gross of fees, the fund outperformed its benchmark.
- The positive relative return was attributable to stock selection.
- Among individual stocks Uber, Block, Inc. and ZoomInfo Technologies were the top relative contributors.

Market Background

US equities rose dramatically in the fourth quarter with major indexes advancing by double digits. The sharp rally in November and December came on the heels of three straight months of declines (from August through October). The market broadened during the quarter after the “Magnificent Seven” stocks (Alphabet, Amazon.com, Apple, Meta Microsoft, Nvidia and Tesla) had a disproportionate share of the S&P 500’s gains over the first seven months of the year.

US equities had declined in October, continuing a slide from mid-year highs that left major market benchmarks and high-profile stocks in or near correction (a decline in price of 10-20%) by month-end. Notable headwinds during the month included marked upward pressure on long-term US Treasury yields. The 10-year yield has climbed more than 400 basis points (bps) from its post-pandemic lows, and in late October briefly reached 5% – a level last seen just before the Global Financial Crisis in 2008. Uncertainty about the fourth-quarter Treasury auctions compounded worries about rising yields amid fears the government may opt to auction long-term debt, which likely would drive 10-year yields even higher. However, there was plenty more to worry investors in October, including political dysfunction in Washington D.C. and the outbreak of war in Gaza. While the third-quarter earnings season got off to an encouraging start, with big banks reporting better-than-feared results mid-month, some high-profile earnings disappointments from companies like Tesla later weighed on sentiment, as did cautious earnings outlooks that hinted at cracks in consumer resilience and weakening demand throughout most economic sectors. While some firms, such as interactive media giant Meta reported solid results, their shares fell nonetheless as investors scrutinised forecasts for signs of softening. Nevertheless, with roughly half of S&P 500 constituents reporting by month-end, the overall earnings growth rate had far surpassed estimates of a decline.

Positive sentiment gained momentum throughout the middle part of the quarter, helped by signs that inflation may have cooled enough to forestall more rate hikes and perhaps even spur cuts. Bullish investors speculated that the Fed is mindful that the full effects of its historically rapid hikes since March of last year have yet to be felt, and they also found reassurance in tightening financial conditions – a narrative dubbed by market pundits as “bad news is good news.” A sharp decrease in the rate of consumer spending announced by the US Commerce Department was especially influential; the drop was driven by slowing income growth, the resumption of student loan payments and evidence that personal savings accumulated during the pandemic are dwindling. Softer growth data in employment and manufacturing – as well as dovish interpretations of comments by Fed Chair Powell and other Federal Open Market Committee officials – also contributed to the optimistic outlook that rates would again be held steady at the mid-December meeting.

The upward momentum continued into December but stalled somewhat on renewed worries about the path of rates. Additional sources of uncertainty, notably the continuing conflicts in Gaza and Ukraine, contributed to the caution. Even though Powell and other Fed officials noted during and after the December meeting that inflation remains too high and further tightening may be needed, markets rallied sharply as investors focused instead on how many cuts might be made in 2024. Published estimates almost doubled the number suggested by the 75-bp forecast, and officials did little to dissuade such speculation. So stocks kept rising sharply, with the Dow Jones Industrial Average reaching a record high and the S&P 500 coming close to its all-time best as well. Markets did take a momentary breather for an afternoon about 10 days before year-end, selling off apparently due to rumors of new strains in US-China relations. But the rally immediately resumed the next morning after investors found no grounding for the concern.

*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).

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) %	32.21	-18.29	24.27	22.71	33.28	-8.66	21.86	8.93	2.31	12.60
Index (Gross) %	26.29	-18.11	28.71	18.40	31.49	-4.38	21.83	11.96	1.38	13.69

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.

For detailed information on Fund Changes please see Significant Events - Threadneedle (Lux) Funds PDF available on www.columbiathreadneedle.com/en/changes

In gross terms, the fund returned 12.7% in dollars over the quarter, outperforming the benchmark S&P 500 index, which returned 11.7%.

The fund's relative outperformance versus the benchmark was attributable to positive stock selection. Our choices in the industrials sector made the largest relative contribution to returns, followed by picks in technology, communication services and consumer discretionary. Our selection in utilities and consumer staples detracted on a relative basis. Allocation effects detracted overall, although the impact of cash (with an average weight of 3.8% during the quarter) on relative performance was the chief reason, given such strong performance by US equities. The fund's longstanding underweight to real estate was the top detractor in terms of sector allocation, followed by our underweights to technology and consumer discretionary. On the other hand, the underweights to consumer staples and energy were positive contributors.

Among individual stocks, Uber was the top relative contributor, followed by Block and ZoomInfo Technologies.

Uber has posted strong results, highlighted by healthy competitive dynamics, continued strength in new products and acceleration driven by return to office, business travel, and Uber for business. In its last earning release in November, Uber reported accelerated growth in both its mobility and delivery units; and company management guided next quarter ahead on bookings/profitability. Uber is gaining share versus key rival Lyft as mobility is growing north of 20%, year over year. Acceleration in the company's delivery business has also been a growth driver. Uber has strong business momentum and the stock has a unique combination of growth and profitability. The core thesis remains intact as Uber should benefit from re-opening with strong customer growth and a ramping subscription and ads business. Uber has an expanding moat that is not fully appreciated by the market today.

Block, Inc. (originally named Square, Inc.) has reinvigorated its story with a commitment to massive cost discipline including a 10% headcount reduction. The company has bold growth targets , which are potentially achievable with cost cuts driving upside initially, followed by new product innovation driving revenue surprises. Square is developing a cohesive ecosystem to provide small and medium business owners with all the tools to run their business starting with payments as the "hook". The total addressable markets are payment processing, small and mid-size enterprise (SME) management software, SME business lending and local business advertising.

ZoomInfo was a top relative contributor for the fourth quarter on the strength of an impressive turnaround in December, following disappointing performance over most of the year. ZoomInfo is a self-enriching data platform providing companies with sales and marketing intelligence. The company's execution had been poor, with most of its problems coming from its exposure to the technology sector, due to multiple changes to purchasing trends among its customers. Historically, tech firms have bought ahead of their growth plans, but as ZoomInfo's tech customers have cut their forward-purchasing plans, first to a 'current growth' level and then a second time to a 'reduced growth' level, it has been more challenging for ZoomInfo to conduct a 'levelling-out' exercise. However, management changes may to help firm up, and perhaps accelerate, growth in the firm's non-tech exposed business. Company management has repeatedly emphasised that it has been buying back stock and that the stock has been trading below its intrinsic value. For the most recent earnings release (third quarter-2023, reported at the end of October) revenue came in slightly ahead of consensus estimates and company guidance. While the majority of the firm's dataset was acquired and is replicable, the firm's structural advantage lies with the proprietary algorithms and automation which continuously increases the quality and quantity of relevant customer data. In addition to a technology advantage, the firm also has a structural profitability advantage: the sales team takes advantage of its own product and doubles up as an innovation funnel and lab for the R&D team. This acquisition and augmentation of data should support the firm's growth going forward, particularly in the event that the macroeconomic backdrop improves.

At the other end, Chevron was the largest individual detractor, followed by Walmart and EOG Resources.

Chevron's stock declined along with oil prices; energy was the S&P 500's worst sector in the fourth quarter and the only sector to post a negative return. Chevron announced that it would acquire Hess, which helps address a key bear case around the company's long-dated resource depth and cash flow growth. While the deal is dilutive to near-term earnings per share, it improves long-term dividend growth visibility. At normalised commodity prices, Chevron can expect to have a free cash flow (FCF) profile well above its historical levels. In addition, the company has strong capital discipline and FCF improvement from the Permian Basin, where it has top-tier economics relative to major oil peers. Management has a track record of being disciplined and shareholder-friendly and has grown the dividend for 34 consecutive years.

Walmart announced disappointing financial results in the middle of the quarter. Despite its third-quarter earnings being hurt by expenses, some of which were one-time charges, the company's long-term margin outlook is robust, given new profit drivers such as advertising and leverage on recent automation investment. Walmart is leveraging its scale and digital expertise to take share across categories. Stronger fundamentals in an uncertain macro environment are driving potential upside to near-term earnings. Management is effectively transforming the company into a fully integrated omni-channel retailer that is well positioned to compete against Amazon both in the US and abroad.

In a period when fluctuating energy prices are challenging the entire sector, EOG's specific risks include a lack of new natural gas takeaway capacity in the Permian Basin, which could weigh on the firm's exploration and production (E&P) earnings potential in the region. While few E&P companies have had the same degree of success in exploration, exploration spending makes EOG more capital-intensive than peers.

Nonetheless, the company's ability to add low-cost inventory through organic exploration differentiates EOG in an environment where investors are concerned that E&Ps are running out of Tier 1 inventory. EOG's multi-basin footprint gives the company flexibility to allocate capital to the highest-return, lowest cost basins. EOG is well positioned to mitigate oil service cost inflation through differentiated technology and innovation as well as vertical integration.

Activity

We established new positions in Ameren Corporation, Block (formerly Square), CACI International, Charles Schwab, Las Vegas Sands, Nike, Pfizer, UPS and Becton, Dickinson and Company. We sold out of GE Healthcare, Honeywell, Kenvue, Lowe's, Medtronic, MSCI, RTX, (formerly Raytheon) and Zebra Technologies.

Outlook

As we enter 2024, investors' concerns on lingering inflation, surging Treasury yields and the Fed's path on interest rates have been calmed to a great extent. The biggest macro risk to the markets is still the lagged impact of interest rate increases and, by extension, the potential for an economic downturn. The fund is fairly balanced with regard to various economic scenarios, and our team sees opportunities in the market, focusing on companies that can continue to grow earnings in a potentially tough economic 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 may invest materially in derivatives (complex instruments linked to the rise and fall of the value of other assets). A relatively small change in the value of the underlying investment may have a much larger positive or negative impact on the value of the derivative.

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.

CTEA6136676.1 (12/2023)