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) 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

Summary

- The MSCI AC Asia Pacific ex Japan index gained 7.9% in US dollars over the quarter.
- Gross of fees, the fund outperformed the index.
- New holdings included Rio Tinto, Fuyao Glass and Wiwynn.

Market Background

The MSCI AC Asia Pacific ex Japan index rose 7.9% in US dollar terms 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 sales 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 was ahead of 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 the benchmark. According to official estimates from 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. The Indonesian 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 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 encouraging; according to the Australian Bureau of Statistics, the consumer price index rose to 4.3% in the 12 months to November, down from 4.9% the previous month.

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) %	6.06	-15.09	4.28	24.78	28.91	-11.67	36.32	10.54	-10.34	5.89
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.

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

The fund was ahead of the benchmark index, gross of fees.

Geographically, most value was added in China, where the underweight position and stock selection were advantageous. Stock choices in India were also beneficial. On the negative side, stock picks detracted in Hong Kong, Australia and Taiwan, along with the overweight in Hong Kong.

On a sector basis, consumer discretionary, communication services and industrials proved rewarding due to positive stock selection and the underweight in consumer discretionary. Conversely, financials, real estate and materials were among the detractors, as stock selection hindered returns.

Top relative contributors included the overweights in Bajaj Auto and Lenovo, along with the zero weighting in Alibaba. Bajaj Auto is one of India's leading motorcycle manufacturers. The company has a well-diversified revenue base which is supporting profitability, while production volumes are increasing in the EV segment. Bajaj is continuing to benefit from the ongoing growth of domestic demand. In October, the firm reported a strong rise in quarterly net profits year on year. Elsewhere, Chinese company 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. E-commerce giant Alibaba has been hurt by concerns over China's macroeconomic outlook, and the potential impact this is likely to have on margins.

Among the key stock-level detractors were holdings in Chroma ATE and China Resources Land, along with the absence of PDD. 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. Property developer China Resources Land was hampered by the broad-based woes affecting the Chinese property sector. Meanwhile, Chinese e-commerce company PDD has seen a boost to demand across its business.

Activity

During Q4, the largest new positions were Rio Tinto, Fuyao Glass and Wiwynn. 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. China's Fuyao produces float glass and glass used in vehicles and the construction industry. We like the company's leadership position in the global automotive glass market, and we expect the firm to benefit from the rising penetration of EVs in the industry, which will bring high value-add per vehicle. The company is seeing increasing demand for solar back glass and is expanding production in the US. 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.

We sold Chinese alcoholic drink producer Wuliangye Yibin, which specialises in the production of baijiu. Demand has been weaker than expected amid increasing competition from other types of spirit. Other sales included Link Real Estate Investment Trust, amid the backdrop of China's slower economic growth, potential defaults by more property developers and renewed concerns around local government debt.

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 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 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 may invest in derivatives 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 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)