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) Global Select

Neil Robson
Fund Manager
Since: 01/10/2019

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: 25/01/2019

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Global equities continued to rise in December.
- Gross of fees, the fund outperformed its benchmark over the month.
- We added to Autodesk and Marvell Technology during the month, while we sold out of JPMorgan and trimmed CrowdStrike.

Market Background

The MSCI All-Country World index (ACWI) posted a positive return in December to close the year strongly. The primary driver of the positive sentiment was a growing belief that the Federal Reserve (Fed) and other major central banks had reached the end of their tightening cycles and would soon start cutting interest rates. Key measures of inflation continued to fall in the US, UK and eurozone. Bond yields declined against this backdrop, which provided a further boost for equities, particularly growth stocks.

In the US, sentiment was boosted by the Fed's dovish pivot. The bank kept interest rates on hold at its December meeting, but Chairman Jerome Powell's comments indicated a pivot away from the "higher for longer" narrative. The Fed's closely watched "dot plot" projections were revised to reflect expectations of three cuts of 25 basis points in 2024, up from the previous forecast of two. Markets anticipated more easing, increasing expectations of the number of quarter-point rate cuts next year from four to six. As a result, Treasury yields fell, and equities extended their November rally. Meanwhile, economic data increasingly pointed to a "soft landing" for the US economy.

UK equities bounced back from a relatively soft November, helped by a greater-than-expected decline in UK inflation. The Bank of England (BoE) also left its base rate unchanged but struck a more hawkish tone than the Fed, indicating rates could still rise if necessary. Nevertheless, markets moved to price in rate cuts in 2024. Economic data was mixed. The Office for National Statistics reported that third-quarter (Q3) GDP contracted by 0.1%, down from an initial estimate of zero growth. More positively, consumer confidence rose to a three-month high in December, while holiday shopping helped November retail sales recover.

The European Central Bank (ECB) kept rates unchanged but, like the BoE, appeared more hawkish than the Fed, with President Christine Lagarde saying policymakers "did not discuss rate cuts at all". However, stocks rose as markets priced in a more accommodative policy outlook as inflation edged closer to the ECB's target levels. Economic data remained downbeat. Industrial production in the eurozone declined more than anticipated, while the preliminary estimate of the purchasing managers' index remained in contractionary territory in December, indicating the region's economy may have slipped into a technical recession in Q4.

Japanese equities edged lower due to growing expectations that the Bank of Japan could shift away from its ultra-loose monetary policy in 2024. This pushed up the yen, hurting the export-oriented market. Emerging markets benefited from falling Treasury yields and a weaker US dollar and posted positive returns despite ongoing woes in China. Moody's downgraded its outlook for Chinese sovereign bonds from stable to negative, while import growth disappointed and the property sector remained distressed.

By sector, real estate was the top performer as it benefited the most from the expectations of lower interest rates. Industrials and materials also outperformed amid hopes of less restrictive monetary policies in 2024. The defensive consumer staples sector lagged the index amid the risk-on backdrop, while energy performed worst as oil prices fell.

*The Fund is categorised an Article 8 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) and promote environmental or social characteristics as an objective. 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 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) %	29.25	-24.16	15.12	21.30	36.44	-10.20	34.47	2.87	4.82	3.14
Index (Gross) %	22.81	-17.96	19.04	16.82	27.30	-8.93	24.62	8.48	-1.84	4.71

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.

The past performance information for the period prior to 25 January 2019 is from the Global Select Fund (a UK authorised UCITS fund launched on 22 January 2009), which merged into this Fund on 26 January 2019.

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 in December and was comfortably ahead of the index over the year. Stock selection drove the relative outperformance in Q4, adding most value in technology and industrials, although picks in materials and consumer discretionary detracted. Sector allocation was marginally negative; the underweights in real estate and industrials were unhelpful, but detraction was largely offset by positive contributions from the overweight in materials and underweight in consumer staples.

At the stock level, the zero weight in Apple was particularly beneficial as the shares underperformed.

The holding in HDFC Bank added value as well; shares rallied amid positive sentiment towards Indian equities. The stock was also boosted by news that its weighting would be increased in FTSE Russell’s indices. With robust capital levels and a strong market position, HDFC Bank remains well placed to capitalise on booming credit growth in India. The bank is also increasing financial inclusion in India by providing finance to customers in rural areas and low-income communities.

Detractors included Microsoft; the shares fell back following a period of strong returns in November. However, our investment thesis remains intact. The software giant boasts large distribution channels and an installed customer base, which serve as durable advantages in the industry. We believe this competitive edge and the company’s Azure platform place the firm in a strong position to benefit from the shift to cloud computing. Microsoft is also likely to be a winner from the AI boom. Other growth drivers for Microsoft include its increased presence in gaming and its Office 365 software – a subscription package which promotes recurring revenues.

Activity

We topped up our position in application-software company Autodesk. We feel the firm is well placed to benefit from the adoption of software-as-a-service-based products in underserved areas, such as construction and manufacturing. Autodesk’s move to a subscription-based model should also provide compelling cashflows, improve visibility of earnings and allow for greater consistency in financial results. Continued subscription renewals and an expanding customer base underpin the firm’s longer-term prospects.

We also added to our holding in Marvell Technology – a developer and producer of data infrastructure and semiconductor solutions – as we became increasingly positive on the sector. The company has attractive exposure to data centre growth worldwide. In addition, Marvell has a strong and growing position in a niche part of the semiconductor market, while its expertise in digital semiconductors acts as a high barrier to entry and makes the firm well-positioned to benefit from the trend towards cloud computing and AI. Marvell is also benefiting from a number of growth drivers across its 5G and automotive segments. Furthermore, the firm has a good track record in repurposing R&D across multiple applications.

We sold out of JPMorgan following a period of strong performance. We also realised some gains in CrowdStrike following the stock’s recent outperformance.

Outlook

Compared with 2022, macro sentiment had less impact on markets in 2023 and the focus was on earnings delivery. Higher interest rates will remain important in 2024 and may place some pressure on unprofitable higher-growth stocks, so we stress the importance of focusing on the quality of the growth opportunity. With the “free money” era coming to an end, markets will want to see evidence of near-term profitability and pricing power.

Our holdings, on the whole, tend to be less economically geared and so should be better placed in an environment of slower growth. They are typically cash-generative and, in many cases, have business models focused on recurring revenues. These companies also tend to have strong balance sheets, so they should be less impacted by the need to refinance debt at higher rates. In addition, many are supported by powerful secular themes.

While the market was quite narrowly led in 2023, diversification will remain important as investment to tackle issues such as decarbonisation, deglobalisation and energy efficiency creates a broad opportunity set. We believe that we can find quality growing 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.

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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