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 2023

Columbia Threadneedle (Lux) Sustainable Outcomes Global Equity

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Fund Manager
Since: 19/05/2021

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: 19/05/2021

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Global equity markets had a volatile but ultimately positive quarter.
- Gross of fees, the fund outperformed its benchmark.
- We opened a new position in global biopharmaceutical leader CSL.

Market Background

The first quarter (Q1) of 2023 was a turbulent but ultimately positive period for global equity markets, with the MSCI All-Country World index (ACWI) up 7.2% in local-currency terms.

Equity markets started the year strongly due to growing optimism that the global economy could be heading for a soft landing and that central banks might win the battle against inflation. Optimism faded in February as strong economic data, particularly in the US, raised speculation that central banks may have to keep interest rates higher for longer. Equities came under further pressure in March after the collapse of US mid-sized lenders Silicon Valley Bank (SVB) and Signature Bank, along with the near collapse of a third lender – First Republic – led to fears of contagion in the wider banking sector. Concerns were exacerbated about the viability of long troubled bank Credit Suisse, and Swiss regulators had to broker a takeover of the bank by rival UBS. Equities sold off in response, but later rebounded as concerted action by financial authorities allayed contagion worries. Sentiment was also boosted as the crisis fuelled expectations that central banks may ease the pace of monetary tightening, as the banking turmoil is expected to a lead to a tightening in credit conditions and thus curb growth and inflation.

In the US, inflation appeared to have peaked and economic data was resilient. The Federal Reserve (Fed) raised interest rates by 25 basis points (bps) in February, a slowdown from recent moves, and dovish commentary prompted some hopes that the current hiking cycle might soon be drawing to a close. However, January's strong labour market and inflation data pushed up interest-rate expectations again in February, which weighed on equities, as did the aforementioned sell-off in March. Given their sizeable exposure to growth stocks, US equities particularly benefited in the rebound at the end of March as expectations of further hikes faded. Indeed, while the Fed hiked rates again by 25 bps in March, policymakers signalled just one further hike in 2023 and withdrew familiar wording that "ongoing rate increases" should be expected.

Europe ex UK equities were boosted by the improved economic outlook for the region amid hopes that the reopening of the Chinese economy could boost trade. Inflationary pressures also eased as the milder-than-expected winter led to lower gas prices. But core inflation remained "sticky", which resulted in the European Central Bank being more hawkish than its peers. The bank raised interest rates by 50 bps in February and, despite the banking sector's woes, did so again in March. In the UK, economic data was better than expected. The Bank of England raised rates by 50 bps in February and then by 25 bps in March. The export-heavy UK market also benefited from the dollar's strength against the pound in February on anticipation that the Fed might keep interest rates higher for longer. However, the dollar's weakness in March proved a headwind for UK equities, as did the stock market's significant exposure to financials and value stocks.

In Japan, inflation hit record highs, though the Bank of Japan left interest rates unchanged and said that it would continue to pursue an ultra-loose monetary policy. Elsewhere, emerging markets (EMs) were boosted by hopes that China's economy would rebound sharply after Beijing lifted most of its Covid restrictions, along with signs the government could soften its crackdown on the technology sector. However, deteriorating Sino–US relations dampened sentiment somewhat, as did risk aversion amid the banking turmoil.

At the sector level, technology and communications were the top performers, buoyed by the prospect of falling inflation and lower interest rates. Consumer discretionary also fared well as economic activity held up better than expected. At the other end, the weakest performer was energy owing to weaker oil and gas prices. Healthcare and financials also posted declines: healthcare lagged amid the rally in cyclicals, particularly at the start of the year, while financials was adversely impacted by difficulties in the banking sector.

*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 March 2023

	03/22-03/23
Fund (Gross) %	-3.61
Index (Gross) %	-6.96

Source: Columbia Threadneedle Investments as at 31/03/2023. 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.
Past performance does not predict future returns and future returns are not guaranteed.

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 outperformance, adding most value in healthcare, technology and consumer discretionary. Sector allocation was neutral; gains from the overweight in technology were offset by detraction from the zero weight in communication services.

At the stock level, notable contributors included Nvidia and Argentina-based e-commerce business MercadoLibre, which benefited from a strong quarter for high-growth technology stocks.

Nvidia also benefited from improving sentiment towards chipmakers given the firm’s strong exposure to semiconductor growth. The firm’s tech solutions are in global demand from customers in a variety of innovative growth sectors including AI, cloud gaming and the omniverse. Further tailwinds for growth include the global shift to EVs and opportunities in the clean tech sector. Nvidia’s scale and competitive edge should position it well to benefit from these powerful secular trends. Furthermore, the firm has a strong ESG profile relative to its peers, underpinned by innovative talent management, industry-leading policies on the responsible sourcing of minerals and a robust ethics framework. We also favour Nvidia for its efficient low-energy production facilities.

MercadoLibre was also aided by news that Brazilian competitor Americanas filed for bankruptcy, which fuelled hopes of increased sales and market share. We favour the firm for its unique combination of leadership in e-commerce coupled with accelerating growth in fintech. MercadoLibre is well placed to benefit from the growth of e-commerce in the region, which remains significantly under-penetrated relative to more developed markets such as the US and western Europe. We also favour the firm for its strong corporate governance. Additionally, MercadoLibre helps to foster the development of sole traders in the region. MercadoPago – the company’s fintech segment – also promotes financial inclusion by facilitating access to means of payment for the region’s large unbanked population.

The zero weight in Apple detracted, in a strong period for the stock.

Activity

We initiated a position in CSL – a global biopharmaceutical leader with a strong competitive franchise. The firm develops and delivers a range of innovative medicines that save lives, protect communities around the world and enable people with life-threatening conditions to live fuller lives. CSL is a critically important player in this speciality niche as the second-largest provider of influence vaccines through its Seqirus division. CSL also operates one of the world’s largest and most sophisticated plasma collection networks. The firm’s plasma-derived therapies also support its leading presence in the mitigation of rare diseases. A consistent, high-quality name, CSL benefits from strong management and a promising product pipeline, with an enduring commitment to innovation through long-term research and development programmes.
We took some profits in Nvidia and Novo Nordisk following both stocks’ strong returns over the last 12 months.

Outlook

While in 2022, the market’s concern was that long duration growth looked less attractive given higher interest rates, in 2023, the focus is on earnings delivery. Higher interest rates will remain important and may place some pressure for those higher growth stocks but, we would 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 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 should be less impacted by the need to refinance debt at higher rates. Many are also supported by powerful secular themes.

Inflation will give more companies the ability to grow earnings, so we believe that diversification will remain important, particularly given issues such as decarbonisation, deglobalisation and energy efficiency. We believe that we can find quality, growing companies across a range of sectors and geographies.

In summary, we believe a focus on quality companies with pricing power and that are less geared to the broader economy is a prudent way to take equity market exposure. Over the longer term, an environment of muted economic activity should be supportive of this approach, given our emphasis on secular winners. As active managers, we continue to see the importance of regularly engaging with the companies we invest in, to ensure that their values remain aligned with our own. Through regular communication and close relationships, we can ensure that we maximise sustainable outcomes for this strategy. In our view, the financial return and sustainable outcomes objectives are in perfect harmony and enable clients to invest in a better future.

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 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 investment policy of the fund allows it to invest in derivatives for the purposes of reducing risk or minimising the cost of transactions.

The fund may exhibit significant price volatility.

The fund aims to invest in companies which deliver sustainable outcomes and in doing so adheres to a set of sustainable investment guidelines. The guidelines will affect the fund's exposure to certain sectors, which may impact the performance of the fund positively or negatively relative to a benchmark or other funds without such restrictions.

All the risks currently identified as being applicable to the fund are set out in the "Risk Factors" section of the Prospectus Please read the Key Investor Information Document and the Fund Prospectus if considering investing.

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