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 – MARCH 2024
CT (Lux) American Smaller Companies

Louis Ubaka
Fund Manager
Since: 01/02/2024

Nicolas Janvier
Fund Manager
Since: 23/10/2018

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: Russell 2500 Index

Inception Date: 23/10/2018

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- The Russell 2500 index returned 4.1% in dollar terms in March.
- Gross of fees, the fund returned 3.1%, underperforming the Russell 2500 benchmark by 102 basis points (bps).
- Rapid7, Shift4 and Domo were key detractors. Impinj was the top contributor.
- We opened positions in Generac, MarketAxess, Victoria's Secret, Albemarle, BILL, Tandem Diabetes Care and Under Armour.

Market Background

US small-cap equities continued to perform strongly in March and outperformed their large-cap counterparts for the second month running. The Russell 2500 index returned 4.1% in dollars, while the S&P 500 index posted 3.2%. This brought the Russell 2500's returns for the first quarter (Q1) to 6.9%.

US stocks continued to be supported by rate-cut expectations and resilient economic data, which fostered hopes that a slowdown in growth was avoidable. Investors shrugged off hotter-than-expected inflation readings following encouraging commentary from the Federal Reserve (Fed) that bolstered the view that the first eagerly awaited rate cut will soon be made. Profit taking was evident over the first two weeks of the month, particularly among large-cap technology names that had outperformed over January and February. However, enthusiasm for technology- and AI-related stocks was subsequently revived following strong results from Oracle, as well as the continued momentum of chipmaker Nvidia, which passed the milestone of a $2 trillion valuation early in the month. Moreover, recent worries about narrow market leadership by large-cap tech stocks were alleviated, as the rally broadened to include other cyclical sectors amid optimism about the economic outlook.

US economic data remained resilient for the most part. Signs of cooling appeared in the labour market: while non-farm payrolls were stronger than expected, the unemployment rate ticked up and average hourly earnings growth softened month over month. Consumer price inflation came in above expectations in February, as did producer price inflation. This caused some commentators to question whether the Fed may delay rate cuts. These concerns eased after the Fed held interest rates steady, as expected, at its March meeting and retained its guidance for three 25-bp rate cuts in 2024. While Fed Chair Jerome Powell did not set a timeline on the expected rate cuts, he did indicate that the "policy rate is likely at its peak for this type of cycle". Meanwhile, Fed officials raised the outlook for US growth and inflation, while lowering unemployment expectations.

All but one of the sectors within the index finished the month in positive territory. Energy was the strongest performer, posting a double-digit gain, closely followed by utilities. Meanwhile, industrials, materials and consumer discretionary outperformed more modestly. Consumer staples, technology and healthcare registered modest rises but lagged the index, while communication services brought up the rear as the only sector to post a fractionally negative return.

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*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). 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 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) %	17.10	-6.67	2.99	110.60	-17.88	6.61	9.04	23.88	-7.41	14.91
Index (Gross) %	21.43	-10.39	0.34	89.40	-22.47	4.48	11.57	20.92	-3.60	12.19

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.

The past performance information for the period prior to 23 October 2018 is from the American Smaller Companies Fund (a UK authorised UCITS fund launched on 14 November 1997), which merged into this Fund on 24 November 2018.

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 returned 3.1%, underperforming the benchmark index by 102 bps. Stock selection was the main driver of the relative underperformance, while sector allocation detracted modestly in aggregate. In terms of the former, our selections in consumer discretionary, financials and technology were unfavourable, though the impact was partially offset by helpful choices in energy and communication services. Turning to sector allocation, the overweight in utilities added value, while detractors included the underweight in energy and overweight in healthcare.

At the stock level, cybersecurity firm Rapid7 was a key detractor. The company posted estimate-beating earnings and revenue growth for Q4 2023, driven by a strong rise in product revenue and expansion in its customer base. However, investors were disappointed by management's revenue guidance for Q1 and the full-year 2024, which was weaker than analysts' expectations.

Payment processing company Shift4 was also a hindrance. Having gained over 10% at the end of February on reports of a potential buyout, shares tumbled in March after Bloomberg reported that the company's CEO had told employees that the firm had received "multiple offers", but that they had been rejected as they were judged to be too low.

Business data and analytics company Domo was another notable detractor. Shares fell sharply in response to softer-than-expected quarterly results and below-forecast revenue guidance for the firm's current fiscal year. Analysts were also disappointed that management's forward-quarter guidance suggested that billings will remain broadly flat. Annual revenue and earnings rose modestly year on year.

More positively, Impinj was the top contributor. Shares rose after the manufacturer of radio-frequency identification devices (which are used to connect everyday items to the "internet of things") settled a patent dispute with NXP Semiconductors. The settlement released both companies from liability for past patent infringements and included an agreement for the companies to license their patents to one another, as well as for NXP to make an up-front payment and pay yearly licensing fees to Impinj. This helped maintain positive share-price momentum from February, when Impinj released expectation-beating Q4 results and raised its outlook for the current quarter.

Activity

In a busy month for activity, we opened new positions in Generac, MarketAxess, Victoria's Secret, Albemarle, BILL, Tandem Diabetes Care and Under Armour.

Generac is a leading designer and manufacturer of backup power generators and other engine-powered products. The market for home standby generators is growing as the aging power grid infrastructure, unpredictability of supply from renewable energy sources and increasingly frequent freak weather events drive demand. Generac has a dominant share in this market and, with its acquisition of Ecobee and investment in Wallbox, is positioning itself as the core at-home energy solutions company. The significant energy requirements of data centres may also increase demand for alternative or additional power sources.

MarketAxess is a fixed-income electronic marketplace for institutional investors. The company stands to benefit from increasing electronification of investment and could grow through further penetrating its core markets, expanding into new geographies, broadening its trading protocols and enhancing the monetisation of its information and post-trade services businesses. Increasing automation may also help MarketAxess grow its market share as it integrates real-time data and pre-trade analytics into its offerings. The company's revenue growth tends to be cyclical due to how interest rates affect transaction pricing and trading volumes. Therefore, during periods of declining interest rates (as expected in the second half of 2024), MarketAxess should be well positioned to benefit from higher fee rates and increasing new issuance and volumes.

Victoria's Secret is a specialty retailer focused on intimate apparel, casual sleepwear, athleisure, swimwear, fragrances and body care. The firm is at the early stage of a turnaround following the departure of its founder and CEO. There are signs that the company's products and marketing are increasingly resonating with consumers, and there is potential for further improvements to be driven by additional store rationalisation and remodelling. This, along with freight-related tailwinds, market-share stabilisation and improving traffic trends, has the potential to support margins going forward. Moreover, free cashflow is strong at Victoria's Secret, and the company's valuation is attractive when compared with its mall-based specialty retailer peers.

Albemarle is the largest global producer of lithium, which is used to make lithium-ion batteries for a range of purposes, including electric vehicles, personal electronics and industrial applications. Lithium demand remains robust, and, despite a recent pullback in pricing, we believe there is a material supply-demand imbalance. Recent signs of undersupply – such as reductions in lepidolite production in China, normalised inventory levels at downstream cell producers and fewer greenfield supply projects – support this view. In addition, demand may rise in the second half of 2024 as new electric vehicle models are due to be launched in the US and China.

BILL provides web-based business automation services for small and medium-sized businesses (SMBs), including bill workflow, payment processing and business document filing, as well as electronic invoicing and management tool mobile apps. The company has a sizable addressable market and has built an efficient SMB distribution and business-to-business network that is difficult for competitors to replicate. The company has several opportunities to grow over the mid-to-long term by working with bank partners, cross-selling products and monetising beyond subscription fees, which currently make up the majority of the firm's revenue. Given our view on the company's growth opportunities, we initiated a position amid share-price weakness on near-term concerns around BILL's ability to raise fees and increase its customer base.

Tandem Diabetes is a medical device company that manufactures insulin pumps and accessories for people with insulin-dependent diabetes. After peaking following the firm's successful release of the first truly automated insulin delivery system in early 2019, Tandem's shares have fallen significantly on weak sentiment due to deteriorating fundamentals and overly optimistic guidance from the management. The outlook now looks much better for Tandem Diabetes amid encouraging feedback on the firm's new, much smaller, phone-controlled automated insulin delivery system, Mobi. There are also signs of pent-up demand within the company's current installed customer base, providing opportunities for near-term growth through existing patient renewals as well as from new patients.

Under Armour is a smaller player in the growing global athletic apparel, footwear and accessories market. The opportunity for Under Armour to grow its revenue and profit levels remains, driven by the firm's proactive inventory reductions and the expansion of its addressable market. A largely new management team is investing in product innovation and marketing initiatives, while there is also an opportunity to improve the company's cost structure. Low expectations and an undemanding valuation provide an attractive entry point for the stock given the potential for revenue growth over the next year or two.

We topped up a number of positions, including Shift4, Avista, Moelis & Company and Kontoor Brands.

To fund the above purchases, we exited positions in Wingstop, Curtiss-Wright, Morningstar, TransUnion, Zebra Technologies, Burlington Stores and Medpace. We also trimmed FTI Consulting.

Outlook

We remain constructive on the outlook for US equities in 2024 as inflation has fallen to a much lower rate, while the labour market and consumer spending continue to hold up relatively well, increasing the likelihood of a "soft landing" for the economy. Financial conditions have tightened considerably in the last 24 months due to the Fed's aggressive two-pronged monetary regime, characterised by increasing interest rates and unwinding its vast accumulated balance sheet. Although the Fed has not declared victory over inflation, the fall in headline consumer prices and recent signs of a loosening in the labour market have provided some reassurance that monetary tightening is having an effect. This has allowed the Fed to pause its interest-rate hiking cycle and pencil in an easing in monetary policy in 2024 – although the risk remains that the terminal federal funds rate could stay elevated for longer than expected. Furthermore, persistent, entrenched inflation still poses a risk, and there could be further downside should the economy enter a mild recession.

2023 was a strong year for financial markets, with inflation more than halving and growth remaining resilient, all while avoiding a much-feared economic recession. While there is still risk of a recession in 2024, concerns of a severe downturn have tempered. Inflation in 2024 is expected to continue its downtrend on fading energy pressure and softening labour markets as monetary tightening starts weighing on the growth outlook. Earnings and top-line growth estimates for Q1 of 2024 have shown some level of deceleration, with estimates coming down (though remaining positive) in aggregate since the end of 2023. This reflects slowing growth in the US economy and some easing economic tailwinds. Despite lingering concerns of a possible economic slowdown or recession, analysts have not lowered estimates below historic averages. However, negative earnings forecasts issued by companies are running above historic averages for Q1 of 2024.

Looking ahead to earnings over the rest of the year, the picture is becoming incrementally more positive; technology, communication services and healthcare companies are expected to deliver the strongest year-over-year earnings growth. Energy and materials are the only sectors forecast to see earnings growth decline in 2024 as they continue to be pressured by lower energy prices and weakness in the metals and mining, chemicals, and containers and packaging subsectors. Margins have started to recover as companies are seeing labour pressures and material inflation ease. On a year-over-year basis, the market is looking for a strong increase in earnings growth for 2024 as stocks face easier comparisons with 2023 and as the easing inflation picture is supported by a robust labour market and consumer spending.

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 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 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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