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## FUND COMMENTARY – JANUARY 2024

### CT (Lux) American Smaller Companies



**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

- US small-cap equities fell back in January and trailed their large-cap peers.
- Gross of fees, the fund returned -4.2%, trailing its benchmark by 163 basis points.
- Detractors included the fund's new position in iRobot alongside existing holdings in FIGS and Altimmune. The holding in Catalent contributed positively.
- Aside from iRobot, we initiated positions in Peloton Interactive and Nkarta.

#### Market Background

After the positive finish to 2023, US small caps fell back in January and underperformed their large-cap counterparts, which registered modest gains. The Russell 2500 index posted -2.6% in dollars, while the S&P 500 index returned 1.7%. While risk sentiment was supported by better-than-expected economic data and ongoing signs inflation was edging closer to the Federal Reserve's (Fed's) target, optimism was tempered by growing uncertainty over when the Fed might cut interest rates. Large caps were boosted by a broadly positive start to the fourth-quarter (Q4) earnings season: while results from the banking sector were weaker than expected, investors took comfort from notable earnings beats elsewhere, particularly within the technology, energy and healthcare sectors.

US stocks began the month on a subdued note after the minutes of the Fed's December meeting revealed uncertainty among policymakers as to when, or even if, the three rate cuts set out in the December "dot plot" for 2024 might occur. While officials acknowledged progress made towards taming inflation, they highlighted that it remained stubborn in certain sectors. The Fed met on the last day of the month, keeping its interest rate at a 22-year high of 5.25%–5.5%, as expected. However, Chair Jerome Powell dampened hopes of a rate cut at the next meeting by saying it was unlikely policymakers would have sufficient confidence that inflation was trending towards the 2% target.

Economic data was mixed but generally supportive of a soft-landing scenario. Non-farm payrolls for December were much stronger than expected, while the unemployment rate held steady. Both the consumer price index (CPI) and core CPI, which excludes food and energy prices, came in higher than expected in December. However, inflation as measured by the Fed's preferred personal consumption expenditures price index rose less than expected year on year. The Bureau of Economic Analysis reported that the country's economy grew at an annual rate of 3.3% in Q4 of 2023, well above market expectations, while preliminary purchasing managers' index data from January showed accelerating growth. Manufacturing activity expanded at the fastest rate since September 2022, while service sector growth reached a seven-month high.

The index sell-off was broad based, with all sectors declining in January. Technology held up best, materially outperforming the benchmark amid ongoing enthusiasm around AI opportunities. The defensive healthcare and consumer staples sectors also outperformed. Real estate was the weakest area of the market by some distance due to growing uncertainty about the timing of interest-rate cuts. Utilities, materials and consumer discretionary were also key laggards.

## Performance

12M Rolling Period Return in (USD) - as at 31 January 2024

Past performance does not predict future returns and future returns are not guaranteed.

	01/23-01/24	01/22-01/23	01/21-01/22	01/20-01/21	01/19-01/20	01/18-01/19	01/17-01/18	01/16-01/17	01/15-01/16	01/14-01/15
Fund (Gross) %	5.37	-0.06	11.64	42.80	16.89	-4.55	18.84	28.89	-7.53	11.42
Index (Gross) %	3.96	-2.05	5.75	25.48	12.25	-2.61	17.81	30.17	-6.70	10.89

Source: Columbia Threadneedle Investments as at 31/01/2024. 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](http://www.columbiathreadneedle.com/en/changes)

Gross of fees, the fund returned -4.2%, trailing the benchmark index by 163 basis points.

Stock selection drove the relative underperformance, particularly in healthcare, materials, consumer discretionary and technology. However, our selections in consumer staples added value. Sector allocation was broadly neutral in aggregate, as gains from the underweight in real estate were offset by detraction from the average below-benchmark stance in technology.

At the stock level, the fund's new position in the consumer robotics firm iRobot was the top detractor. Shares initially fell on reports that the European Commission was planning to block Amazon's planned takeover of the company and later as iRobot and Amazon announced that the deal was being pulled, as there was "no path to regulatory approval in the European Union". Towards the end of the month, iRobot announced "turnaround focused" changes to its management team and unveiled an operational restructuring plan. Executives reiterated that the company would continue to pursue key strategic activities to support a return to profitability and that further updates would be given at the Q4 earnings call in late February.

FIGS detracted for a second consecutive month in January. Shares in the healthcare apparel and scrub maker fell steeply from late December into early January, before stabilising for much of the month, then falling again at month end. With no company-specific news to drive the selloff, profit-taking by investors following strong performance in November 2023 may have been behind the recent weakness.

Altimmune – a new holding in December and last month's top contributor – was among the key detractors in January. Shares weakened as investors took profits following the strong gains in December, triggered by encouraging pre-clinical results for pemvidutide, Altimmune's drug aimed at treating obesity in patients at higher risk of cardiovascular events. At a healthcare conference in January, Altimmune presented clinical data from its pemvidutide trial in subjects with liver disease related to metabolic issues.

On the other side, Catalent was the top contributor. Shares gained on upbeat commentary from management when it presented at the Annual J.P. Morgan Healthcare Conference in early January. The presentation highlighted the strength of GLP-1 weight-loss drugs as a growing revenue generator: for the financial year 2024, revenue from GLP-1s was projected to total less than \$100 million, but this was forecast to grow to over \$500 million by financial year 2026. Catalent projected the global market size for GLP-1s would reach \$100 billion by 2030.

## Activity

We opened new positions in Peloton Interactive, Nkarta and the aforementioned iRobot.

Peloton Interactive is a producer of home fitness products, supported by live and interactive classes delivered on its app. Since its initial public offering in 2019, Peloton has suffered from a confluence of headwinds, including poor management, a significant "pull forward" in demand due to Covid-19, and supply-chain, quality and inventory issues. These challenges ultimately led to the entire senior management team being replaced in 2022.

The new management team has since made material progress towards reducing expenses and strengthening the balance sheet by outsourcing costly logistics and customer services, renegotiating supply agreements with Taiwanese partners, reducing the store count and generally restructuring the fixed cost base. This has dramatically improved the profitability of Peloton's hardware. While the firm will continue to deplete its cash reserves over the first half of 2024, management has guided to end 2024 with a flat or even slightly positive free cash flow.

Nkarta is an early-stage biotechnology company focused on the development and commercialisation of allogeneic natural killer (NK) cell therapies to treat cancer. Its approach to cellular immunotherapy involves modifying NK immune cells so they can better recognise specific proteins or antigens that are present on the surface of tumour cells. The lead clinical products are NKX101, for the treatment of certain types of leukaemia and higher-risk myelodysplastic syndromes; and NKX019, for the treatment of various B-cell malignancies. We initiated a position following positive preclinical data from NKX019, which demonstrated rapid and consistent killing of B cells collected from several autoimmune disease patients. We believe that Nkarta has the potential to differentiate itself in the autoimmune cell therapy space given the encouraging results so far from NKX019.

iRobot is a consumer robotics company focused on developing human-robot interaction, smart home devices for cleaning, and mapping and navigation devices. In 2022, iRobot had reached an agreement to be acquired by Amazon, but, as mentioned above, regulatory scrutiny resulted in Amazon pulling out of the deal, causing iRobot's stock to fall. However, we viewed this as an attractive entry point to initiate a position, as we believe there is potential for the firm's new management to improve operational execution and profitability.

We expanded the holdings in Rapid7, Avista, Glaukos and FIGS, among others.

We sold out of Amkor Technology, Nutanix and Livent, and we trimmed the positions in Boston Properties, Morningstar, Burlington Stores and Virtu Financial.

## 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 is far from declaring 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 growth estimates for Q4 of 2023, which will be reported in early 2024, have shown some level of analyst pessimism being baked into stocks as the US economy continues to grapple with slowing growth and as some economic tailwinds are easing. Analysts have lowered expectations for Q4 earnings-per-share (EPS) growth by a higher margin than average, and negative EPS guidance is also running above historic averages, although the S&P 500 is still expected to eke out year-over-year growth for the final quarter and the whole of 2023.

Looking ahead to 2024 earnings, the picture is becoming incrementally more positive; healthcare, technology and communication services companies are all expected to deliver the strongest year-over-year earnings growth. No sectors are forecast to generate declining earnings in 2024, although energy and real estate are slated to produce the weakest levels of year-over-year growth as lower energy prices and high rates continue to put pressure on these sectors. 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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