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 – Q3 2024

CT (Lux) Global Smaller Companies

Scott Woods
Fund Manager
Since: 15/04/2019

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/KID for the Fund objective.

Fund Benchmark: MSCI World Small Cap Index

Inception Date: 03/03/2011

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Global small-cap stocks rose due to growing expectations for interest-rate cuts.
- Gross of fees, the fund underperformed the benchmark.
- New purchases included Bruker, Federal Signal and Greggs.

Market Background

The MSCI World Small Cap index returned 6.8% in local currencies in the third quarter (Q3) of 2024. Growing expectations for monetary policy easing helped stocks overcome bouts of volatility due to weakening economic data and some Q2 earnings disappointments from leading technology companies.

US stocks started the quarter well amid hopes the Federal Reserve could cut rates as soon as September. Small- and mid-cap stocks outperformed in July after lacklustre earnings reports from some of the 'Magnificent 7' companies caused high-growth tech stocks to give back some of their year-to-date gains in July as investors focused on segments of the market that had previously underperformed. Labour-market data weakened over the period, and recession concerns triggered sell-offs in early August and September. However, falling consumer price inflation and increasingly dovish signals from Fed policymakers caused Treasury yields to fall and restored risk appetite. The Fed subsequently satisfied investors' hopes of a larger 50-basis-point (bps) cut – as opposed to a 25-bps move – at its September meeting, while also indicating a further 50 bps of cuts before the end of the year.

In the UK, the prospect of an era of political certainty following the Labour Party's victory at the general election lifted sentiment early in the period. The Bank of England (BoE) cut interest rates by 25 bps on the first day of August, as had been widely expected. However, markets increasingly took the view that the BoE may ease policy more slowly than the Fed due to sticky services inflation and relatively upbeat economic data. The resulting stronger pound weighed on the many overseas earners in the UK equity market. In Europe, increasingly fragile economic data hurt sentiment at times but also raised expectations for the European Central Bank's (ECB's) pace of monetary easing. The results of France's parliamentary elections in July, where a far-right victory was avoided, also supported risk appetite. Eurozone inflation then fell to a three-year low in August, paving the way for the ECB to cut rates in September. Although the eurozone manufacturing sector remained weak, a raft of stimulus measures in China in September buttressed a better end to the quarter; many European manufacturing firms are heavily exposed to the Chinese economy.

The Bank of Japan (BoJ) unexpectedly raised rates for the second time this year at the end of July, which triggered the sudden unwinding of carry-trade positions (where investors had borrowed yen at low interest rates to invest in assets in other currencies offering higher potential returns). This led to a sudden sell-off followed by an equally sharp rebound. Japanese stocks fell again later after Shigeru Ishiba won the ruling party's leadership contest and was subsequently confirmed as prime minister. Markets initially viewed Ishiba as more likely to support tighter monetary and fiscal policies. Elsewhere, Far East ex Japan markets were supported by the weaker dollar for much

*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.)

of Q3. China's economy formed an ongoing concern, but new monetary and fiscal stimulus measures from Chinese authorities bolstered sentiment.

In local currencies, Far East ex Japan posted the highest return on the back of the strong end to the period. Fed easing resulted in US stocks also outperforming the MSCI World Small Cap index. UK underperformed although still finished comfortably in positive territory, while Europe ex UK was weaker still amid the eurozone deteriorating economic backdrop. Japan brought up the rear with negative returns as the BoJ proceeded with its monetary policy normalisation.

By sector, the interest-rate-sensitive real estate sector posted the highest return in the index. Financials, communication services and utilities also delivered strong gains. Technology underperformed due to some profit-taking following some Q2 earnings disappointments. Energy fared worst; oil prices were volatile due to demand concerns amid the weakening growth outlook in major economies.

Performance

Gross of fees, the fund underperformed its benchmark in Q3 due to unfavourable sector allocation. The overweight in technology and underweight in real estate detracted the most, offsetting the helpful zero weight in energy. Security selection made a positive impact, led by choices in industrials. Our picks in healthcare and communication services also contributed, while those in technology weighed on performance.

At the stock level, detractors included Kokusai Electric and Axcelis.

Kokusai's stock price fell in July following news a private equity firm was reducing its stake in the company, resulting in Kokusai conducting a secondary share offering. Shares were later impacted by the wider volatility in early August and early September. However, Kokusai shares stabilised later, and we retain our conviction in the manufacturer of equipment used in the production of semiconductors, including for batch atomic layer deposition (ALD), a process used to precisely deposit thin films of semiconductor material on the base materials of chips. The company continues to invest in research and development to maintain its competitive edge in this growing area. Kokusai is also gaining market share in treatment equipment to improve the quality of the films used in semiconductor manufacturing, which could form an important source of growth (there are tangible benefits for customers to use the same company for batch ALD and film treatment equipment).

Axcelis underperformed during the wider semiconductor sector downturn in July, retracing the strong gains it made in June. The firm's quarterly results, also announced in July, added a headwind as revenues declined year-on-year, although earnings surpassed expectations. Despite this recent weakness, we continue to favour Axcelis, which produces ion implementation equipment for the semiconductor industry. Ion implementation is a critical step in the production of semiconductor devices. The company's broad portfolio of high-precision equipment includes high-energy, high-current and medium-current implant tools aimed at optimising production. We feel the company is well placed to benefit from the increasing demand for semiconductors, driven largely by the growing market for electric cars. Axcelis also provides extensive aftermarket service and lifecycle support through its CS&I business, and the company benefits from strong market share and a global presence.

On the other side, Belimo and Japan Elevator Services were among the positive contributors.

Belimo shares enjoyed a strong July, driven by above-expectation earnings and revenues for the first half of the year, despite a challenging backdrop in some regions. The company also upgraded its full-year guidance, which was warmly received by investors, and its stock continued to perform over the rest of the quarter. We remain positive on Belimo, which produces actuators, sensors and control valves for heaters, ventilators and air conditioners. The company's products improve energy efficiency and can reduce heating costs.

Japan Elevator Services (JES) benefited from favourable industry tailwinds for much of Q3. Hopes that the BoJ may slow its rate-hikes provided further support later in the period. JES is an independent maintenance firm that provides upkeep services for elevators and other equipment. It benefits from having a large market share in an industry with little competition. In addition, the market for elevator maintenance and modernisation is steadily expanding year by year in Japan and other Asian countries. JES has a strong reputation for its technical capabilities and the quality of its services in the Japanese market, and the firm is aiming to attain dramatic growth by offering its services to the global market. The company produces its own control units, has a massive inventory of genuine parts and uses a remote monitoring system, all of which helps to differentiate it from other independents. In addition, JES is more flexible than original equipment manufacturers, which is helping it to grow its market share in the service business.

Activity

New purchases included Bruker, Federal Signal and Greggs.

As one of the world's leading analytical instrumentation companies, Bruker benefits from its large scale, global presence and wide product range. The firm prides itself on innovation and has established a market-leading position in niche pockets of the industry, which should continue as investments in research and development have grown. Bruker's differentiated high-value life-science research and diagnostic solutions enable innovation, improved productivity and customer success. We feel that organic growth should improve, primarily through Project Accelerate, an internal initiative designed to boost the company's exposure to structurally favourable end markets. Additionally, the company stands to be a key beneficiary of the increasing demand for automation.

Federal Signal manufactures and supplies safety, signalling and communications equipment for fire rescue products, street sweeping, vacuum loader materials and other uses. We see the firm as a high-quality industrial compounder due to its potential to realise strong organic growth, and it continues to add new speciality commercial vehicles to its platform. We expect Federal Signal to continue to grow its already leading market share across these niche, fragmented markets.

Greggs is a leading UK food chain that serves baked goods, sandwiches and hot and cold drinks. The company benefits from its strong national brand image, led by its iconic sausage rolls. In addition, Greggs has continued to diversify and grow its food and beverage offerings to adapt to evolving consumer tastes. The firm's strong balance sheet has allowed it to maintain significant investment in its supply chain, helping it expand its network of stores. We are confident that the firm's high-quality business forms a good long-term investment as its brand image and rollout strategy should offset any near-term challenges.

To help fund these purchases, we sold out of Visteon, taking profits after favourable recent performance. We also exited Clean Harbours, which had reached our market capitalisation restriction.

Outlook

Investor sentiment over the past 18 months has been dominated by optimism around AI and anything perceived to be a beneficiary. Smaller companies have been shunned in favour of large caps – especially the so-called Magnificent 7 – and those at the smaller end of the scale now trade at a compelling discount. Looking ahead, we believe the market rally will broaden, as evidence of inflation coming under control and interest rates falling should see investors refocus on fundamentals. This should be supportive of the asset class.

However, the upcoming US presidential election may create volatility in markets. As such, a global approach with a focus on quality makes sense in this environment. Less dependence on the strength of particular economies will be important, as will diversification, as investment to tackle issues such as decarbonisation, deglobalisation and energy efficiency creates a broader opportunity for earnings growth.

Our focus continues to be on building a diversified portfolio of quality businesses that are multi-year compounders, with pricing power and less gearing to the broader economy. We believe that our bottom-up approach will allow us to find such quality growth companies across a range of sectors and geographies.

12M Rolling Period Return in (EUR) - as at 30 September 2024

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

	09/23-09/24	09/22-09/23	09/21-09/22	09/20-09/21	09/19-09/20	09/18-09/19	09/17-09/18	09/16-09/17	09/15-09/16	09/14-09/15
Fund (Gross) %	17.79	10.43	-27.17	36.49	20.52	10.09	23.67	22.63	8.26	19.89
Index (Gross) %	19.01	6.01	-10.88	42.43	-4.04	1.25	12.62	14.35	14.12	11.65

Source: Columbia Threadneedle Investments as at 30/09/2024. 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

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.

An investment style bias can impact a Fund’s performance relative to its benchmark in a positive or negative way. No investment style performs well in all market conditions. When one style is in favour another may be out of favour. Such conditions may persist for short or long periods. A Fund exhibits a growth style bias relative to its benchmark if the majority of the Fund invests in companies with above average growth rates, or good growth potential (based on indicators such as earnings and sales growth) relative to its benchmark. However, there is no guarantee that such companies will continue to show such characteristics in the future. A Fund’s investment style may also change over time.

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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