The Multi-Manager People

Fund Watch

Q4 2023

COLUMBIA THREADNEEDLE INVESTMENTS

Welcome to Fund Watch

Our quarterly summary of statistical outputs from our investment process.

Fund Watch uses our team's process to highlight the past quarter's developments in the fund world. It is fact-based and uses performance analysis techniques which form part of our investment process. All data is from Lipper for Investment Association (IA) sectors and is calculated in total return terms in sterling for periods ending 31 December 2023.

This quarter's report includes the following analysis:

- **The CT MM Consistency Ratio** – highlighting the surprisingly limited number of funds beating their peers on a regular basis.
- **Tops and Bottoms** – the ultimate winners and losers over the quarter.
- **Sector Skews** – the best and worst of the 56 IA sector averages.
- **Risky Business** – a look at the leading funds for combining first class longer-term returns with the lowest levels of volatility.

Please note that this is a marketing communication and does not constitute investment advice or a recommendation to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. Views are held at the time of preparation.

Past performance is not a guide to future performance. Stock market and currency movements mean the value of investments and the income from them can go down as well as up and you may not get back the original amount invested.

Key risks

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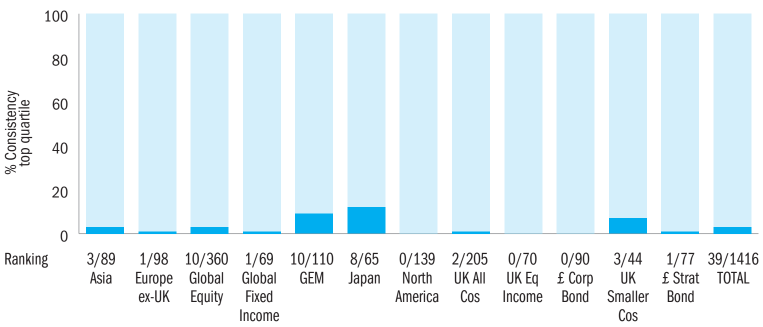
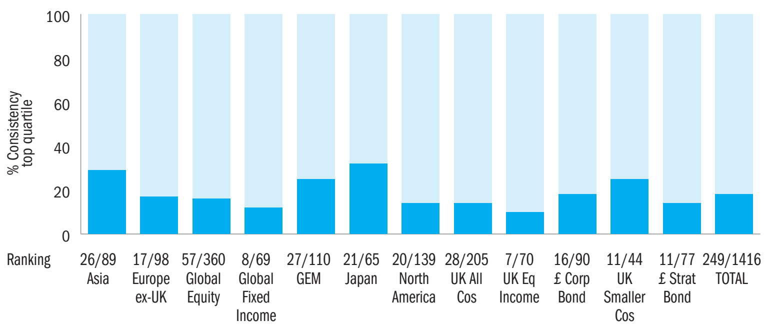
The CT MM Consistency Ratio

Top quartile performance rolling 3 years: 2.75%



Above average performance rolling 3 years: 17.58%



Source: Lipper, as at 31.12.23, percentage growth, total return.

Here we conduct a review of the 12 major market sectors, filtering out only those funds that are consistently above average in each of the last three 12-month periods, and for a harder test those consistently top quartile. In the 12 main sectors researched, there are currently 1,416 funds with a 3-year track record.

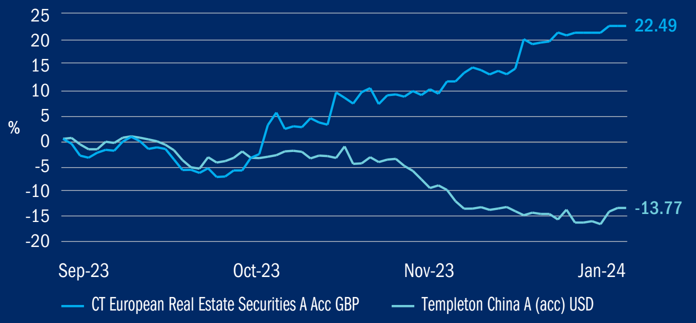
- The CT MM Consistency Ratio for top quartile returns over three years to the end of Q4 2023 fell. This quarter 39 funds achieved this feat, which equates to 2.8% of the selected universe, down from 3.9% in Q3. This ratio's typical range over the time we have been running this research is c.2-4%.
- Echoing Q3 IA Japan sector had the most consistently performing top quartile funds with an impressive 12.3% of offerings achieving this feat. The next best was the IA Emerging Markets sector with 9.1% of funds. The IA £ Corporate, UK Equity Income and North American sectors all failed to have any funds hit the mark with the IA Europe ex UK, IA Global Mixed Bond and IA Sterling Strategic sectors only having one fund achieving consistently top quartile returns in the 3 consecutive 12 month periods.
- Lowering the hurdle rate to simply above median in each of the last three 12-month periods also saw a fall with 249 of the 1,416 funds delivering above median returns consistently, compared to 262 funds last quarter. This means this less demanding ratio fell to 17.6% from 19.8%.
- The IA Japan sector had the most consistently above average funds with 32.3% achieving this feat. The next best was the IA Asia ex Japan sector with 29.2% of funds qualifying. At the other end of the spectrum the IA UK Equity Income sector had the lowest percentage of funds achieving rolling 12-month consistency for the 3 years at 10%. All sectors had a number of funds achieving above average consistency.

> "Consistency faltered in the fourth quarter as the mood music again took on a different tempo and growth and long duration assets led the markets higher."

CT Multi Manager comment

- Consistency faltered in the fourth quarter as the mood music again took on a different tempo. Having failed to respond to expectations of a change in rate outlook for much of the year, the final Federal Reserve meeting of 2023 offered a more dovish tone. And BOOM… off we go again – growth and long duration assets led the markets higher.
- Perhaps inflation was transitory after all. It is telling that there were no consistently top quartile North American funds, but that 9 of the 20 that were consistently ahead of average were trackers. Active managers naturally invest away from the index behemoths that dominate the US indices. A change in fortunes of the 'Magnificent 7' stocks would likely result in a change in consistency outcomes.
- Japan has proved to be something of an outlier in 2023, and pleasingly so. A market often forgotten due to its ever-decreasing importance in global indices, it has proved a rich hunting ground for active investing.

Tops and bottoms

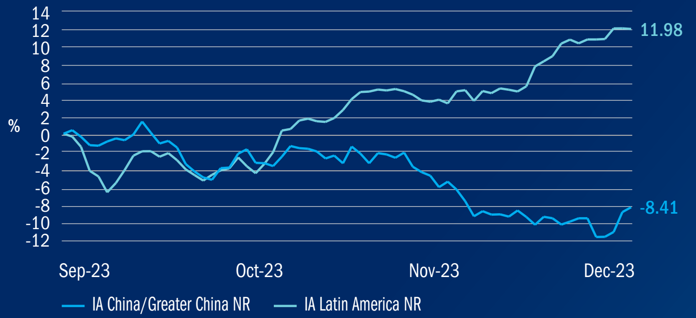


Source: Lipper, 30.9.23 to 31.12.23, percentage growth, total return.

Identifying the best and worst performers of all funds in the quarter across all 57 IA sectors.

- The £20m CT European Real Estate Securities Fund run by Alban Lhonneur and Marcus Phayre Mudge led the table of IA universe funds over the quarter. This active offering invests in listed real estate companies in Europe, and may use derivatives to obtain long or short market exposure. In what has been a volatile year for European Real Estate, the final quarter brought with it renewed positive sentiment which the fund benefited from.
- The $338m Templeton China Fund compounded the negative sentiment around equities in the country as the worst performing fund in the IA sector in the quarter. With questions over the property market and growth strategy of the country's leadership key holdings such as Alibaba and Tencent failed to lift the fund ahead of the broad market declines in the period.

Sector skews



Source: Lipper, 30.9.22 to 31.12.23, Percentage growth, total return.

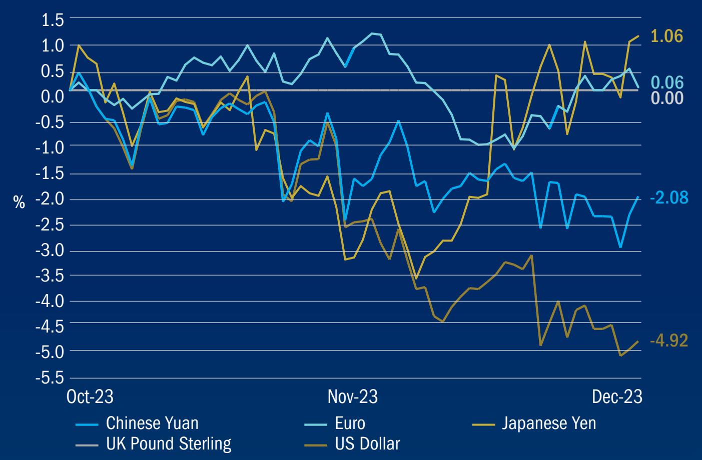
> As we peer into our tea leaves for inspiration for 2024, it strikes us that we may be nearing a time to be brave. With continued geo-political tensions and an election year for 60% of the world population likely to throw significant curve balls into the mix, investing certainly isn't going to be for the fainthearted!

Identifying the best and worst performers in the quarter across all 56 IA sectors.

- The performance genie was let out of the bottle in the final quarter of the year with 54 of the 56 IA sector averages making positive ground and 51 of the 56 beating the 1.4% return of the IA Standard Money Market sector average. If we extend this to the full calendar year 48 of the 54 sector averages were positive, with 35 of the 56 beating the IA Standard Money market average of 4.7% for the 12-month period (which coincidentally is exactly the same gain as the rise in the UK RPI for the full 12 month period).
- The IA Latin American sector was the best returning sector average gaining 12% with central bankers in the region actually leading the rate cutting agenda ahead of their developed market peers. The IA Technology & Telecom sector was second best gaining 11.8%, with the IA Property Other sector close behind having suffered for much of the year. The standout underperformer of the quarter was the IA China/Greater China sector which fell 8.4%, considerably more than the next worse sector which was the IA UK Direct Property which fell 0.2%. Sentiment remains at rock bottom for Chinese investments as fears over future crisis hang over the area with investors exiting in their droves with little tangible evidence of a change in policies from authorities in the region thus far.
- There was a changing of the guard in the UK equity sectors with the UK Smaller Companies average leading the move upwards in the quarter with a 6.8% gain. The IA UK All Companies sector returned a respectable 4.5%, while the IA UK Equity Income a close 4.3%. The returns for the year remain significantly different however, with the IA Smaller companies average essentially flat while the IA UK All companies gained 7.2%.
- Sensitivity to interest rates was a major factor in the fortunes of bond sector returns with the IA UK Index Linked Gilt sector average gaining close to 10% in the quarter though the 12-month return was a less stunning 0.4%. 2023 has been a year for carry with High Yield sectors generally offering greater returns for the 12-month period.

Currencies

Major currencies relative to Sterling



Source: Lipper, 30.09.23 to 31.12.23, Percentage growth, total return.

Currencies

The words of the central bankers set the currency cat amongst the pigeons in the quarter with the dollar weakening against sterling while the Yen bounced mid period. Having suffered from lower confidence Sterling regained its poise in the final months of the year as the Dollar weakened, thanks to the Chair of the Federal Reserve pivoting to a more dovish tone while the Bank of England remained more guarded in their outlook for rates.

> “The performance genie was let out of the bottle in Q4 with 54 of the 56 IA sector averages making positive ground and 51 of the 56 beating the 1.4% return of the IA Standard Money Market sector average.”

Risky business

Can you have your cake and eat it? Here we search for funds with good risk characteristics and establish which funds offer the holy grail of low risk and high returns. For this purpose, a longer time-period is required, so we look back over three years to the end of the quarter.

- The Orbis OEIC Global Cautious Standard Acc achieved sector topping returns and low volatility in Q4 with a 100th percentile risk and first percentile return for the 3 years within the IA Mixed Investment 20-60% Shares sector. With a greater emphasis on government bonds and cautious investing, avoiding the drawdowns of 2022 has been a major factor for this bottom up multi asset offering.

Final Thoughts...

- The fourth quarter was a lesson in time in, rather than timing the market. Much of the year has been spent debating the merits of cash as a viable investment, and while it is true that returns have been optically reasonable, when adjusted for inflation in reality you have simply retained the spending power of the pound in your pocket rather than gained. UK RPI registered at 4.69% for the year as a whole and while the average (of the 4) IA Standard Money market funds on offer matched this, putting your cash in the Moneyfacts Average Instant Access account returned significantly less at 2.5%. Meanwhile the MSCI World index has returned 16%, UK equities 7.2% and even Japan is up 12.6% (all in Sterling terms). Smaller companies have been the laggards for much of the year but surged in the fourth quarter, as did many long duration assets. It is this relay race that makes a market, and where long-term savings grow in real terms – something that cash in the bank will always struggle to compete with.
- As we peer into our tea leaves for inspiration for the year to come it strikes us that we may be nearing a time to be brave. China looks ripe for a change of sentiment while India is priced for perfection, and if Private Equity needs to start deploying capital then smaller companies are a steal, particularly in the UK. High Yield has been fabulous but when floating rates start to bite there will be winners and losers, and Emerging market central bankers have been ahead of the curve in hiking and then cutting interest rates while their developed market cousins sat on their hands. It is also an election year for 60% of the world population which in itself throws a significant curve ball into the mix.

Summary

In summary, we believe the performance numbers are – as always – well worth crunching to find trends, provide ideas, layer knowledge on how each fund performs and to generally provoke thought.

Of course, the analysis must be taken in context, and the qualitative work must be done to allow for fully informed judgments. We hope you found this review interesting, and if you have any questions, please contact:

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If you would like further details or would like to discuss why we think these points are of interest, then please do contact us. We have our own observations and opinions on this analysis and would be happy to discuss them if appropriate.

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