The Multi-Manager Team

Fund Watch

Q1 2024

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 Management, Investment Association (IA) sectors and is calculated in total return terms in sterling for periods ending 31st March 2024.

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.

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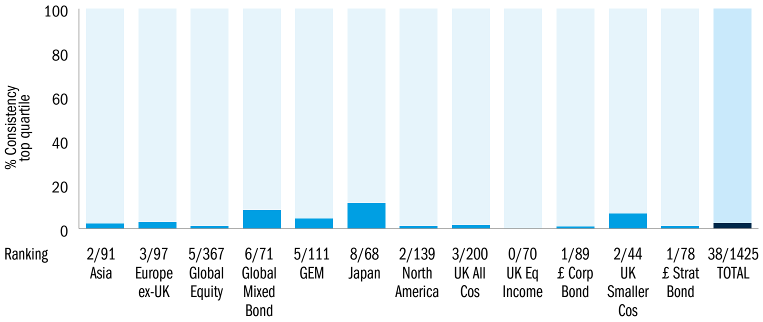
Past performance is not a guide to future performance. Stock market and currency movements mean the value of investments and the income from them can go down as well as up and you may not get back the original amount invested.

Key risks

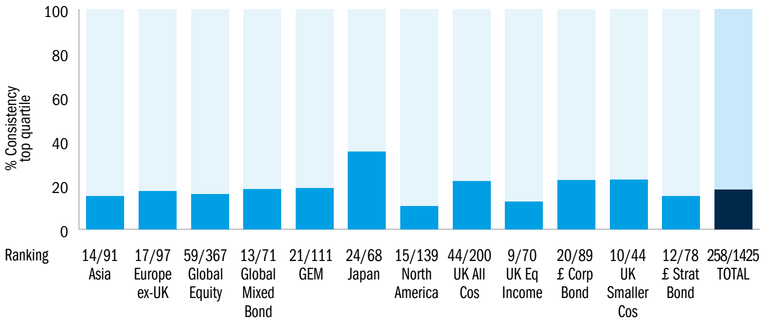
The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested. The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

The CT MM Consistency Ratio

Top quartile performance rolling 3 years: 2.74%



Above average performance rolling 3 years: 18.11%



Source: Lipper, as at 31.03.2024, percentage growth, total return.

Here we conduct a review of the 12 major market sectors, filtering out 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 1,425 funds with a 3-year track record.

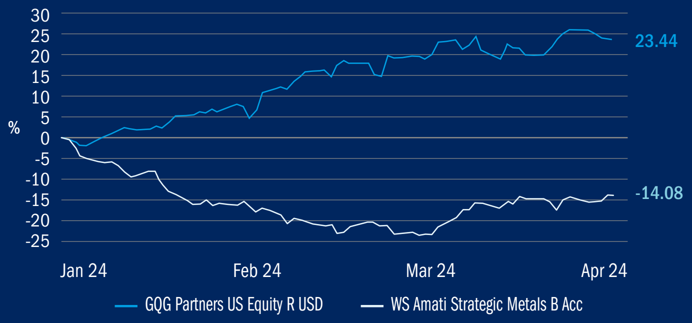
- The CT MM Consistency Ratio for top quartile returns over three years to the end of Q1 2024 fell marginally. This quarter 39 funds achieved the feat, which equates to 2.7% of the selected universe, down from 2.8% in Q4. This ratio's typical range over the time we have been running this research is c.2-4%.
- Echoing the previous two reports, IA Japan sector had the most consistently performing top quartile funds with an impressive 11.8% of offerings achieving this feat. The next best was the IA Global Mixed Bond sector with 8.5% of funds. The IA UK Equity Income sector was the lonely standout, with no single fund achieving top quartile returns over the three respective periods. The IA £ Corporate Bond and IA £ Strategic Bond sectors only had one fund achieve top quartile returns consistently 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 pickup versus last quarter, with 258 of the 1,425 funds delivering above median returns consistently, compared to 249 funds last quarter. This means this less demanding ratio crept higher to 18.1% from 17.6%.
- The IA Japan sector had the most consistently above average funds with 35.3% achieving this feat. The next best was the IA UK Smaller Companies sector with 22.7% of funds qualifying. At the other end of the spectrum the IA North America sector had the lowest percentage of funds achieving rolling 12-month consistency for the 3 years at a measly 10.8%. All sectors had a number of funds achieving above average consistency.

> “We see continued support for equity markets with company earnings remaining relatively resolute. Unfortunately, corporate bond spreads are once again reaching multi-year lows, limiting future excess returns”

CT Multi Manager comment

- Consistency was remarkably… consistent between quarters, despite the large rally in equity markets. Economic data remains relatively robust despite the record pace of central bank tightening, supporting equity earnings. Now central banks are indicating a slightly softened stance, although the jury is out just how far they are willing to ease policy.
- With US equities comprising ever larger parts of global portfolios, it's difficult reading to see a lack of consistent US equity funds – performance is polarised between styles and market caps, demonstrating the difficulty of one fund consistently driving performance. The only standout was investment group Fisher Investments whose US All Cap ESG and US Equity ESG funds were the only top quartile achievers over the periods reviewed.
- Once again Japan was a rich hunting ground for consistent fund performance. Corporate reform is finally unlocking shareholder value within Japanese equities, it is therefore unsurprising who populated the consistency tables were those value factor bias – credit to Lazard, M&G, Man GLG, New Capital, Nomura and Morant Wright.

Tops and bottoms

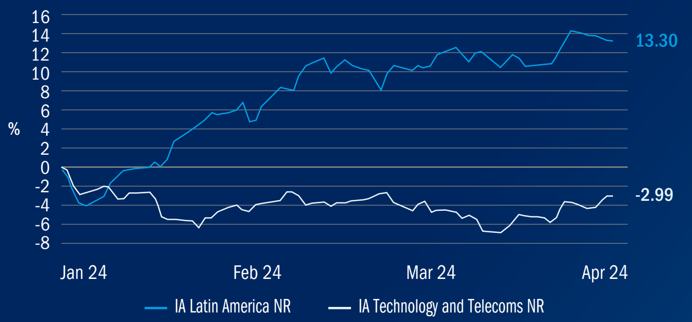


Source: Lipper, 31.12.23 to 31.03.24, percentage growth, total return, GBP

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

- GQG Partners US equity stormed to the top of the leaderboard in Q1 2024, finishing up 23.4% – a £1.1bn fund which invests in high quality yet fast growing companies in US, such as Artificial Intelligence winner NVIDIA and weight-loss drug provider Eli Lilly and Co. The group have had a tremendous few years of performance, investing not only in technology winners throughout but opportunely adding oil and gas companies as energy costs (and company profits) climbed. Runner up was Liontrust Japan (£ Hedged).
- Propping up the performance table for Q1 2024 was Amati Strategic Metals Fund which invest in equities exposed to exploration, extraction or processing of metal revenues. It finished -14% despite a buoyant gold price, reminding investors that spot metal prices do not always drive equity prices! Populating much of the bottom ranking were UK Renewable and Infrastructure exposed funds, with the London-listed investment company market remaining out of favour with investors.

Sector skews



Source: Lipper, 31.12.23 to 31.03.24, Percentage growth, total return, GBP

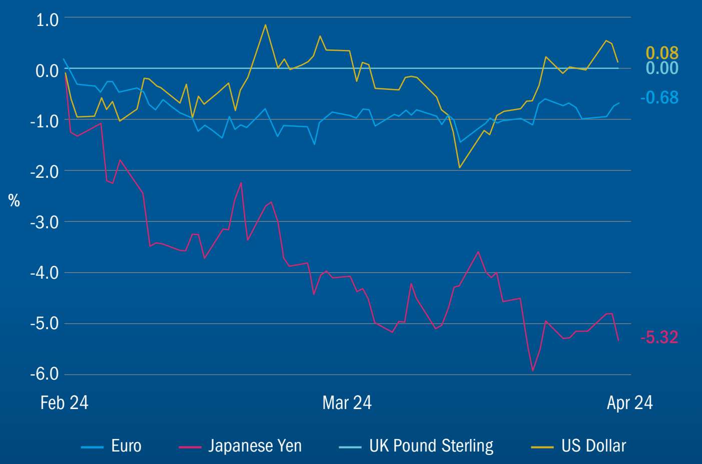
Identifying the best and worst performers in the quarter across all 56 IA sectors.

- Whilst risk assets continued to perform well in Q1 2024, returns were widespread between regions and assets classes. 14 of the 56 IA sectors were in fact negative, with the worst performing Latin America at -3%, giving back some of its large gains in Q4 2023. Many of the other negatively returning IA sectors were fixed income categories as central banks pushed back on the amount of interest rates cuts priced in the market.
- The high-flying sector of the quarter was IA Technology and Telecoms, driven by performance of the former rather than the latter! Whilst some of the performance is driven by multiple expansion, much of the return is underpinned by growth in earnings due to the artificial-intelligence boom. Runner up was IA North America, with many of the technology behemoths residing within US market. Third was IA Japan, continuing its stealth outperformance due its significant corporate reform agenda.

> “Consistency was remarkably consistent between quarters. Japan remains a rich hunting ground mainly driven by corporate reforms continuing to unlock shareholder value.”

Currencies

Major currencies relative to Sterling



Source: Lipper, 31.12.23 to 31.03.24, percentage growth, total return, GBP

Currencies

Once again, the Japanese Yen continued to feel the pressure versus other developed market currencies in Q1, blunting investor returns on an unhedged basis. Although the Bank of Japan has now formally ended its negative interest rate policy, rates are still way below that of developed market peers and markedly below inflation.

> Only a limited number of funds beat peers on a regular basis. Disappointingly, 14 of the 56 IA sectors were negative.

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.

- 'Credit' to M&G Short Dated Corporate Bond Fund for having 99th percentile (lowest) volatility within the IA £ Corporate Bond sector and sector leading returns. Bonds have been plagued by inflation and anything remotely sensitive to interest rates has had a tough time to perform. The M&G fund's premise to avoid interest rate sensitivity and has proved its worth by delivering as it says in the fund name.

Final Thoughts...

- Muscle memory can be dominant for some time and investors continued to appreciate the multi-year technology winners in Q1 2024. Investment returns continued to remain broadly positive, with the exception of a handful of bond sectors- somewhat counter intuitive given year-on-year inflation rates continued to fall. All eyes remain on central banks and their assessment as to whether we are again at acceptable levels of inflation, or whether its too soon to cut when the underlying economy remains robust.
- Widespread corporate self-help is driving Japanese equities higher, even more so than appears once adjusted for currency moves. Take note UK authorities, where UK assets continue to flounder to long term low multiples, and where investment company and property assets see share prices much wider than their net asset values.
- Looking forward, we see continued support for equity markets with company earnings remaining relatively resolute and it is worth remembering that optically expensive markets can remain so for some time. Alternative assets are once again presenting some tremendous value, such as investment trusts with high dividend yields supported by strong cash generation – investors are being paid to be patient for a re-rating. We compare this to corporate bond spreads which are once again reaching multi-year lows, limiting future excess returns.

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.

Views and opinions have been arrived at by Columbia Threadneedle Investments and should not be considered to be a recommendation or solicitation to buy or sell any companies that may be mentioned.

To find out more, visit **columbiathreadneedle.com**

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