

For Professional Clients and/or Qualified Investors only

The Multi-Manager Team

Fund Watch

Q2 2024

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, using the Investment Association (IA) sectors and is calculated in total return terms in sterling for periods ending 30th June 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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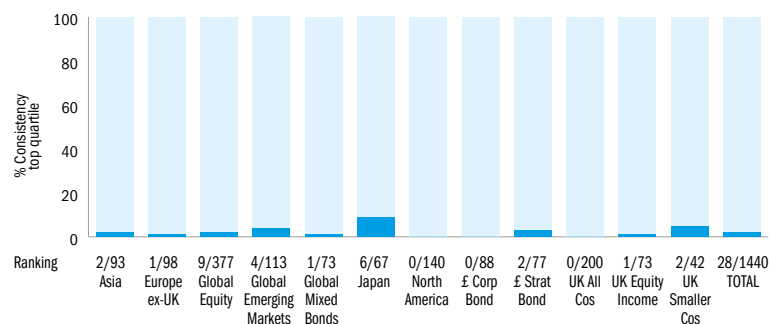
Past performance is not a guide to future performance. Stock market and currency movements mean the value of investments and the income from them can go down as well as up and you may not get back the original amount invested.

Key risks

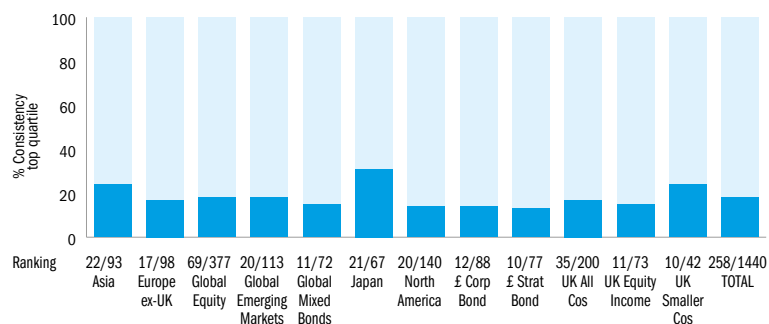
The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested. The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change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

The CT MM Consistency Ratio

Top quartile performance rolling 3 years: 1.90%



Above average performance rolling 3 years: 17.9%



Source: Lipper, as at 30.06.2024, percentage growth, total return.

Here we conduct a review of the 12 major market sectors, filtering 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 1,440 funds with a 3-year track record.

- The CT MM Consistency Ratio for top quartile returns over three years to the end of Q2 2024 fell to 1.9%. This quarter only 28 funds achieved the feat in the selected universe, driving a fall in the CT MM Consistency Ratio which stood at 2.7% in Q1. The CT MM Consistency Ratio now sits marginally below the typical range over time we have been running this research of c.2-4%.

- Continuing its strong showing in previous reports, the IA Japan sector boasts the highest percentage of top quartile funds at 9%, although this is down from 11.8% in the previous publication. The next best was the IA UK Smaller Companies sector with 4.8% of funds. The consistently low scoring camp this quarter includes IA North American, £ Corporate Bond and UK All Companies, with no single fund in these sectors achieving top quartile returns over the three respective periods. A further three sectors only had one fund achieve top quartile returns consistently in the three consecutive 12 month periods analysed.
- Lowering the hurdle rate to above median in each of the last three 12-month periods saw only a modest fall versus

last quarter to 17.9% with 258 of the 1,440 funds delivering above median returns consistently, compared to 18.1% of funds last quarter.

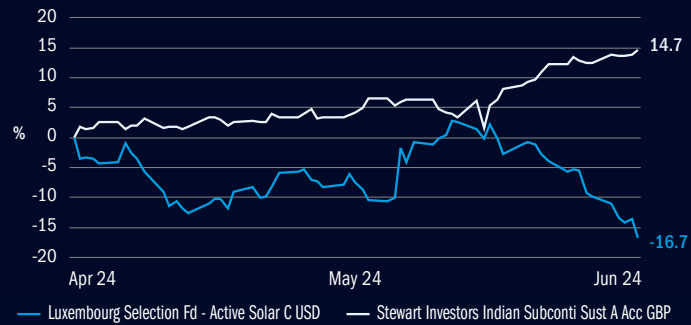
- The IA Japan sector continued to have the most consistently above average funds with 31.3% achieving this feat. The IA UK Smaller Companies sector was second with 23.8% of its funds consistently generating above median returns. A close third and storming up the table was IA Asia Pacific ex Japan sector with 23.7%, up from only 15.4% in the last report. The IA £ Strategic Bond sector yielded the lowest ratio of consistent performers, with only 13% funds above median on a year-on-year-on-year basis.

CT Multi Manager comment

- It's disappointing to see the CT MM Consistency Ratio dip below its historical bandwidth through Q2. It's encouraging to see certain sectors showing strong consistent fund returns, with Japan continuing to score highly and Asia Pacific ex Japan equities showing signs of improvement. However, the lack of consistent fixed income funds performing well speaks loudly to the gyrations of the market's reading of the monetary policy backdrop which has plagued returns.

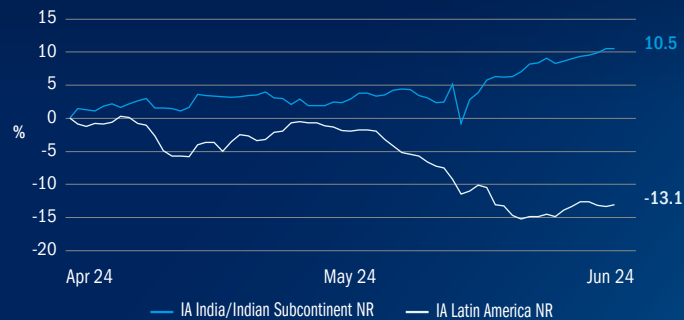
- Whilst the majority active managers have struggled against global indices, as mega cap technology stocks dominate overall returns, this reasoning does not hold up when comparing averages of fund returns within their own sectors outside of US. Whilst IA North America improved its above median score, there was no single fund which was top quartile across each of the time periods, with swings in investment style proving a dominant feature for returns.

Tops and bottoms



Source: Lipper, 01.04.2024 to 30.06.2024, percentage growth, total return, GBP

Sector skews



Source: Lipper, 01.04.2024 to 30.06.2024, percentage growth, total return, GBP

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

- No majority? No problem. Investors looked through India's surprise election results, with sitting PM Narendra Modi forced to form a coalition government. Indian equities have been on a tear over the past few years and credit to Stewart Investors Indian Subcontinent Sustainable Fund for taking the top spot across all funds in Q2, with a return of 14.7%.
 - percentile between quarters! Fellow top performing funds included those invested in Indian and (whisper it softly) UK equities...
- Holding up the bottom of the table was Luxembourg Selection – Active Solar Fund (IA Global) and Regnan Global Equity Impact Solutions, highlighting a difficult period of performance for funds with a dual mandate of delivering investment performance whilst addressing social and environmental challenges. The 100th percentile was also swamped by Latin American funds, triggered by a surprise political event in Mexico and weak currency returns
- Interestingly, the top and bottom fund were neck-and-neck at the beginning of June!

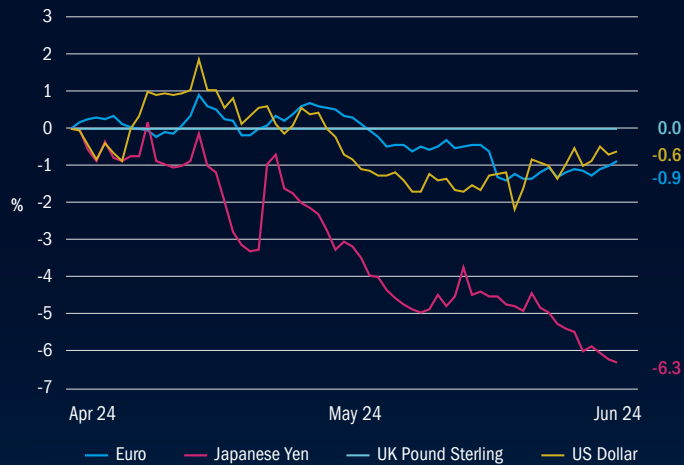
Identifying the best and worst performers in the quarter across all 56 IA sectors.

- As highlighted in 'Tops and Bottoms' IA India/Indian Subcontinent sector had a stellar Q2 up 10.5%, continuing its strong run over the past two years.
- Runner up was IA Technology & Telecoms and third IA UK Smaller Companies. Bottom of the table was once again IA Latin America.

“ While disappointing to see the CT MM Consistency Ratio fall below the long-term average, it is encouraging to see certain sectors showing resilience and strong fund returns. ”

Currencies

Major currencies relative to Sterling



Source: Lipper, 01.04.2024 to 30.06.2024, percentage growth, total return, GBP

Currencies

Yet again, the Japanese Yen continued to feel the pressure versus other developed market currencies in Q2, blunting overseas 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. The Yen has now fallen to its lowest level versus US Dollar since 1986.

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.

- Royal London Global Equity Select and MI Thornbridge Global Opportunities Fund has taken

the *opportunity* to invest in both a highly profitable manner (both 1st percentile performance over three years), whilst executed with particularly mild volatility (87th and 96th percentile lowest respectively). Both funds have almost doubled the MSCI World TR return of 35% over the past year, showing meaningful fund outperformance is still achievable despite the narrowly-led equity market.

“ Looking ahead and despite challenges in fixed income, we remain optimistic about equity markets. ”

Final Thoughts...

- It's disappointing to see the CT MM Consistency Ratio fall below the lower bound of the long term 2-4% average. Swings in investment style over the past three years has meant consistent fund returns have been harder to find.
- Whilst bond yields have steadily moved higher since their 2020 lows, it's surprising to see a dearth of fixed income funds featuring in the top quartile consistency ratios. Central banks have wrong footed investors once again, as the interest rate cuts which were priced at the beginning of the year have failed to materialise.
- What began at a thematic growth in Indian equities is rapidly becoming secular, with the sub-region continuing to dominate the leaderboards across our analysis. India stands as the economic beneficiary of US and

China's geopolitical collision, with a young, growing and economically burgeoning population.

- 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. We see increasing value in areas of the market seemingly left-behind –alternative investment trusts, UK equities and small cap. We expect market leadership to broaden out from the historically narrow US market, as growth remains strong, and investors reassess the valuations of the recent AI-winners.

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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