Columbia Threadneedle US Select Large Cap Growth SMA Strategy

The US economy may defy expectations of a soft landing or recession, with certain sectors experiencing a temporary downturn while others recover.

Performance

The Columbia Threadneedle US Select Large Cap Growth SMA Composite returned 2.01% pure gross of fees and 1.25% net of fees for the quarter ending June 30, 2024. The strategy's benchmark Russell 1000 Growth Index returned 8.33% for the same period.

Market overview

U.S. equities were mixed during the second quarter. The S&P 500 Index gained 4.28%, though returns were dominated by the largest mega-cap technology and communication stocks. Further highlighting this disparity was the performance of the Russell 1000 Growth Index, which returned 8.33%, relative to the -2.17% return of the Russell 1000 Value Index.

The quarter started off weaker, with markets declining meaningfully in April after closing at record highs at the end of the first quarter. Above-consensus inflation numbers and mixed economic data led to renewed hawkish expectations around potential Federal Reserve rate cuts, with the market shifting to a consensus that the Fed may only ease 25 basis points (bps) later in the year. (A basis point is 1/100 of a percent.)

The path of inflation and interest rates continued to dominate the narrative into May. However, strong corporate earnings, buoyed mostly by the "Magnificent 7" stocks, provided a reason for optimism as markets rebounded. Meme stocks (stocks that gain popularity

Average annual total returns (%) for period ending June 30, 2024

	Inception	3-mon.	1-year	3-year	5-year	10-year
Columbia Threadneedle US Select Large Cap Growth SMA Composite (pure gross)	12/31/2011	2.01	23.62	1.96	13.64	12.77
Columbia Threadneedle US Select Large Cap Growth SMA Composite (net)		1.25	20.03	-1.06	10.31	9.47
Russell 1000 Growth Index		8.33	33.48	11.28	19.34	16.33

Source: Columbia Threadneedle Investments

Past performance is not a guarantee of future results. Composite returns reflect the reinvestment of income and capital gains, and periods over one year are annualized. Pure gross of fees performance does not include trading costs, management fees, or other expenses that would be incurred by a participant portfolio, but does reflect the expenses of any underlying fund and ETF investments. Net of fees performance reflects deduction of the maximum annual wrap fee of 3%. Investors should contact their financial advisor or program sponsor for fees applicable to their account. Please see the GIPS report for more information.

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among retail investors through social media) also made a surprise resurgence in the middle of the quarter.

Disinflation traction picked up in the back half of the quarter, as core CPI showed the lowest reading since August of 2021. This, combined with some softer economic data that included lower new-home sales and weaker retail sales, helped strengthen the soft-landing narrative and led to some dovish repricing of rate cut odds.

Not surprisingly, growth stocks meaningfully outperformed value stocks. Large caps also handily beat small caps, with the Russell 2000 Index losing 3.28% during the quarter. Within the Russell 1000 Index, the information technology and communication services sectors, along with the defensive utilities and consumer staples sectors, finished in positive territory for the quarter. The materials, industrials, financials and energy sectors all lagged and declined.

Quarterly portfolio recap

In the second quarter, the U.S. equity market continued to gravitate to mega-cap technology stocks, as increased spending and adoption of artificial intelligence (AI) has been inflecting dramatically higher. This trend has largely been in place for over a year now, and while the headline index returns have been strong, the market in general has continued to be very narrow, with many names outside of the AI-fueled rally lagging and, in some cases, declining.

In this environment, the Columbia Select Large Cap Growth strategy moved modestly higher yet trailed the 8.33% advance of the Russell 1000 Growth Index. The strategy delivered relative outperformance in the industrials and consumer staples sectors. These positives were outweighed by lesser results in the information technology, health care and consumer discretionary sectors during the quarter.

In the industrials sector, the strategy's holding in heating and cooling leader Trane Technology was a relative outperformer. Trane announced a strong quarter, easily beating earnings estimates driven by strong results in its commercial business in the Americas and Pacific Asia. The company increased guidance and continued to note a strong backlog of demand, which sent shares higher.

During the quarter, we initiated a new position in Vertiv, which is a global leader in the design, manufacturing and servicing of critical digital infrastructure for data centers, communication networks and commercial and industrial environments. The company provides a broad range of offerings, including AC and DC power management products, switchgear and busbar products, thermal management products, integrated rack systems, modular solutions and management systems for monitoring and controlling digital infrastructure. Vertiv is increasingly viewed as a pure play on a variety of secular themes related to explosive AI data center growth. The firm conservatively estimates that over the next five years, the data center market will grow 9%-12% with base data center growth of 6%-8% and AI contributing an additional 300-400 bps. Perhaps the most explosive growth in AI data center spend relates to liquid cooling within thermal management. It is estimated that the current $2-$3 billion liquid cooling market could grow 5-10x in the next five years as GPU-based AI servers run significantly hotter and challenge the upper bound of what air cooling can effectively address. As such, data center operators have no choice but to integrate liquid cooling capabilities.

Our holding in Costco proved beneficial and generated outperformance in the consumer staples sector during the quarter. Costco shares rallied, as the firm announced a solid quarter that beat earnings and same-store sales estimates. Costco continues to gain share as value conscience consumers look to provide more bang for their buck through membership clubs. The company noted record renewal rates of its membership program and, unlike many other retailers, has started to see improvement in non-food spending categories.

In terms of detractors, the strategy's results were mixed in the information technology sector. During the quarter, the strategy's positioning in the software industry proved beneficial as the strategy's holding in cyber security leader CrowdStrike continued to execute well and beat expectations. Additionally, positions in Palo Alto Networks and Adobe bounced back after slow starts to the year.

Despite these gains, the strategy lagged in the semiconductor industry and an underweight to the technology hardware industry was a notable headwind during the quarter. In the semiconductors industry, the strategy's position in NVIDIA continued to be a strong contributor to overall returns, driven by strong results that exceeded even lofty expectations for its GPUs that are critical to the buildout of AI infrastructure. NVIDIA remains the strategy's largest holding but detracted from relative results versus the cap-weighted index. While NVIDIA shares continued to surge, the strategy's holding in chip maker AMD did not fare as well and declined during the quarter. AMD shares declined despite benefiting from AI and continued strong execution in its Datacenter GPU, CPU and PC business lines. The company's gaming business was weaker than forecasted, which weighed on investor sentiment.

In the health care sector, holdings in Veeva Systems, molecular diagnostic leader Exact Sciences and biotechnology firm BioMarin Pharmaceuticals all declined and detracted from relative returns.

After a strong start to the year, Veeva Systems shares pulled back after lowering full-year revenue and billings guidance, partly due to delayed decisions at pharmaceutical companies' technology departments as they evaluate their AI strategies. This trend has pushed out some of the near-term sales of Veeva's Vault software, which is seen as delayed but not canceled.

Despite reporting solid results that beat revenue estimates and affirmed fiscal-year guidance, shares of Exact Sciences sold off as investors were concerned about back-end weighted guidance. Additionally, early in the quarter, the company received positive news that a competitor's blood-based colon rectal cancer screening trial fell short of expectations, yet investor sentiment continued to be challenged. Given the stock's recent performance and negative investor sentiment, we decided to exit our position in the name and place the company back on our bench warmers list.

The strategy also exited its holding in BioMarin Pharmaceutical, as the firm's gene therapy treatment Roctavian for hemophilia A disappointed. While the product has garnered regulatory approvals, its commercialization has been riddled with challenges and the sales outlook has been revised much lower.

In the consumer discretionary sector, the strategy's holdings in athletic apparel firms Lululemon and Nike both detracted from relative results. Lululemon trended lower throughout the year as macroeconomic concerns about stretched consumer spending became a headwind to its growth trajectory. Considering shifting consumer demand trends, we decided to exit the strategy's holding in Lululemon.

Nike shares plunged late in the period after announcing a disappointing quarter where the company missed revenue and margin expectations and lowered forward guidance, noting weakness in China. This leading athletic brand is working to turn around its business by investing in new products to refresh its offerings and perform better in the wholesale channel, while managing the ramp down of its legacy product lines. We continue to monitor the stock closely and will be looking for improvement in this turnaround story.

Outlook

While many investors try to forecast wide sweeping predictions of soft landings or potential recessions, overall, we feel that the overall U.S. economy may fare better than what is being forecasted. That said, we continue to believe that this upcoming year may resemble the smaller "rolling recessions" of last year. This will likely weigh on certain areas of the economy, with other areas having the ability to rebound after a challenging 2023.

Much of the strength across the U.S. equity market was driven by a resilient U.S. consumer that had the ability to tap excess savings and spend in pent up areas of demand, such as travel, leisure and services. It would not be a surprise to see some of those metrics slow down, especially for lower-income consumers, as higher interest rates and commodity costs will work their way through the system. Conversely, areas such as manufacturing, which were generally in contraction last year, could see year-over-year positive trends.

Overall, we believe that global growth will slow as the likelihood of additional fiscal stimulus appears low and the Federal Reserve appears poised to continue to manage inflation expectations. In the end, investors probably need to be prepared for higher-for-longer rates versus the ultra-low interest rates that they became accustomed to over the past decade.

The Fed and the upcoming presidential election will probably be critical swing factors to consumer confidence and corporate capital expenditure budgets which, as we have seen in the past, can sway investor sentiment and create volatility. We believe that investors must keep a longer-term perspective and expect generally that bouts of headline-stoked volatility can create very attractive investment opportunities. In the past, when investors couldn't find any positives, the resiliency of the U.S. economy tended to get overlooked. Even now, while there are certainly headwinds to corporate profitability, we need to remind ourselves that employment levels remain high, corporate and consumer debt levels appear to be manageable and, in a consumer-led economy, these are significant positives.

While the economy slows, secular growth companies will be able to continue to compound revenue and earnings at a much higher rate versus legacy peers and the broader market. As the nominal economic growth rate slows, we believe the scarcity of growth premium will continue to be valuable, as growth companies tend to have the most unique products and services with the ability to grow even in challenging economic environments.

Effective June 30, 2024, the strategy name changed from Columbia Select Large Cap Growth SMA to Columbia Threadneedle US Select Large Cap Growth SMA.

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The **Russell 1000** Index tracks the performance of 1,000 of the largest U.S. companies, based on market capitalization.
The **Russell 1000 Growth** Index is an unmanaged index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.
The **Russell 1000 Value** Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.
The **Russell 2000** Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
The **Standard & Poor’s 500** Index (S&P500 Index) is an unmanaged list of common stocks which includes 500 large companies.

Columbia Threadneedle US Select Large Cap Growth SMA Composite

GIPS Report

Columbia Threadneedle Investments Global Asset Management

Reporting Currency: USD

Statement of Performance Results

Calendar Year	Pure Gross-of-fees Return (%)	Net-of-fees Return (%)	Index Return (%)	Composite 3-Yr St Dev (%)	Index 3-Yr St Dev (%)	Internal Dispersion (%)	Number of Portfolios	Total Composite Assets (mil.)	Total Firm Assets (mil.)
2023	40.26	36.22	42.68	22.76	N.A.	0.99	677	318.3	N.A.
2022	-31.18	-33.29	-29.14	24.63	N.A.	0.73	756	264.0	N.A.
2021	10.20	6.96	27.60	21.12	N.A.	0.48	938	534.6	N.A.
2020	48.08	43.83	38.49	22.46	N.A.	2.07	905	502.9	N.A.
2019	37.76	33.78	36.39	17.39	N.A.	1.34	1045	420.5	N.A.
2018	-3.85	-6.70	-1.51	16.84	N.A.	0.53	1124	345.7	N.A.
2017	35.71	31.79	30.21	15.29	N.A.	0.77	1117	418.8	N.A.
2016	-8.28	-11.01	7.08	16.41	N.A.	0.65	1217	421.5	N.A.
2015	7.71	4.54	5.67	14.43	N.A.	0.54	2424	1,316.4	N.A.
2014	8.47	5.28	13.05	15.68	N.A.	0.39	2186	1,208.0	N.A.

Annualized Trailing Performance as of December 31, 2023

Period	Gross-of-fees Return (%)	Net-of-fees Return (%)	Index Return (%)
1 Year	40.26	36.22	42.68
5 Years	16.76	13.34	19.50
10 Years	11.74	8.46	14.86
Inception	14.41	11.05	16.34

Inception Date: 12/31/2011

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1. Columbia Threadneedle Investments Global Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Columbia Threadneedle Investments Global Asset Management has been independently verified for the periods of January 1, 1993 to December 31, 2022. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

2. The Firm is defined as Columbia Threadneedle Investments Global Asset Management (formerly known as Columbia Threadneedle Investments North America prior to June 30, 2024). The Firm provides a broad range of investment management and related services to individual, institutional, and corporate clients around the world. Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. The Firm was redefined on June 30, 2024, to include the GIPS firms of Columbia Management Capital Advisers, Columbia Threadneedle Investments EMEA APAC, and Columbia Threadneedle (EM) Investments Limited. The Columbia Management Capital Advisers firm offered investment management and related services to clients participating in various types of wrap programs. The Columbia Threadneedle Investments EMEA APAC firm consisted of all portfolios managed by various Threadneedle group companies. The Columbia Threadneedle (EM) Investments Limited firm was a subsidiary of Columbia Threadneedle Investments International Limited, which defined a portion of its business specializing in Global Emerging Markets equities. As of November 1, 2020, the Firm was redefined to include Columbia Cent CLO Advisers, LLC. As of January 1, 2017, the Firm was redefined to include Columbia Wanger Asset Management, LLC, a wholly-owned subsidiary of Columbia Management Investment Advisers, LLC. Beginning March 30, 2015, the Columbia and Threadneedle group of companies, which includes multiple separate and distinct GIPS-compliant firms, began using the global offering brand Columbia Threadneedle Investments. The Firm includes accounts managed by various Columbia Threadneedle Investments entities, including Columbia Management Investment Advisers, LLC, Threadneedle Asset Management Limited, Threadneedle Investments Singapore (Pte.) Limited, Threadneedle Management Luxembourg S.A., and other affiliated entities.

3. The strategy aims to provide competitive, long-term capital appreciation by investing in larger companies whose growth prospects, in the opinion of the management team, appear to exceed that of the overall market. The strategy uses a concentrated portfolio (generally 25 to 35 holdings) diversified across growth industry sectors and uses cross-correlation analysis on holdings to help manage portfolio volatility. Since inception, Separately Managed (WRAP) accounts represent 100% of the composite assets. The benchmark is the Russell 1000® Growth Index. The composite was created January 1, 2012.

4. Pure gross returns presented in the table above are gross of the wrap fee and do not reflect the deduction of any trading costs, fees, or expenses and are supplemental to the net returns. The wrap fee will normally include all charges for trading costs, portfolio management fee, custody, and other administrative fees. Composite net returns are calculated by subtracting 1/12th of the highest applicable wrap fee (3.00%) from the monthly pure gross return. Actual fees may vary depending on the individual sponsor's wrap fee. Composite returns reflect the reinvestment of dividends and other earnings.

5. Internal dispersion is calculated using the equal-weighted standard deviation of the annual gross returns of those portfolios that were included in the Composite for the entire year. If the composite contains five or fewer accounts for the full year, a measure of dispersion is not statistically representative and is therefore not shown.

6. The three-year annualized standard deviation measures the variability of the gross-of-fees composite and benchmark returns over the preceding 36-month period. It is not required to be presented when a full three years of performance is not yet available.

7. Returns are calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Policies for valuing investments, calculating performance, and preparing GIPS Reports, as well as the list of composite descriptions, list of pooled fund descriptions for limited distribution pooled funds, and the list of broad distribution pooled funds are available upon request.

8. The following fee schedule represents the maximum wrap fee that a sponsor may charge clients seeking investment management services in the designated strategy: 3.00%. The following statement demonstrates, with a hypothetical example, the compound effect fees have on investment return: a 3% annual wrap fee deducted monthly from an account with a 5-year annualized growth rate of 6% will produce a cumulative pure gross return of 33.8% and the cumulative net of fee result of 15.2%.

9. The benchmark is the Russell 1000 Growth Index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. Index returns reflect the reinvestment of dividends and other earnings and are not covered by the report of the independent verifiers.

Columbia Threadneedle US Select Large Cap Growth SMA Composite

GIPS Report

Columbia Threadneedle Investments Global Asset Management

Reporting Currency: USD

10. Past performance is no guarantee of future results and there is the possibility of loss of value. There can be no assurance that an investment objective will be met or that return expectations will be achieved. Care should be used when comparing these results to those published by other investment advisers, other investment vehicles and unmanaged indices due to possible differences in calculation methods.

11. Prior to 6/30/2024, the composite was referred to as the Columbia Select Large Cap Growth SMA Composite.

12. This composite was included in the Columbia Management Capital Advisers GIPS firm prior to joining the Columbia Threadneedle Investments Global Asset Management GIPS firm on 6/30/2024. As the composite was not part of Columbia Threadneedle Investments Global Asset Management prior to 6/30/2024, firm assets are shown as “N/A” in the performance table.