Columbia Threadneedle US Select Large Cap Value SMA Strategy

The need to reinvest in U.S. infrastructure and onshore manufacturing, aided by things like the infrastructure bill, IRA and CHIPS Act, should be tailwinds for numerous stocks within our portfolio.

Performance

The Columbia Threadneedle US Select Large Cap Value SMA Composite returned 0.31% pure gross of fees and -0.44% net of fees for the quarter ending June 30, 2024, outperforming the strategy's benchmark Russell 1000 Value Index, which returned -2.17% for the same period.

Outperformance was driven by strong, broad-based security selection across numerous sectors. Stock selection within information technology, communication services, energy and materials added meaningfully to relative performance. Selection within health care and utilities offset some of these relative results.

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 that Fed may only ease 25 basis points (bps) later in the year. (A basis point is 1/100 of a percent.)

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 Value SMA Composite (pure gross)	12/31/2011	0.31	13.00	6.24	11.11	9.92
Columbia Threadneedle US Select Large Cap Value SMA Composite (net)		-0.44	9.70	3.12	7.85	6.69
Russell 1000 Value Index		-2.17	13.06	5.52	9.01	8.23

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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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 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 including lower new-home sales and weaker retail sales, helped strengthen the soft-landing narrative and led to some dovish repricing of rate cut odds.

The big story, however, was still around the exuberance surrounding artificial intelligence (AI). Narrow market breadth remained, as the mega-cap technology names meaningfully outperformed on AI expectations. NVIDIA continued its exponential climb, briefly passing Microsoft as the most valuable company in the U.S. before pulling back. Apple, Microsoft and other AI-related names also saw strong returns.

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 Value Index, the defensive utilities and consumer staples sectors were the only two sectors to finish in positive territory for the quarter. Consumer discretionary, health care and materials were the biggest laggards.

Quarterly portfolio recap

For the quarter, outperformance was driven by strong, broad-based security selection across numerous sectors. Stock selection within information technology, communication services, energy and materials added meaningfully to relative performance. Weak performance within health care and utilities offset some of these relative results.

Our information technology holdings continued to generate strong absolute and relative returns, with chipmaker Qualcomm and semiconductor equipment maker Applied Materials both repeating as top contributors to results during the quarter. Qualcomm delivered a strong earnings report that beat expectations, helped by its automotive and Internet of Things segments. The company also benefited from its exposure to AI, inventory restocking and potential demand growth in China. Applied Materials was an AI beneficiary as well, and we believe the need to onshore semiconductor manufacturing in the U.S. should continue to be a tailwind for the stock. Encouragingly, our position in specialty glass maker Corning was also a top contributor to absolute and relative performance. The company continued to recover from last year’s inventory correction and is well-positioned within its fiber optics business to capitalize on growth in AI data centers.

Within communication services, our position in Alphabet was a notable contributor to absolute and relative results. Shares in the company continued to climb on the back of strength in its search, YouTube and growing Cloud businesses alongside significant margin expansion. The initiation of Alphabet’s first dividend payment and the announcement of a new, respected CFO also helped sentiment on the stock.

Our position in natural gas pipeline operator Williams Companies was a standout within energy. The company benefited from strong cash flows and higher natural gas prices during the quarter. Longer term, Williams is poised to benefit from a potential increase in natural gas demand owing to expanding power needs.

In materials, our position in copper miner Freeport-McMoRan was a contributor to relative results. We continue to be constructive on the case for copper for the long term. Energy transition initiatives across the world, the need to rebuild U.S. grid infrastructure and any reacceleration in economic activity should all serve to fuel copper demand at a time when there is little new supply.

On the downside, our health care exposure detracted from absolute and relative results. Our holdings in pharmaceutical company Bristol Myers Squibb and medical supply company Baxter were notable underperformers. Bristol Myers declined after a disappointing quarterly report that saw lower earnings guidance, largely due to recent acquisitions. Baxter was impacted by lower-than-expected results within its Hillrom subsidiary, as well as uncertainty around the spin-off of its renal business. We made the decision to sell Baxter during the quarter, largely due to a loss of confidence in management, which has struggled to successfully integrate Hillrom after purchasing it in 2021. Baxter, which had been a long-term holding in the portfolio, illustrates the importance of continually challenging our convictions and not becoming attached to stocks, particularly ones that we have owned for years.

Our utilities holdings were mostly flat to modestly positive on an absolute basis during the quarter, but our lack of exposure to some names that rose meaningfully in the benchmark index detracted on a relative basis.

Also detracting from results was our position in home improvement retailer Lowe’s. Lowe’s was impacted by a tougher macroeconomic environment, as higher interest rates and a weaker home improvement market weighed on the name. However, growth in its professional segment and productivity initiatives are reasons for optimism.

Market outlook and investment plan

While the second quarter of 2024 saw a continuation of value underperformance, we continue to have conviction in value as a style and our portfolio holdings in particular. There are numerous long-duration trends that are incredibly exciting to us as investors. Some thoughts on these themes and other observations:

- One of the most prominent themes that we have been discussing for some time is that of supply shortages and underinvestment here in the United States. The need to reinvest in U.S. infrastructure and onshore manufacturing, aided by things like the infrastructure bill, IRA and CHIPS Act, should be tailwinds for numerous stocks within our portfolio. The energy transition efforts and need to upgrade our grid infrastructure should benefit names within utilities, industrials, information technology and materials, while traditional energy and mining stocks should see pricing benefits from underinvestment that has constrained supply, particularly in copper.

- Generative AI has been all the buzz lately, but what excites us is the potential opportunities from this beyond the mega-cap technology stocks. The increasing power demands that AI requires provide opportunities for both utilities (especially those that can deliver renewable energy) and traditional energy companies. The need to either construct new data centers or upgrade existing ones should be a tailwind for our industrial and industrial technology-related names, not to mention the picks-and-shovels exposure we have through our semiconductor and semiconductor equipment stocks.
- We remain constructive on the U.S. economy while acknowledging mounting inflationary pressures on the consumer, attributable to higher costs and rates. That said, we do see some offsetting industrial strength driven by onshoring and reinvestment, which, to us, seems a favorable mix for value investors.
- We have been consistent in our view that we are in for a higher-for-longer rate environment, as we believe inflationary pressures, including wage growth due to onshoring, will drive a more competitive labor market and limit the amount rates can be cut. This more normalized interest-rate environment may make value stocks more attractive relative to expensive high-growth names.

With this backdrop in mind, our conviction has grown. Transactions during the quarter included two new purchases, health care company CVS and aircraft maker Boeing, and the sale of Baxter described above. We believe CVS is well-positioned to overcome the generally low expectations facing its industry, as the vertical integration of its insurance business, PBM (pharmacy benefit manager) and pharmacy should lead CVS to be a long-term strategic winner. A relatively new management team and a moderation in Medicare utilization should also help improve perception of the stock. We anticipate a hardening (raising prices and lowering benefits) of the Medicare health insurance market as we look forward, with most of CVS' peers looking to similarly raise prices and reduce benefits as a means to offset presently elevated utilization rates. Regarding Boeing, we believe the company is well-positioned to overcome extremely low expectations driven by well-publicized safety and production problems. Catalysts for improving sentiment include new management intent on fixing the quality issues, the pending acquisition of Spirit AeroSystems, a favorable aerospace cycle with a huge backlog of plane demand and improving free cash flow looking into 2025 as production ramps up. Other transactions during the quarter were limited to our normal adds and trims, based on a continual bottom-up assessment of relative risk and reward among our holdings. As such, at quarter end the portfolio continued to be overweight utilities, energy, communication services, information technology and materials, while remaining underweight in consumer staples, industrials and financials.

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

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Holdings and characteristics are based on a representative account and are subject to change at any time. Individual account performance, holdings, and characteristics may differ from information shown. References to specific securities are included as an illustration of the investment management strategy and are not recommendations. Holdings may represent only a small percentage of the portfolio. It should not be assumed that any particular security was or will prove to be profitable or that decisions in the future will be profitable or provide similar results to the securities discussed.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

Advisory services provided by Columbia Threadneedle Investments Global Asset Management, an operating division of Columbia Management Investment Advisers, LLC (“CMIA”) that offers investment management and related services to clients participating in various types of wrap programs.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

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Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. **Value** securities may be unprofitable if the market fails to recognize their intrinsic worth or the portfolio manager misgauged that worth. Investments in a **limited** number of companies subject the strategy to greater risk of loss. The strategy may invest significantly in issuers within a particular **sector**, which may be negatively affected by market, economic or other conditions, making the strategy more vulnerable to unfavorable developments in the sector.

Indices shown are unmanaged and do not reflect the impact of fees. It is not possible to invest directly in an index.

The **Russell Midcap Value Index** measures the performance of those Russell Midcap companies with lower price-to book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

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The **Standard & Poor's 500 Index** (S&P 500 Index) is an unmanaged list of common stocks which includes 500 large companies.

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 Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index.

The **Russell 2000 Index** measures the overall performance of the small-cap to mid-cap company shares.

Columbia Threadneedle US Select Large Cap Value 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 (%)	Primary Index Return (%)	Secondary Index Return (%)	Composite 3-Yr St Dev (%)	Primary Index 3-Yr St Dev (%)	Secondary Index 3-Yr St Dev (%)	Internal Dispersion (%)	Number of Portfolios	Total Composite Assets (mil.)	Total Firm Assets (mil.)
2023	5.68	2.56	11.46	26.29	16.78	16.51	17.29	0.44	347	399.2	N.A.
2022	-0.95	-3.88	-7.54	-18.11	22.54	21.25	20.87	0.50	350	427.0	N.A.
2021	26.49	22.81	25.16	28.71	21.32	19.06	17.17	0.45	287	313.6	N.A.
2020	6.42	3.28	2.80	18.40	22.03	19.62	18.53	1.09	223	218.9	N.A.
2019	26.77	23.08	26.54	31.49	14.18	11.85	11.93	0.62	237	210.3	N.A.
2018	-11.34	-13.99	-8.27	-4.38	12.24	10.82	10.80	0.62	443	246.1	N.A.
2017	21.76	18.22	13.66	21.83	11.91	10.20	9.92	0.90	412	256.0	N.A.
2016	20.25	16.75	17.34	11.96	12.13	10.77	10.59	1.65	345	215.8	N.A.
2015	-2.81	-5.69	-3.83	1.38	11.98	10.68	10.47	0.76	716	352.4	N.A.
2014	13.65	10.32	13.45	13.69	10.60	9.20	8.97	1.11	666	390.8	N.A.

Annualized Trailing Performance as of December 31, 2023

Period	Gross-of-fees Return (%)	Net-of-fees Return (%)	Index Return (%)
1 Year	5.68	2.56	11.46
5 Years	12.30	9.01	10.91
10 Years	9.86	6.63	8.40
Inception	12.52	9.22	10.97

Inception Date: December 31, 2011

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GIPS Report

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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. This strategy contains large-cap value accounts. The strategy seeks stocks with attractive value characteristics, combined with a potential for acceleration in earnings growth. Average market capitalization of the securities traded in the accounts in the strategy is generally within the range of constituents of the Russell 1000 Value® Index and the S&P 500® Index. Since inception, Separately Managed (WRAP) accounts represent 100% of the composite assets. The primary benchmark is the Russell 1000® Value Index and the secondary benchmark is the Standard & Poor's 500 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 primary benchmark, 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 secondary benchmark, the Standard & Poor's 500 Index, tracks the performance of 500 widely held, large-capitalization U.S. stocks. It is a market value weighted index (stock price multiplied by the number of shares outstanding), with each stock's weight in the Index proportionate to its market value. 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 Value SMA Composite

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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 Value 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.