INFORMATION FOR INVESTMENT PROFESSIONALS

COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

Disciplined approach pays off in exciting emerging markets

Global Emerging Market Equities | February 2020

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Client Portfolio Manager

It’s been a relatively volatile 12 months, but the work we did in 2018 really paid off last year, and we are quietly confident about an asset class that suits our style of active management

Last year was very strong for our emerging markets (EMs) franchise, with our US-based Columbia Emerging Markets Opportunity strategy returning 32.7% and outperforming its benchmark by 14.26%.

What has been particularly rewarding is analysing the source of our outperformance. In keeping with our philosophy as bottom-up stock pickers, security selection was most advantageous accounting for more than 85% of alpha. Furthermore, those sectors and countries in which we have most conviction proved to be most rewarding. Particularly across the financials, consumer discretionary, communication services, technology and healthcare sectors; and in China, Brazil, India, Korea and Indonesia.

While the headline numbers for 2019 are strong, the heavy lifting was actually done the year before. During the second half of 2018 the rhetoric from both sides in the US-China trade war increased significantly, and what followed for the market was a significant rotation into value. Value rotations have occurred historically, but they tend to be short-lived with growth re-establishing its long-term trajectory. The portfolio manager, Dara White, who has run the strategy since inception in June 2011 remained resilient in his beliefs and stuck to the investment process that has generated annualised outperformance of +4.4% since that date.

Figure 1: Performance for the Columbia Emerging Markets Opportunity strategy

	1-year (%)	3-year (%)	5-year (%)
Columbia Emerging Markets Opportunity Composite	+32.68	+17.3	+10.78
MSCI Emerging Markets Net Index	+18.42	+11.57	+5.61
Relative return	**+14.26**	**+5.73**	**+5.17**

Source: Columbia Management Investments, all data as at 31 December 2019 and in US dollars. Past performance is not a guide to future returns. The annualised returns shown are gross, all returns include gross reinvested income and fund returns are gross of TER.

There were three groups of stocks that gained our attention as they traded close to their downside price targets: stocks where our medium/long-term views were positive, such as Alibaba; stocks in Indonesia where the dated concept of the “fragile 5” was causing a sell-off given concerns in Argentina and Turkey, such as Bank Central; and stocks in Brazil where a recent marketing trip and upcoming elections gave us confidence in the economic outlook. We stuck to our process and added to names such as Localiza, Bank Rakyat and Tencent, where we felt we needed to look past the short-term volatility and pick up great companies at very compelling valuations.

In addition, as 2018 progressed we felt we understood both sides of the trade war that bit better. While initially we felt the Chinese exposure to trade was limited, we underestimated the impact uncertainty had on sentiment, particularly as Chinese corporates reduced capex, froze hiring plans and drew down inventories. Thus, we concluded that we needed to avoid the companies on the front pages – those in the firing line of trade – and instead focus on those more exposed to the exciting long-term domestic stories.

As it turned out, 2019 was the year where being disciplined paid off. We remained disciplined to our market view, as we believed the market couldn’t see the wood for the trees during the sell-off, with negative historical perceptions of EM at the fore. We remained disciplined to our investment process, focusing on long-term investing and letting the risk-reward profile from our upside/downside price targets lead both conversations and conviction. Finally, we were disciplined in our evaluation of the trade war, being pragmatic enough to appreciate our exposure to China needed to be reassessed.

While last year proved to be volatile for the asset class, our positioning meant we were able to ride this out. Since Dara has been running the Columbia Emerging Markets Opportunity strategy the upside participation is 113% and downside protection is 89%, demonstrating our belief that we can outperform in nearly all market environments.

This year we are quietly confident about EMs and, more importantly, believe we can outperform the market in an asset class that favours our style of active management. From the evolving dynamics of the trade war, to policy stimulus in China and even a turn in global PMIs or the US dollar peaking, we could argue this could be an attractive entry point. Structurally EMs are more resilient than ever, with the deepening of local debt markets, the stabilisation of the interest rate differential between EM and developed markets, or the health of EM economies reflected through fiscal imbalances, or the lack thereof. Sprinkle into the mix the reform window that has opened with elections over the past 18 months right across EMs – Brazil, India, Philippines, Indonesia, Malaysia and Thailand – and we are set-up for an exciting medium-term.

I don't think I need to make the case long term, but with more than 84% of the world living in developing economies[1] and the rising wealth that is being created by the middle class, future generations such as millennials in China, of which there are more than the entire population of the US, have a bright future ahead of them. For active investors with a proven skillset in researching companies which are plugged into these and other evolving long-term trends, we find the future very exciting too.

[1] IMF Annual Report, 2018

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On March 30, 2015, the Columbia and Threadneedle group of companies, which includes multiple separate and distinct GIPS-compliant firms, began using the global brand name Columbia Threadneedle Investments.

Reporting Currency: USD
Statement of Performance Results

Calendar Year	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 (bil.)
2019	32.68	31.52	18.42	15.23	14.17	N.A.	≤ 5	807	353
2018	-20.54	-21.27	-14.57	15.01	14.60	N.A.	≤ 5	444	320
2017	53.10	51.77	37.28	14.11	15.35	N.A.	≤ 5	50	364
2016	8.89	7.92	11.19	14.10	16.07	N.A.	≤ 5	41	333
2015	-5.07	-5.92	-14.92	13.11	14.06	N.A.	≤ 5	37	328
2014	0.35	-0.55	-2.19	14.18	15.00	N.A.	≤ 5	54	333
2013	-0.61	-1.50	-2.60	N.A.	N.A.	N.A.	≤ 5	95	321
2012	23.77	22.67	18.22	N.A.	N.A.	N.A.	≤ 5	209	304
2011*	-16.61	-17.00	-19.13	N.A.	N.A.	N.A.	≤ 5	157	298

*For the period June 30, 2011 through December 31, 2019

Inception Date 6/30/2011

1. Columbia Management Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Columbia Management Investments has been independently verified for the periods of January 1, 1993 to December 31, 2018. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
2. Columbia Management Investment Advisers, LLC, is an SEC-registered investment adviser (formerly known as RiverSource Investments, LLC prior to May 1, 2010). For purposes of compliance with the GIPS standards, Columbia Management Investment Advisers, LLC has defined the Firm as Columbia Management Investments (prior to May 1, 2010 the Firm was known as RiverSource Institutional Advisors; prior to August 1, 2005 the Firm was known as American Express Asset Management), an operating division of Columbia Management Investment Advisers, LLC that offers investment management and related services to institutional clients. As of May 1, 2010, certain long-term assets of Columbia Management Advisors, LLC ("CMA") were merged into Columbia Management Investments and included in firm assets as of that date. The Firm was redefined in January 2011 to include stable value assets that were previously excluded from the firm. 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. 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.
3. The strategy aims to provide long-term capital appreciation by investing in equity securities located in emerging market countries. Emerging market countries are those that major international financial institutions, such as the World Bank, generally consider to be less economically mature than developed nations, such as the United States or most nations in Western Europe. The strategy's investment process emphasizes bottom-up stock selection with portfolios typically holding 70 to 90 emerging markets stocks. The benchmark is the MSCI Emerging Markets Index Net. The composite was created September 1, 2012.

4. The gross-of-fees returns are time-weighted rates of return net of commissions and other transaction costs. Net-of-fees returns are calculated by deducting from the monthly gross-of-fees composite return one-twelfth of the highest client fee (model fee) in effect for the respective period. 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. Portfolios are valued and composite returns are calculated and stated in U.S. dollars. Returns are calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Policies for valuing portfolios, calculating performance, and preparing compliant presentations, and the list of composite descriptions, are available upon request.
8. The following fee schedule represents the current representative fee schedule used as the starting point for fee negotiations for institutional clients seeking investment management services in the designated strategy: 0.90% on the first $25 million; 0.70% on the next $50 million; 0.60% on the next $75 million; Negotiable over $150 million. Gross of fee performance information does not reflect the deduction of management fees. The following statement demonstrates, with a hypothetical example, the compound effect fees have on investment return: If a portfolio's annual rate of return is 10% for 5 years and the annual management fee is 90 basis points, the gross total 5-year return would be 61.1% and the 5-year return net of fees would be 54.0%.
9. The benchmark is the MSCI Emerging Markets Index Net that is an unmanaged index based on shares prices of a select group of emerging market stocks that are available to global investors, assuming gross dividends are reinvested. 26 countries are included in this index. Index returns reflect the reinvestment of dividends and other earnings and are not covered by the report of the independent verifiers.
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. Registration with the SEC as an investment advisor does not imply a certain level of skill or training.