# COLUMBIA DISCIPLINED VALUE STRATEGY

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## Performance

- The Columbia Disciplined Value strategy returned -5.94% pure gross of fees and -6.66% net of fees during the third quarter, underperforming its benchmark, the Russell 1000 Value Index (the index), which returned -5.62% for the same period.
- The fund's results can be attributed primarily to the relative performance of its model's stock selection measures.

## Market overview

The U.S. equity market lost ground in the third quarter, continuing the downtrend that occurred in the first six months of the year. The quarter began on a positive note, with a rally that lasted through July and the first half of August. During this time, investors appeared to grow increasingly optimistic that the U.S. Federal Reserve would pivot toward a more accommodative policy. However, subsequent comments from Chairman Jerome Powell, together with a stronger-than-expected inflation report in early September, made it clear that the central bank would continue to raise interest rates aggressively. The Fed raised rates twice during the quarter to bring its benchmark fed funds rate to a range of 3.0%–3.25%, up three percentage points from the beginning of 2022. A broad assortment of external factors further contributed to the weakness in sentiment, including the emergence of an energy crisis in Europe, continued COVID-19 lockdowns in China and the ongoing conflict in Ukraine. Unusual volatility in the global currency and fixed-income markets was an additional source of disruption in the latter half of September. Together, these developments raised concerns about the potential for a slowdown in global growth and a concurrent decline in corporate earnings.

The losses for equities were broad-based, with nearly every sector losing ground. The growth style outperformed in the selloff, reversing a trend that was in place during the first half of the year, with returns of -3.60% and -5.62% for the Russell 1000 Growth

**Average annual total returns (%) for period ending September 30, 2022**

| | Inception | 3-mon. | 1-year | 3-year | 5-year | Since inception |
|---|---|---|---|---|---|---|
| Columbia Disciplined Value SMA composite (pure gross) | 03/31/2016 | -5.94 | -7.77 | 6.68 | 6.23 | 8.53 |
| Columbia Disciplined Value SMA composite (net) | | -6.66 | -10.52 | 3.54 | 3.09 | 5.33 |
| Russell 1000 Value Index | | -5.62 | -11.36 | 4.36 | 5.29 | — |

**Past performance does not guarantee future results.** Periods over one year are annualized. Returns reflect the reinvestment of dividends, income, and capital gains and are calculated and stated in US dollars Performance is based on the **Columbia Disciplined Value SMA composite**. 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 pooled vehicle 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 performance and fees applicable to their account.

Index and Russell 1000 Value Index, respectively. Small-cap stocks outperformed large caps, based on returns of -2.19% and -4.61% for the Russell 2000 Index and Russell 1000 Index, respectively.

### Model performance

At the style level, there were two distinct regimes within the quarter, with some factors leading the market during the rally in July and August and others driving returns during the downturn in September. Overall, dividend yield and valuation factors performed poorly, reversing their strong performance from the first half of the year. Conversely, smaller companies, higher growth stocks and companies with margin stability performed well during the third quarter. In another reversal from the prior quarter, stocks with high beta and volatility characteristics performed well for the third quarter, though they suffered significant weakness in September.

We divide the metrics for our stock selection model into three broad categories — quality, value and catalyst. We then rank the securities within a sector/industry from 1 (most attractive) to 5 (least attractive) based upon the metrics within these categories. During the third quarter, the catalyst theme performed well, driven, in part, by momentum factors. Earnings revision factors also buoyed the catalyst theme, picking up signals from sell-side analysts, as they downgraded companies most affected by the slowing economy. The value and quality themes, however, provided negative guidance during the third quarter. Most of these themes' weak performance coincided with the market rally in July and August — a rally led by high growth, high beta and lower profitability factors.

Of our 22 industry-specific models, 12 provided positive stock selection guidance, with energy-refining and distribution, industrials-services and materials contributing most positively to relative results. Energy-equipment and services, information technology-semiconductors, and consumer discretionary-consumer services detracted most during the quarter.

### Quarterly portfolio recap

As usual, the portfolio maintained a relatively neutral stance on sector allocation, though sector allocation did detract, albeit modestly, from relative performance during the quarter. Stock selection detracted most from the portfolio's performance relative to the index. Stock selection was weakest in the health care, information technology, consumer staples and utilities sectors. Only partially offsetting these detractors was effective stock selection in industrials, consumer discretionary, materials and real estate, which contributed positively.

Among the top detractors from relative performance were:

- Syneos Health, which is a provider of outsourced clinical services to biopharmaceutical companies. The company missed consensus revenue expectations and lowered its forward guidance due to softer bookings given project delays from clients of all sizes. The portfolio's overweight in Syneos Health was established based on strong scores within our quality and value themes, but the models delivered negative guidance.

- Advanced Micro Devices, a semiconductor company, saw its shares decline in price during the quarter, as the highly cyclical semiconductor industry faced negative earnings revisions and signs of higher inventories. Further, while the company reported earnings in line with consensus expectations, it lowered its forward guidance on weakness in demand for personal computers. The portfolio’s overweight in Advanced Micro Devices was driven by strong quality theme scores and in-line value and catalysts theme scores, but the models provided negative guidance.

Among the individual stocks that contributed most to relative performance were:

- Builders FirstSource, which offers wholesale lumber and other construction materials to the construction industry. The company delivered strong earnings in a slowing housing market, driven by sales growth amid higher prices and volumes. The portfolio’s overweight in Builders FirstSource was driven by attractive scores across all three themes — quality, value and catalyst, and the models delivered effective stock selection guidance.
- Shares of H&R Block, the largest store-front income tax return preparation services firm in the U.S., rose on its reports of strong earnings, which exceeded consensus expectations. The company also raised its forward guidance, recovering from a challenging COVID-19 pandemic-affected year when many of its store-front locations were closed for most of the tax season. The company additionally announced a new $1.25 billion share buyback program, which was well received by investors. The portfolio’s overweight in H&R Block was driven by strong metrics across all three themes — quality, value and catalyst, which proved effective.

During the third quarter, we enhanced three of our quantitative stock selection models. In summary, we introduced an integrated energy sector model that recombines energy names across industries in a single model that is still industry-specific but now in a broader setting. The new model incorporates several new signals, including reserve life index and forward earnings before interest, taxes, depreciation and amortization/enterprise value, normalized free cash flow/enterprise value and normalized capital expenditures/depreciation ratios. We also enhanced our industrials sector model with a targeted approach to help control for persistent structural differences across subgroups defined as logistics, freight, airlines, rail and marine. Within this model, we added cycle-normalized signals and new definition for our return-on-invested-capital signal. Finally, we rolled out a new utilities sector model with industry-specific equity rate base-to-price factors. The utilities sector is divided between regulated electric and gas versus water, renewables and independent power producers. In our view, the latter are beneficiaries of planned investment in water infrastructure and clean energy and have consequently demonstrated consistently higher capital expenditures growth and revenue growth during the past decade.

## Outlook

At the end of the third quarter, we believed U.S. equity markets were likely to be driven during the fourth quarter of 2022 by a combination of macroeconomic headwinds and micro-elasticities, or demand shifts based on price, of consumers. In other words, we felt uncertainty around both inflation expectations and the Fed's ability and actions taken to bring inflation under control. Labor markets have been resilient so far, but we began seeing some potential signs of caution. For example, some major employers announced plans for hiring freezes or modest reductions in workforce as they evaluate opportunities to reduce costs. In our view, a strong labor market, while making inflation harder to control, can provide some insurance against a prolonged recession — thus offering some much-needed flexibility to the Fed.

At the same time, consumers are likely to continue facing a barrage of pricing pressures, particularly with utility prices this coming winter. Consumer reaction to higher prices and lower disposable income has a differentiated effect on companies across sectors. In turn, we expect to see increased dispersion of company earnings in the months ahead, enhancing opportunities for stock selection. Further, higher interest rates are now a reality, but one that can strengthen the relationship between fundamentals and security prices, in our opinion. Amid this backdrop, cash flows, ability to preserve margins, profitability and stability may well be the factors most valued by investors in the fourth quarter. We believe thoughtful portfolio construction and risk management, along with discipline and a long-term perspective, can help dampen the effect of what will likely be heightened volatility on portfolio performance.

All that said, it is important to note that our strategy is based on individual quantitative stock selection. Consequently, we do not rely on macroeconomic scenarios or market outlooks to make security selections. We do not try to predict when equities, as an asset class, may perform well or when they may perform poorly. Instead, we keep the portfolio substantially invested at all times. Our portfolio managers maintain confidence in the long-term efficacy of our investment approach.

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This commentary was prepared by the investment team for the strategy. The team's views are based on market conditions as of the quarter end identified in this commentary and are subject to change without notice at any time based upon market and other factors. This information may contain certain statements that may be deemed forward-looking. Please note that any such statements are not guarantees of any future performance, and actual results or developments may differ materially from those discussed. There is no guarantee that investment objectives will be achieved or that any particular investment will be profitable.

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The **Russell 1000 Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

The **Russell 2000 Index** is an unmanaged index that tracks the performance of the 2,000 smallest of the 3,000 largest U.S. companies, based on market capitalization.

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.

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

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# Columbia Disciplined Value SMA Composite

## GIPS Report

### Columbia Management Capital Advisers

**Reporting Currency: USD**

Statement of Performance Results

| Calendar Year | Pure Gross-of-fees Return (%) (Supplemental) | 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.) |
|---|---|---|---|---|---|---|---|---|---|
| 2021 | 30.19 | 26.42 | 25.16 | 18.39 | 19.06 | N.A. | ≤ 5 | 0.49 | 2,677.50 |
| 2020 | 3.42 | 0.36 | 2.80 | 18.96 | 19.62 | 0.48 | 38 | 20.19 | 1,639.88 |
| 2019 | 20.73 | 17.21 | 26.54 | 12.48 | 11.85 | 0.24 | 48 | 21.80 | 1,390.52 |
| 2018 | -8.04 | -10.78 | -8.27 | N.A. | N.A. | 0.16 | 42 | 17.91 | 1,206.32 |
| 2017 | 18.60 | 15.14 | 13.66 | N.A. | N.A. | 0.12 | 33 | 15.40 | 1,320.06 |
| 2016 * | 13.64 | 11.14 | 15.45 | N.A. | N.A. | N.A. | 15 | 6.24 | 1,005.08 |

* For the period 03/31/2016 through 12/31/2016.

**Annualized Trailing Performance as of December 31, 2021**

| Period | Pure Gross-of-fees Return (%) (Supplemental) | Net-of-fees Return (%) | Index Return (%) |
|---|---|---|---|
| 1 Year | 30.19 | 26.42 | 25.16 |
| 5 Years | 12.14 | 8.85 | 11.16 |
| Inception | 12.96 | 9.64 | 12.41 |

Inception Date: March 31, 2016

# Columbia Disciplined Value SMA Composite

## GIPS Report

## Columbia Management Capital Advisers

### Columbia Disciplined Value SMA Composite

1. Columbia Management Capital Advisers claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Columbia Management Capital Advisers has been independently verified for the periods January 1, 2012 through December 31, 2020. 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. Columbia Management Investment Advisers, LLC, an SEC-registered investment adviser, offers investment products and services to institutional and retail markets. For the purposes of claiming compliance with GIPS, Columbia Management Investment Advisers, LLC has defined the Firm as Columbia Management Capital Advisers, an operating division of Columbia Management Investment Advisers, LLC that offers investment management and related services to clients participating in various types of wrap programs. Beginning March 30, 2015, the Columbia and Threadneedle group of companies, which includes multiple separate and distinct firms, began using the global offering brand Columbia Threadneedle Investments.

3. The strategy aims to exceed the return of the specified large cap value benchmark through active security selection of large capitalization value stocks, while minimizing risks from sector, beta, and investment style exposures. Stock selection is driven by our proprietary industry-specific models which utilize both quantitative and fundamental research to identify key performance drivers within each industry. The strategy will generally maintain a tracking error target of 2-4%. In addition, the portfolios will generally have fewer holdings than the benchmark. Since inception, Separately Managed (WRAP) accounts represent 100% of the composite assets. The benchmark is the Russell 1000 Value® Index. The composite was created April 1, 2016.

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 pure 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 pure 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 gross 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 Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values. Index returns reflect the reinvestment of dividends and other earnings.

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.