

At the end of 2023, the Fed seemed to have pulled off a miracle — a soft landing. Inflation seemed to be cooling, with the latest numbers within a stone's throw of the Fed's target.

## Columbia Disciplined Value SMA Strategy

### Performance

The Columbia Disciplined Value SMA Composite returned 8.96% pure gross of fees and 8.17% net of fees for the quarter ending December 31, 2023. The strategy's benchmark Russell 1000 Value Index returned 9.50% for the same period.

### Market overview

U.S. equities posted a gain of 11.96% in the fourth quarter, as measured by the Russell 1000 Index, bringing their return for the full year to a robust 26.53%. The market initially slid in October, with stocks remaining mired in a sell-off caused by concerns that the U.S. Federal Reserve was set to maintain a higher-for-longer interest rate policy. However, a drop in oil prices and a series of better-than-expected inflation reports led to a pronounced improvement in investor sentiment in November. The resulting rally gained additional steam in December, when comments from Fed Chair Jerome Powell appeared to indicate that the Fed was not only finished raising rates, but that it may in fact begin to cut rates as soon as the first half of 2024. Gross domestic product (GDP) growth remained in positive territory, despite the aggressive interest rate increases over the past two years, fueling optimism about the potential for an economic soft landing. Stocks surged on these favorable developments, propelling many major U.S. indices to near or above all-time highs by year end.

In a departure from the trend that was in place through the first nine months of 2023, mid- and small-cap stocks led the way higher in the quarter. The Russell Midcap Index and Russell 2000 Index returned 12.82% and 14.03%, respectively, outpacing their large-cap peers. At the style level, growth continued to outperform value (with returns of 14.16% and 9.50%, respectively, for the Russell 1000 Growth Index and Russell 1000 Value Index) driven by persistent strength in mega-cap technology stocks.

### Average annual total returns (%) for period ending December 31, 2023

	Inception	3-mon.	1-year	3-year	5-year	Since inception
Columbia Disciplined Value SMA Composite (pure gross)	3/31/2016	8.96	16.49	12.51	12.20	10.74
Columbia Disciplined Value SMA Composite (net)		8.17	13.09	9.21	8.91	7.48
Russell 1000 Value Index		9.50	11.46	8.86	10.91	9.50

Source: Columbia Threadneedle Investments North America

**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.

### Quarterly portfolio recap

As usual, the portfolio maintained a relatively neutral stance on sector allocation, though sector allocation did contribute positively, albeit modestly, to relative performance during the quarter. Stock selection overall detracted from the portfolio's performance relative to the Russell 1000 Value Index. Stock selection was weakest in the industrials, energy and consumer staples sectors. Partially offsetting these detractors was a result of effective stock selection in consumer discretionary, real estate and health care, that contributed positively.

Among the top detractors from relative performance were:

- ExxonMobil, an integrated energy company, traded lower during the quarter in lockstep with the price of oil, which declined on investor concerns of slowing global oil demand following weak data from the U.S. and Asia. The portfolio's overweight in ExxonMobil was driven by its strong quality and value theme scores, but the models delivered negative guidance.
- Bristol-Myers Squibb, a pharmaceuticals company, reported disappointing quarterly results. Despite generating revenue and earnings that met consensus expectations, its management lowered its mid-decade guidance due to its new product portfolio taking longer to gain sales traction than anticipated. This resulted, in turn, in lower operating margin guidance. The portfolio's overweight in Bristol-Myers Squibb was based on attractive value and quality theme scores, but the models provided negative stock selection guidance.

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

- PulteGroup, a homebuilder, enjoyed a robust positive return during the quarter on its reports of better-than-consensus expected earnings, driven by gross margins that remained above its peers. Further, its orders and pricing remained stable amid an environment of higher interest rates and cost inflation. The portfolio's overweight in PulteGroup was due to its attractive scores across all three themes — quality, value and catalyst, and the models delivered positive stock selection guidance.
- Bank OZK, a regional lender, rallied strongly, as it saw robust loan growth and demonstrated good credit management in a difficult financing environment. Many investors also appeared to believe the bank should additionally benefit from interest rates remaining higher for longer. The portfolio's overweight in Bank OZK was based on its attractive value theme score and, to a lesser extent, its catalyst theme score. The models provided positive guidance.

During the fourth quarter, we added one new signal to our quantitative stock selection models and made enhancements to two existing factors. Within our informed trading theme, we supplemented the short interest signals with a new metric capturing adjusted security lending utilization. We made several enhancements to our glassdoor human capital signal by incorporating a more advanced text sentiment model, more robust ranking, inclusion of additional reviews, improving depth of review coverage and a better company mapping process. We also refined the construction of the earnings revisions signal we utilize by more fully leveraging the depth of analyst coverage in the S&P Capital IQ Detailed Broker Estimates database.

## Outlook

After inflation made its fast and furious appearance about two years ago, markets were consumed by a series of worries — first stagflation and then a potential recession triggered by the Fed's restrictive policies. However, at the end of 2023, the Fed seemed to have pulled off a miracle — a soft landing. Inflation seemed to be cooling, with the latest numbers within a stone's throw of the Fed's target. The economy was humming along on the backs of strong consumer spending and a robust labor market. The threat of recession seemed to have been postponed, if not averted. The markets were eagerly counting down the days to an interest rate cut.

As with all enduring things, the full story has not yet been written. The key to a soft landing, in our view, is that the Fed's actions must be just right to strike a balance between competing forces. On the one hand, the full impact of interest rate increases had yet to fully percolate into different parts of the economy by the end of the year and will likely continue to do so at different rates. On the other hand, U.S. GDP preliminarily seems to have grown at an annualized rate of 2.5% in the fourth quarter, though we will get an official first glimpse only near the end of January. Combined with consumer spending power and a still-tight labor market, such growth could support stubborn inflation. Finally, both the resolution of supply-chain constraints and the drop in oil prices have been fortuitous thus far in helping control inflation, but with simmering geopolitical tensions, we might see them reverse.

Among the important themes we intend to continue to watch in the months ahead will be the adoption of artificial intelligence (AI) and its impact on different industries. As the implications of AI adoption across the economy become clearer, they could contribute to increasing market breadth when other beneficiaries with the right strategy start to share some of the gains. With the U.S. presidential election later in 2024, U.S. government policy will also be an important focus for the markets. The ongoing wars can also move markets, particularly if they escalate beyond the regions they have currently ensnared.

At the company level, those that can execute on their strategies, posting solid earnings and cash flows, are likely to continue to be rewarded. With higher rates, we believe characteristics of profitability, margins and cash flow generation will continue to be important for companies to fund their own growth. In such an environment, our multifactor approach, focusing collectively on quality, valuation and catalyst themes, should put us in good stead in selecting stocks. It remains 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.

**Investment products are not insured by the FDIC, NCUA or any federal agency, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.**

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.

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

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 Index** tracks the performance of 1,000 of the 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.

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 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.

# 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 (%)	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.)
2022	-6.10	-8.90	-7.54	20.10	N.A.	N.A.	≤ 5	0.5	2,101.82
2021	30.19	26.42	25.16	18.39	N.A.	N.A.	≤ 5	0.5	2,677.50
2020	3.42	0.36	2.80	18.96	N.A.	0.48	38	20.2	1,639.88
2019	20.73	17.21	26.54	12.48	N.A.	0.24	48	21.8	1,390.52
2018	-8.04	-10.78	-8.27	N.A.	N.A.	0.16	42	17.9	1,206.32
2017	18.60	15.14	13.66	N.A.	N.A.	0.12	33	15.4	1,320.06
2016 *	13.64	11.14	15.45	N.A.	N.A.	N.A.	15	6.2	1,005.08

### Annualized Trailing Performance as of December 31, 2022

Period	Gross-of-fees Return (%)	Net-of-fees Return (%)	Index Return (%)
1 Year	-6.10	-8.90	-7.54
5 Years	7.02	3.87	6.67
Inception	9.91	6.68	9.21

Inception Date: 03/31/2016

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#### Reporting Currency: USD

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, 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. 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 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.

# Columbia Disciplined Value SMA Composite

## GIPS Report

### Columbia Management Capital Advisers

#### **Reporting Currency: USD**

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11. Portfolio Manager, Brian Condon, retired from the firm on 05/31/2020.