Columbia Select Large Cap Value SMA Strategy

Sentiment began to improve and market trajectory reversed when the Fed held rates steady at its November 1 meeting.

Performance

- The Columbia Select Large Cap Value SMA Composite returned 8.83% pure gross of fees and 8.04% 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.
- Strong broad-based security selection, especially within the utilities, energy and financials sectors, helped relative returns during the quarter. This was offset by less-favorable results among several holdings within information technology, health care and materials.

Market overview

U.S. equities rebounded from a three-month slump and advanced during the fourth quarter, driven, in large part, by an emerging belief that the long-awaited Federal Reserve pivot was finally at hand.

Markets declined from the end of July through October, as investors fretted over the possibility of interest rates remaining elevated at two-decade highs, the culmination of 11 rate hikes since March 2022. Investors started the fourth quarter with plenty of other worries as well, notably the Gaza hostilities that erupted on October 7. Political dysfunction in Washington, D.C., as well as the continuing war in Ukraine, increased uncertainty. Earnings season added to the headwinds, even though it began well with big banks reporting better-than-feared third-quarter results. But high-profile earnings disappointments from companies like Tesla weighed on sentiment, as did cautious earnings outlooks that hinted at cracks in consumer resilience and weakening demand throughout most economic sectors. Sentiment began to improve and market trajectory reversed when the Fed held rates steady at its November 1 meeting, triggering expectations that inflation may have cooled enough to forestall more rate hikes and perhaps even spur cutting next year. Risk-on

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

	Inception	3-mon.	1-year	3-year	5-year	10-year
Columbia Select Large Cap Value SMA Composite (pure gross)	12/31/2011	8.83	5.68	9.81	12.30	9.86
Columbia Select Large Cap Value SMA Composite (net)		8.04	2.56	6.58	9.01	6.63
Russell 1000 Value Index		9.50	11.46	8.86	10.91	8.40

Source: Columbia Management Capital Advisers.

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.

sentiment got an extra boost that same day, thanks to a better-than-expected refunding announcement from the U.S. Treasury that eased worries about relentless upward pressure on long-term yields. Since its post-pandemic lows, the 10-year yield climbed more than 400 basis points (bps) and, in late October, briefly reached 5%, a level last seen just before the Great Financial Crisis in 2008. (A basis point is 1/100 of a percent.)

Softer-than-expected inflation numbers released in mid-November boosted positive sentiment further. Bullish investors speculated that the Fed was mindful that the full effects of its historically rapid hikes have yet to be felt, and they also found reassurance in tightening financial conditions — a narrative dubbed by market pundits as “bad news is good news.” A sharp decrease in the rate of consumer spending announced by the Commerce Department was especially influential in this narrative, driven by slowing income growth, the resumption of student loan payments and evidence that personal savings accumulated during the pandemic were dwindling. Softer growth data in employment and manufacturing, as well as dovish interpretations of comments by Fed Chair Powell and other Federal Open Market Committee (FOMC) officials, also contributed to the optimistic outlook.

A month later, at its December meeting, the Fed catalyzed dovish consensus by again holding rates steady and releasing projections that implied 75 bps of easing next year. Thanks to widespread conviction that inflation had peaked, economic surprises announced days after the meeting, such as a drop in unemployment and an increase in November retail sales, reinforced the bad news/good news narrative. Rather than being perceived as inflationary pressures warranting further tightening, the data were viewed widely as evidence the Fed may be able to approach its employment and price-stability targets without dragging the economy into recession.

Even though Powell and other Fed officials cautioned during and after the December 13 FOMC meeting that inflation remains too high and further tightening may be needed, markets rallied, as investors focused instead on how many cuts might be made in 2024. Published estimates almost doubled the number suggested by the 75-basis-point forecast. Stocks rose sharply in response, with the Dow Jones Industrial Average reaching a record high and the S&P 500 Index coming close to its all-time best as well.

Perhaps more noteworthy, the market showed signs of broadening as a variety of major benchmarks spiked post-FOMC, including those that had lagged over the first nine months of the year, such as the KBW Nasdaq Bank Index. As another illustration of lagging sectors bouncing back, real estate stocks in the S&P 500 Index topped fourth-quarter results with an 18% return, trailed by information technology at more than 17%. Including those two, more than half of the economic sectors within the S&P 500 Index finished the quarter with double-digit returns. Energy was the only sector to finish with negative results, finishing down almost 7%.

Small-cap stocks, as represented by the Russell 2000 Index, were up about 14% and outperformed large caps, as represented by the Russell 1000 Index, by roughly a couple of percentage points. Relative results from a style perspective, as measured by Russell style indices, varied by market cap. Small value outperformed small growth by just a little more than a percentage point, but large value lagged meaningfully behind large growth. After peaking in October, volatility, as measured by the CBOE Market Volatility Index (VIX), dropped sharply and finished the quarter at the lowest levels since early 2020, immediately before the pandemic.

Quarterly portfolio recap

Strong broad-based security selection, especially within the utilities, energy and financials sectors, helped relative returns during the quarter. This was offset by less favorable results among several holdings within information technology, health care and materials.

Although the strategy's energy holdings fared better than most energy stocks in the benchmark and collectively helped relative results, they were among notable individual detractors for the quarter. Refiner Marathon Petroleum, subsea equipment and services provider TechnipFMC and integrated oil company Chevron all declined, generally reflecting the drop in oil prices. For Chevron, its decline also reflects uncertainty about its announced acquisition of Hess. We are not concerned about the deal, as Chevron has been one of the most astute stewards of capital since we bought the stock nearly two decades ago. That a commodity company should be put into the dividend aristocrat category is testament to the quality of the company, its assets, cash flow and management. Worth noting is that our energy exposure was far and away the best contributor to relative results for the full calendar year.

Our health care holdings, which tended to weigh on results throughout the year, recovered somewhat during the quarter but were among notable individual detractors. In particular, managed care provider Humana remained under pressure after its attempted merger with Cigna. Pharmaceuticals maker Bristol Myers was another significant detractor following a re-set of sales guidance going out to 2030. We met with new CEO Boerner and were impressed that he is going to rationalize what had become a bloated management structure and, in our opinion, a misguided acquisition strategy.

We have mentioned in previous commentaries that supply chain problems lingering from the pandemic disrupted operations for a number of our holdings in 2023. This was especially true for agricultural chemicals maker FMC, which saw customers over-order during COVID, necessitating two painful inventory liquidation announcements in 2023. The market has changed its view of the company to that of a commodity, which we think is ill-informed. The same can be said for medical equipment provider Baxter, which has suffered from overstocking issues among its hospital customers.

We saw mixed results for the quarter from our technology holdings. Data management provider Teradata declined modestly on concerns about its product mix and plans to incorporate artificial intelligence (AI), while chip maker Qualcomm and semiconductor capital equipment maker Applied Materials were among top contributors. Numerous tailwinds helped Qualcomm during the quarter, as investors increasingly appreciated its exposure to important trends in communications technology, including smart phone communication, auto, AI and the Internet of Things. Potential growth in demand from China also helped, as did an extension of its supply relationship with Apple. Applied Materials, which reported above-consensus results, also benefited from the possibility of demand picking up in China.

Top contributors for the quarter also included independent power producer AES, which, in our view, has built one of the best franchises in the world for delivering green energy on time and on budget. AES share prices slid throughout the year, generally as the result of weakness in the renewables segment, expectations of sustained high interest rates and competitive pressures. But the company beat expectations in its quarterly earnings release and also pleased investors by announcing an accelerated asset sale timeline that should eliminate any need for new equity until at least 2026.

Our financials exposure also was a highlight of the quarter, boosted by a combination of enticing valuations and expectations of interest rate cuts in 2024. Although higher interest rates generally help lenders' profits, they can also result in weak loan demand and pressure to raise deposit rates paid to customers. Citi, Wells Fargo and Bank of America were beneficiaries of this trend, while JPMorgan continued to impress investors with its overall quality and consistent, conservative profitability.

Market outlook and investment plan

As we wrap up a tough quarter and even tougher calendar year for our clients, we maintain conviction in an investment approach aptly described by Charlie Munger, who left us at the end of November: "The big money is not in the buying and selling, but in the waiting."

In keeping with that philosophy, top-down observations are considered in our bottom-up, stock-by-stock investment process. At quarter end, those observations include:

- The year ended in Goldilocks fashion: The last reading of the Fed's favorite measure of inflation, the supercore PCE, was in the 2% range, with incomes up and the economy still at roughly full employment. Yes, earnings growth was largely flat in 2023, and estimates for 2024 would appear to be optimistic in a lower-inflation environment. As such, one would think that for 2024 to be another good year for the market, lower rates will be needed to drive P/Es higher.
- If the huge drop in rates expected for 2024 is based on falling inflation, one should probably keep an eye on the construct of inflation, namely that it measures year-over-year changes. Remember that commodities like oil, natural gas and grains were down significantly in 2023, while wages continue to rise with no excess unemployment. Relative to financial assets, commodities have only been this cheap three times in history, and all were right before calamity (the late 1920s, the late 1990s and 2008). Because of how inflation is measured, those comps could set up a rise in inflation, especially if we get the Goldilocks start to 2024. It makes sense that this is a trend to watch.
- With that backdrop in mind, we continue to favor commodities, especially energy, considering that demand for fossil fuels is continuing to grow, yet capital spending has been far less than depreciation and depletion, a factor that should lead to strong capital investment returns and cash flow.
- Profits and earnings likely will come under pressure, thanks to atypically high margins and revenue growth, which are slowing at the same time wage growth is accelerating.
- Quantitative tightening (QT) was a big nothing. Expectations were that the record speed and size of rate hikes, coupled with Fed balance sheet shrinkage, would tank borrowing and economic growth, but it didn't. Why? The growth of the Fed's reverse repo operations, in which the Fed sought to provide stability in lending markets by selling securities to banks, effectively sterilized most of their QT efforts. After peaking in December 2022, the value of reverse repo assets held at the Fed dropped by almost 60%. We believe that Powell sees the drawdown and understands that without a pivot, this drain could be felt in bank reserves, followed by a credit crunch. As such, cutting rates and resuming quantitative easing before a crisis seems sensible.

With these observations in mind, we remain confident in our positioning, which is driven by high-conviction bottom-up stock picking. Other than our first purchase of a real estate investment trust, transactions during the quarter were limited to our normal adds and trims based on a continual assessment of relative risk and reward among our holdings. As such, positioning at quarter end did not vary significantly from the previous quarter. Meaningful overweights remain in utilities, materials, information technology, communication services and energy, while underweights remain in industrials, consumer staples, real estate and financials.

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The **Russell 1000 Value Index**, an unmanaged index, measures the performance of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth values.
The **Standard and Poor’s (S&P) 500 Index** is an unmanaged list of common stocks that includes 500 large companies.
The KBW Bank Index is designed to track the performance of the leading banks and thrifts that are publicly-traded in the U.S. The Index includes 24 banking stocks representing the large U.S. national money centers, regional banks and thrift institutions.
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 Index** tracks the performance of 1,000 of the largest U.S. companies, based on market capitalization.
The **CBOE Volatility Index (VIX)** is a real-time index that represents the market’s expectations for the relative strength of near-term price changes of the S&P 500 Index.
Indices shown are unmanaged and do not reflect the impact of fees. It is not possible to invest directly in an index.

Columbia Select Large Cap 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 (%)	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.)
2022	-0.95	-3.88	-7.54	-18.11	22.54	21.25	20.87	0.50	350	427.0	2,101.82
2021	26.49	22.81	25.16	28.71	21.32	19.06	17.17	0.45	287	313.6	2,677.50
2020	6.42	3.28	2.80	18.40	22.03	19.62	18.53	1.09	223	218.9	1,639.88
2019	26.77	23.08	26.54	31.49	14.18	11.85	11.93	0.62	237	210.3	1,390.52
2018	-11.34	-13.99	-8.27	-4.38	12.24	10.82	10.80	0.62	443	246.1	1,206.32
2017	21.76	18.22	13.66	21.83	11.91	10.20	9.92	0.90	412	256.0	1,320.06
2016	20.25	16.75	17.34	11.96	12.13	10.77	10.59	1.65	345	215.8	1,005.08
2015	-2.81	-5.69	-3.83	1.38	11.98	10.68	10.47	0.76	716	352.4	3,227.52
2014	13.65	10.32	13.45	13.69	10.60	9.20	8.97	1.11	666	390.8	3,521.72
2013	38.16	34.18	32.53	32.39	N.A.	N.A.	N.A.	1.78	750	424.4	3,608.46

Annualized Trailing Performance as of December 31, 2022

Period	Gross-of-fees Return (%)	Net-of-fees Return (%)	Index Return (%)
1 Year	-0.95	-3.88	-7.54
5 Years	8.43	5.23	6.67
10 Years	12.85	9.54	10.29
Inception	13.16	9.84	10.93

Inception Date: December 31, 2011

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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.

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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 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 3.00% 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.

Columbia Select Large Cap Value SMA Composite
GIPS Report

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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.