Winter 2020

INVESTOR NEWSLETTER

columbiathreadneedleus.com/newsletter

Cover story:

The lingering effects of the financial crisis — over 10 years later

Also in this issue:

Embracing generational differences

When realizing tax losses, think strategically

FEATURED STORIES

COLUMBIA THREADNEEDLE INVESTMENTS

Winter 2020
Volume 10 Issue 1

Columbia Threadneedle Investor Newsletter is published quarterly online and features timely articles covering economic trends, investment strategies and solutions, and service changes.

© 2020 Columbia Management Investment Advisers, LLC. All rights reserved.

Not FDIC insured	May lose value
No bank guarantee	

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. For a free prospectus or a summary prospectus, which contains this and other important information about the funds, visit www.columbiathreadneedleus.com/investor/. Read the prospectus carefully before investing.

ALSO INSIDE

Knowledge is power. Stay informed.

Subscribe today to our newsletter

columbiathreadneedle.com/us/subscribe

THE LINGERING EFFECTS OF THE FINANCIAL CRISIS — OVER 10 YEARS LATER

More than a decade into the recovery that followed the Great Recession of 2008–2009, many market commentators believe we're in the late stages of the economic cycle that began as the crisis started to recede. As financial markets watch for early indications of change on the horizon, the economic environment still bears the imprint of the events that unfolded in the aftermath of the Great Recession.

Highly unorthodox central bank policies intended to provide what former U.K. Chancellor Alistair Darling has called "short-term shock therapy" have evolved into our new normal. There's no doubt that these monetary policies in the immediate aftermath of the crisis, such as quantitative easing, or the practice of increasing the supply of money to stimulate economic activity, helped to stave off a potential depression.

But our inability to dispense with these crisis-era measures is undermining confidence in the strength of the recovery and encouraging a continuing sense of fragility.

Here are six ways the consequences of the Great Recession continue to dominate our outlook and define the room for maneuvering.

1. Debt has continued to pile up

Other than a brief pause during the worst of the crisis, the global stock of debt has continued to grow, aided by two events: the sharp drop in interest rates by the major central banks from 2008 on and the introduction of quantitative easing.

Having reached around $180 trillion on the eve of the crisis, the debt has since climbed to about $250 trillion.[1] If excessive debt was partly responsible for the Great Recession, there's no sign that this problem has been resolved. Rather, its focus has shifted from private to public sector balance sheets.

2. Too Big to Fail lives on

The term Too Big to Fail (TBTF) predates the Great Recession — but it gained new meaning during the financial crisis; it became clear that the banking system is so interconnected that a crisis in one area can easily engulf the whole. Today, governments and regulators have done what they can to manage the risks of TBTF: identifying systemically important institutions for additional oversight, mandating resolution plans for failing banks and carrying out rigorous stress testing of assets and liquidity.

3. Productivity and labor force growth have stalled

Since the Great Recession, productivity growth in developed economies has slowed sharply. Weak labor force growth has led to tight employment markets and skills shortages, a growing problem in Europe and Japan and particularly noticeable in the U.S. These two factors tend to impede consumption and encourage increasing leverage.

Source: Columbia Threadneedle Investments as of July 2019. Past performance does not guarantee future results.

The U.S. economic recovery following the Great Recession is the longest on record, but it's also one of the weakest.

4. China's influence over the world economy has grown

As China's economy has claimed a steadily larger share of world economic output, the rest of the global economy has become increasingly sensitive to slowdowns in China's pace of growth. Concerns have also grown over the country's spiraling stock of debt. China protected its economic expansion during the Great Recession with the biggest stimulus package enacted in any country, largely channeled through its state-owned banks.

Banking assets almost doubled to 250% of gross domestic product (GDP), and debt exploded from 248% of GDP to 441% by September 2018.[2] China has never exerted greater influence over the direction of the global economy.

5. Economic recovery left too many behind

The U.S. economic recovery following the Great Recession is the longest on record, but it's also one of the weakest. In contrast, the U.S. stock market has staged one of the strongest recoveries on record, benefiting owners of capital but contributing to increasing income inequality in the U.S. In 1970, family income at the 90th percentile was seven times higher than at the 10th percentile. By 2016, the gap had jumped to 13 times — family income at the 10th percentile showed almost no growth over that period.[3] Growing income inequality across the developed world has likely contributed to the rise of populist politics around the globe.

6. Globalization has petered out

The coordinated global reaction to the Great Recession was a prime example of international cooperation through multilateral organizations set up following WWII. But today, nationalistic politics dominate. Countries like China and Russia are asserting their "great power" status more aggressively; narrow self-interest dominates international relations. As a result, the globalization that drove much of the world's economic growth in the decades leading up to 2008 has ground to a halt. If another crisis were to take hold, it's not clear that countries would necessarily rekindle their former spirit of cooperation and connectedness.

Lessons learned

These are some of the major legacies of the Great Recession. But with hindsight, what lessons should we take from it for the future? One clear conclusion is that countries that took swift, decisive action to address their problems reaped big benefits. The U.S.' enforced recapitalization of its banking system allowed it to recover quickly and increase its support for the real economy.

European banks are still gradually recapitalizing themselves more than 10 years later, leaving European companies, which are heavily reliant on bank finance, at an obvious disadvantage. The U.S.' economic outperformance relative to Europe since the Great Recession is arguably due in part to its robust banking sector, which supports the real economy in a way European banks cannot.

A second conclusion is that well-intentioned regulation in response to a crisis can sow the seeds of problems in the future. The Volcker Rule reduced the willingness of fixed-income market makers on Wall Street to carry inventory the way they had before the Great Recession. Rules intended to make Wall Street banks safer have increased the risk that fixed-income markets could see their liquidity dry up during periods of stress.

Bottom line

The Great Recession may have given way to a period of sustained economic growth, especially in the U.S., but the crisis continues to cast a long shadow. As the world economy moves into its second decade of expansion, the effects of the previous crisis are still plain to see.

By keeping a close eye on the economic triggers that preceded the Great Recession, learning from previous mistakes and acting swiftly to resolve brewing financial issues, world leaders can help ensure that history does not repeat itself.

[1] Bloomberg as of 11/14/19
[2] Bloomberg banking assets represented by aggregate assets and liabilities of banks within China
[3] A Guide to Statistics on Historical Trends in Income Inequality, August 21, 2019

WHEN REALIZING TAX LOSSES, THINK STRATEGICALLY

Many investors have gotten into the routine of harvesting losses in December. However, harvesting tax losses at the end of the year could mean missed opportunities along the way.

There are many reasons investors may decide to wait until the end of the year to harvest tax losses. Maybe they take pride in their stock selection abilities, and they don't want to regret getting out too early. Or that it just seems wrong to sell a security for a loss when there's the promise of the new year. But come December, their patience runs thin and suddenly it feels like the right time to claim the tax deduction of a realized loss. The most common reasons behind December loss harvesting are based on emotion and simple convenience rather than any strategy.

For taxable investments, a loss harvested in December has no more value than a loss harvested in January or any other month. In fact, approximately 74% of the time, December experiences a positive market return, which actually gives investors the fewest loss-harvesting opportunities.*

Loss-harvesting strategy versus loss realization

One trap investors can get caught in by only selling losers at year end, is that once the security is sold for a loss, investors can be enticed into holding the cash to avoid risking further decline or even spending the money for some other purpose. Doing so is not loss harvesting but loss realization. If the market rallies shortly after realizing the loss, the investor has foregone recouping his or her original value or gaining actual appreciation.

A true loss-harvesting strategy is one that attempts to systematically harvest losses and reinvest the proceeds in individual stocks or groups of stocks, maintaining consistent market exposure.

Investors implementing a loss-harvesting strategy should be aware of the wash sale rule, which disallows a loss when the investor buys the same security (or a substantially identical security) within 30 days of the sale that triggered the loss.

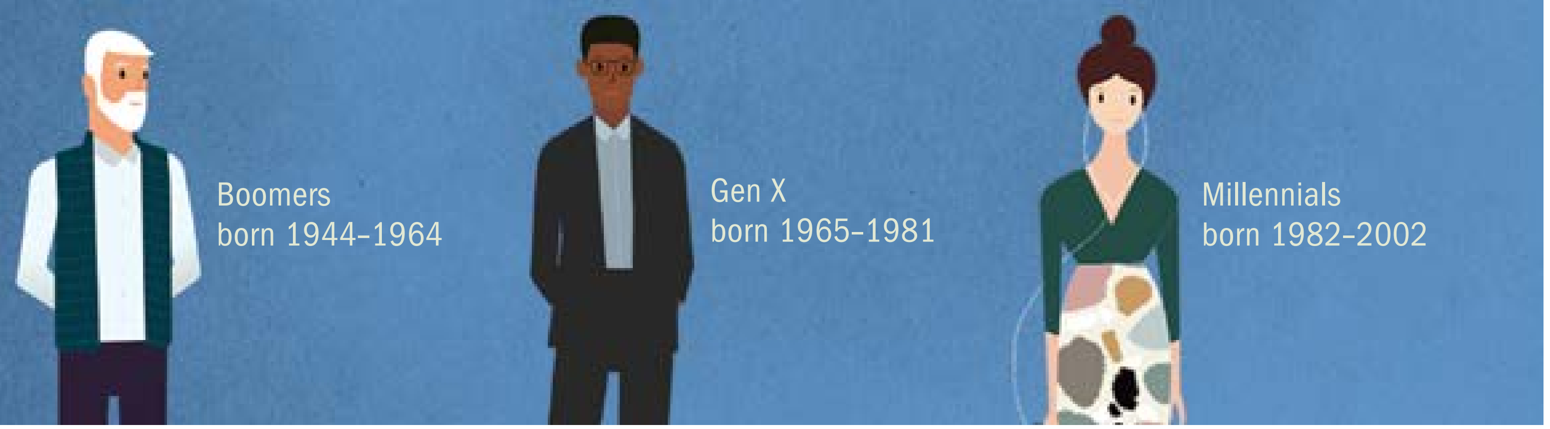
Bottom line

Historically, December is one of the best months to stay invested in the market and one of the worst months to harvest losses. Tax-loss harvesting does not need to be a year-end event. Investors may want to consider a more strategic approach by harvesting tax losses year-round and staying fully invested in the market.

Past performance does not guarantee future results. It is not possible to invest directly in an index. Columbia Threadneedle Investments does not offer tax or legal advice. Consult a tax advisor or attorney.

* FactSet. Average returns are price returns for the S&P 500 Index and do not include dividends. Average S&P 500 Index historical returns by month 01/01/1928 to 12/31/2018.

Embracing generational differences



Learning how generations differ will give you a better foundational understanding of who you are. If we open our minds to the notion that everyone has a view, and we embrace this difference, it is a powerful force.

Working through generational differences can be challenging, but it's never been more important. People of different ages see the world through a unique lens and sometimes have a hard time accepting the habits of another generation. Understanding these differences is essential to managing workplace team dynamics and multi-generational client relationships.

Chris DeSantis, an independent consultant specializing in generational and gender difference, works with Columbia Threadneedle Investments to share his insights on the forces that have shaped each generation and how these affect people's behavior.

Why does generational diversity matter?

Well, first of all, diversity matters. It's through diversity that we gain a wider perspective. The absence of diversity is, in fact, the absence of perspective, meaning you narrow your view. Generational diversity is one aspect of difference, but it's an important one because investors and various types of teams represent a broad spectrum of generations. Understanding generational differences gives a better understanding of team dynamics.

What shapes a generation?

Research shows that children in their formative years, from ages six to eight, start to notice the world around them. This is reinforced by what they hear at the dinner table from their parents and siblings. It's further reinforced by the cohort group — the kids born around the same time. And this shapes a view that stays with the generation as they progress through life. Social norms and the economics of a culture affect how we see things. If you are a child of abundance — for example, baby boomers and millennials — you see the world as an opportunity. If you're a child of scarcity — for example, Generation X — you are much more conscientious about the world around you and may be skeptical as a consequence.

Do generations judge one another unfairly?

Yes, they do. It's because of a difference in habits. Each generation is unique. This uniqueness, however, comes into conflict with the habits of the preceding generation. Each generation believes that the next generation represents the decline of civilization as we know it, and this has been going on since time immemorial. Boomers are often considered hippies by their traditionalist elders. Of course, not all boomers are hippies. Most boomers consider Gen Xers to be slackers. As they grew up, Gen Xers looked upon those who followed them, these millennials, as entitled. Each of us is cursed with a label that may not be representative of who we are, but it sticks with us. Every generation starts out with a bad rap. It's just how it works.

Generational caricatures are not helpful in the workplace, so how can we learn to better understand our differences?

We need to recognize that we see the world through the unique lens of our generation — and that this is not the only way to see the world. One of the challenges here is that we're dealing with habits, and habits are formed early based on experiences. For example, when a boomer interacts with somebody younger, a Gen Xer or a millennial, and notices that they do not share the same habits, they can be judged harshly and the value of their habits often goes unrecognized.

How can we avoid tension in the workplace caused by generational differences?

All workplaces have some level of tension, and tension by itself is not necessarily a bad thing. If there is no tension, there is no bringing forth of new ideas, instead just the acceptance of the way we've always done it. But when the generations have fundamentally different ways of operating, this can be counterproductive. For example, baby boomers are the product of a "directive" lifestyle. They were told what to do and they did it. That was how they were raised in the home, how they were taught at school and how they were expected to behave in the workplace.

The challenge for the newer generations in the workplace is that they have been raised and educated differently. They are products of "dialogue." They were raised at home by parents who engaged with them and encouraged them to discuss. School was more collaborative. Yet they come into the workplace not always realizing that we are in a highly directive environment. So, they participate as they've always participated, which does not match our expectation of how one should behave, which causes tension between us and them. And the result is we blame them for not being us.

Not only recognizing but also celebrating generational differences can go a long way toward improving interactions and productivity in the workplace. But keeping an open mind about those with different motivations and work styles is sure to be beneficial to anyone operating in a multi-generational setting, wherever that might be.

PAUL WICK

When Paul Wick took over managing Columbia Seligman Communications and Information Fund in 1990, Motorola had just introduced its flip phone and Apple had recently rolled out its beige box Mac Classic personal computer. Wick has managed Columbia Seligman Communications and Information Fund for 30 years, longer than any other current portfolio manager of a U.S. technology fund. Over that time, he has witnessed revolutionary change in the tech industry and used his encyclopedic knowledge of the sector to capitalize on long-term trends and sidestep gimmicks.

30 YEARS AT THE HELM OF COLUMBIA SELIGMAN COMMUNICATIONS AND INFORMATION FUND

Wick has always been a highly methodical and disciplined investor, casting a critical eye on the hyperbole that attaches itself to new technologies. "There are a lot of companies that are a flash in the pan in tech, and it is important to identify businesses that have staying power and won't fizzle out," he says. For Wick and his team, growth at a reasonable price has always been a top priority. "We look at a lot of aspects of a company, including its products, management strength, competition, supply chain and manufacturing, but we also have an emphasis on not overpaying. Intellectual property is a really important thing — it enables long-term, sustainable, high profit margins."

We asked Paul to take a moment to reflect on his achievements as the leader of Columbia Seligman Communications and Information Fund and discuss his thoughts on the direction of the tech industry in the coming years.

What were some of the game changers that you have seen over your tenure running the fund?

The introduction of the personal computer in the late 1980s/early 1990s was akin to what we have seen in smart phones more recently. This was followed by the trend of networking PCs together. Data networking became a new category, and that gave rise to client server computing — software loaded into a central server and accessed via networks. Netscape's IPO in 1995 helped broaden the public's access to web browsers, which gave rise to widespread access to the internet. Of course, more recently there is the smart phone/mobility revolution, along with cloud-based computing. All of these advances required faster, more powerful, less power-hungry and smaller integrated circuits.

What are some of the most important lessons you have learned over your tenure as an investor in the technology sector?

Being successful in tech is not just about being first to the next big thing. It's more important to find long-term trends with legs. The PC trend, the networking trend, the smart phone trend — these are all long-term drivers that unfold over many years. Everyone remembers an IPO like Google's and the stories of stocks that go straight up, but the much more common pattern is for companies to flame out after their IPO. It can take a year or more to understand if a trend is going to accelerate and dominate and to understand the players in that space.

It's important to recognize when accepted wisdom is no longer relevant. As industries mature, the dynamics change. There used to be a rule that any time the semiconductor industry saw year-over-year revenue growth above 40%, or saw unit growth in excess of 25%, the industry would go into recession within six months. These numbers made sense in the days when the PC market was driving 65% of semiconductor demand, and every chip company had its own fabrication plant and added capacity or hit the brakes at the same time. Now, with dedicated foundries dominating production, capacity adds are more granular and cyclicality has diminished. It's unlikely that we will see the types of unit growth or revenue numbers that we had in the early days. Understanding these new dynamics is much more important than trying to apply the old rule. There are similar absolutes in other industries that have become less reliable as the world changed.

Business models matter. We have always been suspicious of high-risk business models, such as one-product companies. We focus on finding companies with strong intellectual property, a sticky customer base and pricing power. We want to see recurring revenue and free cash flow generation.

Assemble a team that balances investing skill with technical know-how. The members of the fund's management team have all been investing in the sector for 15 years or more, but many of them also have their roots in the tech industry, working in computer software or as semiconductor engineers. They know electronics and understand the architecture of smart phones and the process development aspects of fabricating semis. This background allows them to understand which companies will benefit from a new development in semi manufacturing, for example. We believe it's a significant advantage.

What are some of the trends that you currently like in the technology sector?

The key trend is the intersection of the cloud with software applications, mobile devices and the Internet of Things. There's a virtuous circle at work here — faster data networks and cellular speeds enable the cloud to deliver faster search queries and streaming video speeds. Software integration advances enable new cloud services like ride-hailing services and food delivery. Cloud-based software improves security and ensures that applications are always up-to-date. And more powerful sensors and processors increase the intelligence of the cloud and edge devices like industrial machinery, home security cameras and automobiles.

Of course, there are other trends that are also exciting, such as advances in autonomous driving and the trend toward electric cars. We are also keeping a close eye on fuel cell technology and its potential to reduce pollution and carbon emissions.

Wick is forthright on his tenure managing Columbia Seligman Communications and Information Fund. "I come at this as an investor rather than a technologist," said the 30-year tech sector veteran. "I took one computer science class as a college freshman and didn't enjoy it very much. In contrast, managing the fund all these years has been both an exciting challenge and great fun. It's hard to believe all of the change that has happened in the past 30 years."

Securities discussed above are intended for illustrative purposes only, may not be representative of current portfolio holdings and should not be construed as a recommendation to purchase or sell specific securities.

Columbia Threadneedle Investments is a leading global asset manager that provides a broad range of investment strategies for individual and institutional clients. With over 450 investment professionals across 17 countries, we manage $469 billion* across asset classes. Our global investment team debates and challenges their best ideas to make better decisions, leading to better outcomes for you and your clients.

To find out more, call 800.426.3750
or visit columbiathreadneedle.com

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. For a free prospectus or a summary prospectus, which contains this and other important information about the funds, visit columbiathreadneedle.com. Read the prospectus carefully before investing.

Investment risks — Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations. **Foreign** investments subject the fund to risks, including political, economic, market, social and others within a particular country, as well as to currency instabilities and less stringent financial and accounting standards generally applicable to U.S. issuers. As a **non-diversified** fund, fewer investments could have a greater effect on performance.

The S&P 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks.

Past performance is not a guarantee of future results.

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 suitable 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.

* In U.S. dollars as of September 30, 2019. Source: Ameriprise Q3 Earnings Release. Contact us for more current data.

Columbia funds are distributed by Columbia Management Investment Distributors, Inc., member FINRA, and managed by Columbia Management Investment Advisers, LLC.

Columbia Management Investment Distributors, Inc., 225 Franklin Street, Boston, MA 02110-2804

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

© 2020 Columbia Management Investment Advisers, LLC. All rights reserved.

CT-MK/**247542 AK (12/19)** KC53/2858418