Winter 2021

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INVESTOR NEWSLETTER

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Cover story:

2021 prediction: Equity sector winners and losers under the new Biden presidency

Also in this issue:

Diversify with multi-asset model portfolios

7 actions to consider if you're unemployed

FEATURED STORIES

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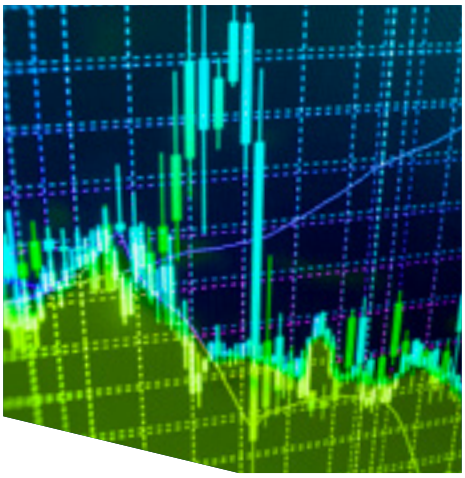

ALSO INSIDE

Winter 2021
Volume 11 Issue 1

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

2021 PREDICTION:
EQUITY SECTOR WINNERS AND LOSERS
under the new Biden presidency

To understand how a Biden presidency might affect equity market sectors, our analysts identified the core policy initiatives of the Biden campaign, then sorted the equities they follow as favorable and unfavorable relative to the current environment. While sector winners and losers are likely to change under Biden's presidency, the degree of change will be dictated by the House and Senate. In the near term, news on the prospects for a COVID-19 vaccine are likely to continue to be a more dominant driver of equity performance than the outcome of the election.

POTENTIAL SECTOR WINNERS

Utilities

Fiscal spending and possible tax changes are the principal drivers for positive change in the utilities sector. Infrastructure spending plans are likely to focus on renewables and electrification initiatives. If there were an increased corporate tax rate, regulated utilities would be able to pass this on to customers.

Consumer staples

There could be an incremental positive for cannabis companies in the staples sector, particularly if we see marijuana decriminalized at the federal level. There is elevated risk for consumer products, namely tobacco and sugary beverages, in the form of higher excise taxes and greater regulation.

Materials

It pays to think expansively here, considering the impacts of trade, fiscal spending and regulation. Improved trade would benefit exports, which would help many U.S. materials companies, including exporters of agricultural products and grains (particularly to China). There might be a negative impact if higher cost renewable fuels are mandated to replace lower cost oil.

Consumer discretionary

Affordable housing, an expanded minimum wage and made-in-America initiatives would be positive for companies selling trucks and SUVs (as would an emphasis on greener vehicles). Tax increases could be a headwind, but balanced with a less aggressive trade stance, many consumer brands could see gains.

Information technology

A small slice of this sector has been the principal driver of the recovery in U.S. stocks since March, and the rising scale of big tech could inspire greater government intervention/regulation. Its breakup has the potential to unlock opportunities for smaller technology companies. A more open immigration policy would be a benefit here, encouraging non-U.S. tech talent to work in America.

POTENTIAL SECTOR LOSERS

Industrials

Infrastructure spending would be a positive for the sector overall, but a lower dependence on fossil fuels would hurt oil/gas investment. Defense stocks might come under pressure due to higher U.S. budget deficits and proposals to curtail military spending.

Energy

Biden has made renewable and green energy a significant plank in his agenda. A ban on either new leases or new permits on federal lands for energy exploration would be a significant challenge for traditional U.S. oil and gas companies.

Communication services

Similar to information technology, oversight and regulation may impact the operating environment for the communication sector. Anti-trust enforcement and data regulation could weigh on the stocks.

Financials

New heads of financial regulators would likely be less friendly to financial services companies and a corporate tax hike would hurt banks more than most sectors. More scrutiny of large-scale mergers and acquisitions among financial services firms and potential for higher capital requirements could also present challenges.

Health care

Drug pricing, expanded Medicare and hospital costs are all possible targets for change and will always be a concern in the U.S.

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Understand
how ETFs work

Exchange-traded funds (ETFs) have rapidly gained in popularity in the past few years, for novices, sophisticated institutional investors and everyone in between. Some investors use ETFs to augment more traditional products, while others use them to implement more complex strategies. As with any investment, no matter what their intended use, you should understand ETFs and how they work before including them in your portfolio.

What is an ETF?

An ETF is a pooled investment vehicle that is traded on an exchange and whose objective is to track an index.

ETFs ARE VERY MUCH LIKE MUTUAL FUNDS, WITH A COUPLE OF KEY DIFFERENCES:

Investing	An investment in an ETF represents ownership of a unit investment trust (UIT), as opposed to mutual fund shares. Like mutual funds, UITs can hold portfolios of stocks, bonds, commodities and currencies. Both ETFs and mutual funds represent pooled assets that are professionally managed, with clearly identified objectives.
Pricing	ETFs are priced continually throughout the day, unlike mutual funds, which are priced once a day at the close of business. Trading conditions such as limit orders, good-until-canceled orders and stop-loss orders may also be used in the purchase of ETFs.
Tax efficiency	If ETF managers only sell underlying stocks periodically to mirror an index, portfolio turnover and the resulting capital gains exposure may be more limited in an ETF compared with a mutual fund.
Transparency	While mutual fund holdings are disclosed periodically, ETF investors always know exactly what their portfolios contain.
Fees	Fees are generally lower with a passively managed ETF vs. a mutual fund. However, trading an ETF may result in brokerage fees, which, depending on the frequency of trading, can become fairly expensive.

Passive, active and somewhere in between

When ETFs were first introduced in 1993, they tracked only broad-based indices like the S&P 500 and were designed to be passively managed. But as they gained popularity among investors and the number of available ETFs grew, new strategies evolved. Today, ETFs track a number of indices and include categories like sector ETFs, growth and value ETFs, leveraged ETFs and quantitative ETFs. Further, ETF investors can choose from:

- PASSIVELY MANAGED — Traditional ETFs set up to track an established index.
- STRATEGIC BETA — Also known as smart beta, these ETFs are passively implemented but incorporate active management insights to create and track a customized index.
- ACTIVELY MANAGED — ETFs structured to pursue a specific investment objective, mirror an existing mutual fund or track a portfolio manager's top picks.

With so many choices available, choosing the right ETF for your investment objectives can be daunting. Speak with your financial professional today about how ETFs may help you reach your goals.

To learn more about the ETF offerings at Columbia Threadneedle Investments, visit columbiathreadneedleus.com/ETFs.

DIVERSIFY WITH MULTI-ASSET MODEL PORTFOLIOS

Expertly constructed multi-asset model portfolios to help meet your unique investment goals

Model portfolios have seen huge growth in recent years as technology has made them easier to build, providing investors with the type of sophisticated and customizable products they demand.

They have also become an important asset for financial advisors, whose ever-expanding responsibilities have stripped them of the time they traditionally spent on portfolio management.

But if model portfolios provide solutions to those pressing demands, how do investors working with their financial advisors choose the most appropriate models for their needs? The answer lies in the way they're constructed and the priorities that underpin that process.

Our model portfolios strive to meet investors' unique goals. For high-net-worth individuals, a series of multi-asset, core models are set apart by their focus on three priorities: taxes, risk and cost.

COST-AWARE

Delivering carefully curated cost-effective exposures without charging a strategist fee

On cost-awareness, our use of a combination of passive ETFs and SMAs helps keep overall fees low. These portfolios are also open architecture, which means that they use best-in-class, third-party managers hand-picked by Columbia Threadneedle. The due diligence behind that selection process, as well as asset allocation and portfolio management, are all provided without any strategist or overlay fee. Today's high-net-worth clients demand sophisticated products to meet specific needs. By focusing on tax reduction, risk mitigation and low overall costs, our model portfolios can be customized to do just that — seeking to protect investments while helping to grow wealth.

TAX-AWARE

Investing to mitigate tax consequences by investing in ETFs and SMAs

Taxes are unavoidable, as everyone knows. But failure to incorporate a tax-aware investment strategy can make a big difference to a portfolio's total return. To help mitigate a client's overall tax burden, we offer a choice of tax-friendly vehicles: exchange-traded funds (ETFs) and separately managed accounts (SMAs).

ETFs are tax-efficient because their ability to transact on an in-kind basis rather than in cash creates fewer taxable events and lowers capital gains compared to mutual funds. SMAs are an important tool because they allow investors to harvest tax losses, using losses in one area of a portfolio during periods of market crisis or volatility and offsetting them against gains in another area of the portfolio.

Investing in muni SMAs can provide tax-exempt income and the opportunity for customization, which may be important for clients living in high-taxation states.

We add additional layers of tax efficiency to our models by analyzing the trading patterns of the asset managers we work with in order to understand the type of tax liabilities they are likely to generate. We also apply a high-conviction approach to all our portfolio construction trades — an approach that looks to maximize returns while controlling the overall number of taxable transactions.

"Managing turnover is a simple but powerful way of managing the tax experience for an investor.

The fewer times you trade, the fewer taxable events you create, so it's important that we're only trading when it's a high-conviction idea."

— Joshua Kutin, Head of Asset Allocation, North America

RISK-AWARE

Offering institutional quality processes designed to generate alpha and mitigate risk

A priority for high-net-worth clients is managing risk, which we do using a series of real-time and forward-looking indicators to assess the state of the market and tactical exposures.

Our proprietary market-state classification system, which examines macroeconomic data as well as valuations, volatility and momentum, can be used to adapt portfolios' asset allocation and diversification mix based on changing market conditions.

That helps tilt toward risk asset classes when risk is off. Importantly for higher-net-worth clients, it also aims to mitigate downside risk when risk is on. The result helps to smooth the ride for investors over the economic cycle and to mitigate drawdowns, which are costly in the short term and can frustrate long-term savings goals.

Portfolio building blocks are carefully selected using a manager research and selection investment process to pick the best third-party managers. David Weiss, Head of Sub-Advisory Management, says this level of risk-related due diligence even extends beyond the managers' selections to managers' equipment, systems and protocols.

"Our team looks at the tools they're using, how risk management is structured, and ultimately how risks are escalated within the firm once they've been identified. As part of building these multi-manager, multi-asset portfolios, it's critically important that each manager have the proper risk-management procedures in place."

— David Weiss, Head of Sub-Advisory Management

To find the right model portfolio to fit your financial situation, contact your financial advisor or visit columbiathreadneedleus.com/modelportfolios

These managed account solutions are only available through investment professionals. Not all strategies may be available on all platforms. Diversification and asset allocation do not ensure a profit or protect against loss. Investing involves risk, including the risk of loss of principal. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. Securities products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC. Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies. 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.

7 ACTIONS TO CONSIDER IF YOU'RE UNEMPLOYED

The economic downturn of the coronavirus pandemic has left millions of Americans without jobs.

If you are newly unemployed, here are seven actions to consider:

1 File for unemployment benefits

To receive unemployment insurance benefits, you need to file a claim with the unemployment insurance program in the state where you worked. Depending on the state, claims may be filed in person, by telephone or online. Federal law permits significant flexibility for states to provide unemployment insurance benefits for COVID-19-related circumstances, including:

- An employer temporarily ceases operations due to COVID-19, preventing employees from coming to work.
- An individual is quarantined with the expectation of returning to work after the quarantine is over.
- An individual leaves employment due to a risk of exposure or infection or to care for a family member.

2 Get on a budget and find ways to cut back

Start with a list of all your income and expenses. Include only expenses that are necessary. Now is the time to cut back on any unnecessary expenses that you can. Stop subscriptions to streaming services and cable, skip the daily visits to the coffee shop drive-thru and avoid online impulse purchases.

3 Health insurance

If you have a spouse or partner with an employer health plan that you're eligible to join, consider looking into that option.

If you and your dependents are covered by an employer-sponsored health insurance plan, a provision of COBRA entitles you to continue coverage when you'd normally lose it. Most larger employers (20+ employees) are required to offer COBRA coverage. Under COBRA you can continue your health insurance for 18 months if your employment has been terminated or if your work hours have been reduced. The premium you pay will be both the employee share and the employer share.

4 Severance

Taking severance pay, if it's offered, in a lump sum gives you control over your money, but you may lose some employee benefits such as group health insurance. If you take your severance as a continuation of salary, you may be able to keep your benefits.

5 Talk to your creditors

Try negotiating with your creditors to lower interest rates on your credit cards, defer a payment or two on your car loan, or reduce your monthly payments temporarily. You also may be able to lower your home mortgage monthly payments by refinancing to a lower rate (if you qualify in spite of your job loss), or by negotiating a longer repayment period.

6 Look for ways to increase your income

Consider a part-time or temporary job. Also, your spouse or partner may be able to get a job if he or she is not already working.

You may be able to borrow from the cash value of your life insurance policies. But you'll be limited as to how much you can borrow by the amount of cash available and other policy restrictions. And you'll be charged interest on the borrowed funds, so if you don't repay the loan, it can reduce your death benefit or even cause the insurance to lapse.

7 Consider a withdrawal from your retirement account

Generally, as a last resort, you may need to consider withdrawing from your tax-deferred retirement accounts, such as your IRA or 401(k). Any money you withdraw from these types of accounts likely will be taxed as ordinary income, but the 10% penalty for early withdrawal (before age 59½) is waived for coronavirus-related distributions. Always work with your financial and tax advisors before making significant financial decisions like withdrawing from your retirement account.

Filing an application for unemployment benefits

What you need to apply

PERSONAL INFORMATION

1. Social Security number
2. U.S. driver's license or ID card
3. Proof of U.S. citizenship or work authorization

WORK HISTORY

1. From past 18 months (companies, dates, hours, wages, reasons for leaving)
2. From last employer (company info, wages from last work week, reason for unemployment)

Note: Extra forms may be required.

Where to apply

Check your state's unemployment resources

Online | Phone | Fax or mail

What to expect next

1. Possible questions from the state about your claim
2. Documents detailing your claim and award, if granted

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Our reach is expansive. We have built a global team of 2,000 people, including more than 450 investment professionals sharing global perspectives across all major asset classes and markets. Our analysts are dedicated to finding original, actionable insights that are shared and debated with portfolio managers. Our independent oversight team works with portfolio teams to ensure a consistent approach and avoidance of unintended risks.

Your success is our priority.

To find out more, call 800.426.3750
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* In U.S. dollars as of September 30, 2020. Source: Ameriprise Q3 Earnings Release. Contact us for more current data.

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