Klein, aber stark!
Scott Woods – Portfolio Manager
For professional investors
January 2020
The attraction of global smaller companies
Superior growth, superior returns

MSCI World Small Cap vs. Large Cap
The superior returns of smaller companies

- Huge investment universe
- Weaker analytical coverage
- Lower liquidity
- Focused business models
- Greater opportunity to generate alpha

Source: MSCI, Bloomberg, Columbia Threadneedle Investments, as at 31 December 2019. Gross USD total return indices used. Past performance is not a guide to future returns.
The attraction of global smaller companies
Pure play exposures

Source: Columbia Threadneedle Investments. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners. The mention of stocks is not a recommendation to deal.
Investment philosophy
Why we like high-quality businesses

Markets underestimate the value of truly sustainable competitive advantages

- Competitive advantage manifests itself in a company’s ability to generate high returns on capital
- The market tends to assume that high returns mean-revert, causing quality companies to be undervalued
- Identifying companies with a sustainable competitive advantage exploits this inefficiency

Source: Columbia Threadneedle Investments.
Investment philosophy
What we mean by quality

Returns on invested capital
- How does business generate high returns?
- Margin profile and asset intensity
- Capital required to fund growth

Growth potential
- Ability to compound over long-term
- Exposure to a secular theme
- Is the market saturated / in structural decline

Sustainability
- Strength of competitive position in 5-10 years
- ESG considerations
- Porter’s Five Forces

Source: Columbia Threadneedle Investments.
Investment philosophy
Economic moats: Identifying sustainable competitive advantages

Intangible assets
Brands or patents act as barrier to entry

Cost advantage
Lowest-cost producer

Efficient scale
One or two dominant companies

Network effect
Value grows as more people use it

Switching costs
Costs incurred through change

Source: Columbia Threadneedle Investments, Morningstar, 2019. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owner. The mention of any specific shares or bonds should not be taken as a recommendation to deal.
Investment philosophy
Porter’s Five Forces identifies risks to sustainability

Porter’s Five Forces
- A tool used to understand the sustainability of a company’s competitive advantages
- Company meetings provide vital insights into these factors

Take for instance…
- Benign competitive environment
- Fragmented supplier and customer base
- New entrants will struggle to match scale advantage
- Barriers to online competition

Source: Columbia Threadneedle Investments. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owner. The mention of any specific shares or bonds should not be taken as a recommendation to deal
ESG
An extension of Porter’s Five Forces

An integrated research capability
- Support from dedicated RI team
- Proprietary forward-looking RI ratings
- Prioritise company engagement
- Key factor in assessing company quality and competitive strength
- Key measure of risk
- Capitalising on sustainable opportunities

Proprietary RI ratings

Financial stewardship model
- Academic models: focus on prudent, long-term financial governance
- Insight into governance in practice

ESG materiality model
- SASB framework: material ESG factors
- Window into management focus / standards of operating practices

Responsible investment rating
- Proprietary forward-looking rating
  - 1: strong
  - 5: weak

Source: Columbia Threadneedle Investments and Sustainability Accounting Standards Board (SASB®). Columbia Threadneedle Investments licenses and applies SASB®’s standards, classifications and framework in our research and assessment of securities.
Research process in action
Cargojet – Canadian freight airline

Performance relative to MSCI World Small Cap

- **Idea generation**
  - Company flagged to team by external broker

- **Research/debate**
  - Monopoly: 95% share of overnight domestic cargo network in Canada
  - Barriers to entry through regulation and customer relationships
  - Long term contracts with 75% of revenue on a take or pay basis
  - 100% customer retention due to 99.8% on-time track record
  - Increased penetration of e-commerce in Canada
  - Opportunity to increase utilisation of aircraft in the daytime on a ‘wet lease’ basis

- **Implementation**
  - Position initiated in September 2017
  - Large upside potential with significant improvement in free cash flows over the coming years

Source: Bloomberg, Columbia Threadneedle Investments, 31 December 2019. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners. The mention of any specific shares or bonds should not be taken as a recommendation to deal. Past performance is not a guide to future returns.
The attraction of global smaller companies

Why Columbia Threadneedle?

- **Differentiated approach**: A clear quality approach focussing on competitive advantage
- **Depth of small cap expertise**: Global research capabilities drive differentiated stock holdings
- **Asymmetric return profile**: Strong and consistent returns since the strategy’s inception

Source: Columbia Threadneedle Investments.
Appendix
Scott Woods is a portfolio manager within the Global equities team and has been lead manager of the Threadneedle Global Smaller Companies strategy since April 2019. Scott joined the Global equities team in 2015 as an equity analyst with responsibility for researching small cap companies, focusing in particular on US small caps. He was subsequently made deputy portfolio manager on both the Threadneedle Global Smaller Companies strategy and the Threadneedle US Smaller Companies strategy.

Before joining the company, Scott spent three years with Ecclesiastical Investment Management, an SRI-focused asset manager, where he worked as an investment analyst within the global equities team.

Scott holds a Masters degree in Chemistry from the University of Oxford. He also holds the Chartered Financial Analyst designation and the Investment Management Certificate.

**Company start date:** 2015  
**Industry start date:** 2012
Threadneedle (Lux) Global Smaller Companies
Annualised performance

Performance versus benchmark since inception (30 November 2013)

<table>
<thead>
<tr>
<th>Period</th>
<th>Threadneedle (Lux) Global Smaller Companies</th>
<th>MSCI World Small Cap Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>37.6%</td>
<td>+8.5%</td>
</tr>
<tr>
<td>3 years</td>
<td>26.8%</td>
<td>+9.8%</td>
</tr>
<tr>
<td>5 years</td>
<td>21.4%</td>
<td>+5.0%</td>
</tr>
<tr>
<td>Since inception</td>
<td>10.6%</td>
<td>+4.7%</td>
</tr>
</tbody>
</table>

Outperformance

Source: Columbia Threadneedle Investments, as at 31 December 2019, gross of fees in USD. Past performance is not a guide to future returns. Outperformance shown is calculated on an geometric basis. From 01.01.2013 fund gross returns are calculated in Factset using daily official Global Close valuations and daily cash flows. Prior to 31.12.2012 fund gross performance is based on official Global Close prices. All returns include gross reinvested income and fund returns are gross of TER.
Threadneedle (Lux) Global Smaller Companies
Calendar year performance

Performance versus benchmark

<table>
<thead>
<tr>
<th>Year</th>
<th>Threadneedle (Lux) Global Smaller Companies</th>
<th>MSCI World Small Cap Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>4.6%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>2015</td>
<td>2.3%</td>
<td>+4.7%</td>
</tr>
<tr>
<td>2016</td>
<td>4.8%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>2017</td>
<td>13.3%</td>
<td>+12.0%</td>
</tr>
<tr>
<td>2018</td>
<td>37.9%</td>
<td>23.2%</td>
</tr>
<tr>
<td>2019</td>
<td>37.6%</td>
<td>26.8%</td>
</tr>
</tbody>
</table>

Outperformance | +2.2% | +4.7% | -8.0% | +12.0% | +9.1% | +8.5%

Source: Columbia Threadneedle Investments, as at 31 December 2019, gross of fees in USD. Past performance is not a guide to future returns. Outperformance shown is calculated on a geometric basis. From 01.01.2013 fund gross returns are calculated in Factset using daily official Global Close valuations and daily cash flows. Prior to 31.12.2012 fund gross performance is based on official Global Close prices. All returns include gross reinvested income and fund returns are gross of TER.
Threadneedle (Lux) Global Smaller Companies

Objective and key risks

**Objective** – The aim of the Fund is to grow the amount you invested. The Fund invests at least two-thirds of its assets in shares of smaller companies worldwide. The smaller companies that the Fund invests in will typically be companies no bigger than the largest company included in the MSCI World Smaller Companies Index.

**Investment Risk** – The value of investments can fall as well as rise and investors might not get back the sum originally invested.

**Currency Risk** – Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

**Liquidity Risk** – The fund holds assets which could prove difficult to sell. The fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

**Derivatives for EPM / Hedging** – The fund may invest in derivatives with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the fund.

**Volatility Risk** - The fund may exhibit significant price volatility.
Important Information

For internal use and for Professional and/or Qualified Investors only (not to be used with or passed on to retail clients).

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested.

Threadneedle (Lux) is an investment company with variable capital (Société d'investissement à capital variable, or "SICAV") formed under the laws of the Grand Duchy of Luxembourg. The SICAV issues, redeems and exchanges shares of different classes, which are listed on the Luxembourg Stock Exchange. The management company of the SICAV is Threadneedle Management Luxembourg S.A, who is advised by Threadneedle Asset Management Ltd. and/or selected sub-advisors.

Certain sub-funds of the SICAV are registered in Austria, Belgium, France, Finland, Germany, Ireland, Hong Kong, Italy, Luxembourg, Macau, the Netherlands, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan and the UK; however, this is subject to applicable jurisdictions and some sub-funds and/or share classes may not be available in all jurisdictions. Shares in the Funds may not be offered to the public in any other country and this document must not be issued, circulated or distributed other than in circumstances which do not constitute an offer to the public and are in accordance with applicable local legislation.

Het compartiment is op grond van artikel 1:107 van de Wet op het financieel toezicht opgenomen in het register dat wordt gehouden door de Autoriteit Financiële Markten. / Pursuant to article 1:107 of the Act of Financial Supervision, the subfund is included in the register that is kept by the AFM.

Threadneedle (Lux) is authorised in Spain by the Comisión Nacional del Mercado de Valores (CNMV) and registered with the relevant CNMV's Registered with number 177.

Shares in the Funds may not be offered, sold or delivered directly or indirectly in the United States or to or for the account or benefit of any "U.S. Person", as defined in Regulation S under the 1933 Act.

This material is for information only and does not constitute an offer or solicitation of an order to buy or sell any securities or other financial instruments, or to provide investment advice or services. Please read the Prospectus before investing.

Subscriptions to a Fund may only be made on the basis of the current Prospectus and the Key Investor Information Document, as well as the latest annual or interim reports and the applicable terms & conditions. Please refer to the 'Risk Factors' section of the Prospectus for all risks applicable to investing in any fund and specifically this Fund. Documents other than KIIDs are available in English, French, German, Portuguese, Italian, Spanish and Dutch (no Dutch Prospectus). KIIDs are available in local languages. Documents can be obtained free of charge on request by writing to the management company at 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg, from International Financial Data Services (Luxembourg) S.A. at 47, avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, from www.columbiathreadneedle.com and/or - in Austria from Erste Bank, Graben 21 A-1010 Vienna; - in Belgium: CACEIS Belgium S.A., avenue du Port 86 C b 320, 1000 Brussels- in France from CACEIS Bank, 1/3 Place Valhubert, 75013 Paris; - in Germany from JP Morgan AG, Junghofstr. 14, 60311 Frankfurt;- in Sweden from Skandinaviska Enskilda Banken AB (publ), Kungsträdgårdsgatan, SE-10640 Stockholm, Sweden;- in the UK from JPMorgan Worldwide Securities Services, 60 Victoria Embankment, London EC4Y 0JP.
Important Information (cont.)

For Swiss investors: Subscriptions to a Fund may only be made on the basis of the current Prospectus and the Key Investor Information Document, as well as the latest annual or interim reports, which can be obtained free of charge on request, and the applicable Terms & Conditions. Please refer to the ‘Risk Factors’ section of the Prospectus for all risks applicable to investing in any fund and specifically this Fund. The above documents and the instrument of incorporation can be obtained from our representative and Paying Agent in Switzerland, RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich branch, Badenerstrasse 567, Case Postale 101, CH-8066 Zurich.

This presentation is not investment, legal, tax, or accounting advice. Investors should consult with their own professional advisors for advice on any investment, legal, tax, or accounting issues relating to an investment with Columbia Threadneedle Investments.

The mention of any specific shares or bonds should not be taken as a recommendation to deal.

This document is a marketing communication. The analysis included in this document have not been prepared in accordance with the legal requirements designed to promote its independence and have been produced by Columbia Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice and should not be seen as investment advice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed.

This presentation and its contents are confidential and proprietary. The information provided in this presentation is for the sole use of those attending the presentation. It may not be reproduced in any form or passed on to any third party without the express written permission of Columbia Threadneedle Investments. This presentation is the property of Columbia Threadneedle Investments and must be returned upon request.

Threadneedle Management Luxembourg S.A. Registered with the Registre de Commerce et des Societes (Luxembourg), Registered No. B 110242, 44, rue Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg.

In the UK issued by Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority.

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