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Adrian Hilton
Fund Manager
Since: 03/10/2020

Fund Information

You are investing in a fund that is actively managed in reference to the benchmark below. Please refer to the Prospectus and KIID/KID for the Fund objective.

Fund Benchmark: J.P. Morgan EMBI Global Index

Inception Date: 30/09/1994

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 6*

FUND COMMENTARY – JUNE 2025

CT (Lux) Emerging Market Debt

Summary

- The JPMorgan EMBI Global index returned 2.28% in US dollar terms.
- Gross of fees, the fund outperformed its benchmark over the month.

Market Background

June was a positive month for emerging market (EM) debt, helped by falling US Treasury yields and a weakening dollar. The JPMorgan EMBI Global index returned 2.28% in US dollars over the month.

Key market drivers included the escalation in tensions in the Middle East as well as news flow about US tariffs and trade deals. Although rising geopolitical tensions weighed broadly on investors' risk appetite, EM bond spreads remained resilient. At the same time, oil-exporting credits benefited from a rise in oil prices amid concerns about supply disruptions. Later in the month, risk appetite rebounded after Israel and Iran agreed and maintained a fragile cease-fire. Amid these developments, EM bond funds experienced strong inflows, with the week ending 11 June seeing the biggest weekly addition for the year to date, according to JPMorgan.

In tariff news, US President Donald Trump doubled levies on steel and aluminium imports from 25% to 50%, starting on 4 June. At the end of the month, a previously negotiated UK-US trade deal came into effect. Reports that the US and China had agreed a deal also boosted markets.

Geopolitics were in focus as mid-month, Israel carried out a major airstrike campaign against Iran designed to knock out the country's nuclear capabilities and cripple its military leadership. This was followed by retaliatory strikes in Israel by Iran, and then by continued attacks from both sides. The US eventually joined the conflict, attacking three Iranian nuclear facilities; Iran's limited response – firing missiles at a US military base in Qatar – was viewed as a de-escalatory move. Oil prices rose sharply due to concerns that the conflict would lead to supply disruptions. However, gains were pared into month-end after Iran and Israel agreed to a ceasefire.

Treasury yields declined over the month, with the benchmark 10-year rate falling 17 basis points (bps) to end the month at 4.23%, while the US dollar fell to more than a three-year low. The Federal Reserve held interest rates at its meeting in the middle of the month. Chairman Jerome Powell stated that more time was needed to assess the impact of tariffs on the US economy.

In Asia, the People's Bank of China held benchmark lending rates steady after cutting them in May to help stimulate growth and counter the impacts of US tariffs. China's imports fell 3.4% year on year in May, exceeding market expectations of an 0.9% decline, due to weak domestic demand and the effects of US tariffs. In South Korea, Lee Jae-myung was inaugurated as president following the impeachment of Yoon Suk Yeol in December. Later in the month, the new government proposed a supplementary budget of \$14.7 billion, which aims to boost economic growth through universal cash payments and increased funding for the construction sector and for small and medium-

*The Fund integrates sustainability risks into the investment decision making process and is categorised as Article 6 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). (Please refer to www.columbiathreadneedle.co.uk for further disclosures. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus.)

sized enterprises. In India, inflation fell to 2.82% in May, down from 3.16% in April and below the expected rate of 3%. The reading was the lowest since February 2019. Before the report came out, the central bank made a deeper-than-expected 50 bp interest-rate cut, which took the repo rate to 5.5%.

In EMEA, inflation in Turkey cooled more than expected in May to a level last seen in November 2021. After unexpectedly hiking rates by 350 bps in April, the central bank held rates, as expected, at its June meeting. Investors were relieved that economy minister Mehmet Şimşek was to remain in his post, following earlier rumours that he was to be removed. In Poland, Prime Minister Donald Tusk won a vote of confidence designed to shore up his coalition's parliamentary mandate after a narrow defeat in the presidential election to Karol Nawrocki. Nawrocki is expected to exercise his presidential power to hobble Tusk's government. In South Africa, data showed that economic growth slowed to 0.1% in the first quarter (Q1) of the year. The modest growth was driven by an expansion in agricultural activity, which offset contractions elsewhere, including in mining.

Turning to Latin America, Ecuador's President Daniel Noboa proposed tax reform and a multilateral-guaranteed bond issuance in 2026. Shortly afterwards, the International Monetary Fund announced that it had reached a staff-level agreement with Ecuador's government and added \$1 billion to a financial assistance programme, bringing the total to \$5 billion. Ecuador's bonds were boosted in the final week of the month by news of the arrest of a fugitive druglord, with President Noboa attributing his capture to recently enacted security legislation. Brazil's central bank raised interest rates by 25 bps to the highest since 2006. It signalled that rates could be left at the current level for a "very prolonged" period as inflation remains above the bank's upper targets. The central bank also raised its GDP growth forecast for 2025. By contrast, despite an uptick in inflation in May, Mexico's central bank cut rates by 50 bps and indicated that further cuts of the same size may be appropriate. Still, policymakers remain cautious about the potential inflationary impact of geopolitical tensions or trade tariffs.

In Argentina, quarterly GDP grew for a second consecutive quarter, reaching the strongest rate since 2022, though still slightly below expectations. Reporters Without Borders warned of media repression after journalists were injured at ongoing weekly demonstrations against President Javier Milei's austerity measures and pension cuts. The regular protest marches by retirees are drawing support from left-wing organisations. In Colombia, presidential candidate Miguel Uribe Turbay was admitted to hospital in a critical condition after being shot at a rally in Bogota. The assassination attempt was followed by explosions across the country, which left at least eight dead. Separately, Colombia's Ministry of Finance revised its 2025 fiscal deficit plan to 7.1% of GDP from 5.1%.

In ratings news, Moody's and S&P downgraded Colombia's sovereign debt rating, with Moody's maintaining its 'stable' outlook and S&P changing its outlook to 'negative'. Spreads on Colombia's 10-year bonds were broadly stable, suggesting the news had been expected.

Fitch upgraded Ghana to B- from Restricted Default, citing the country's progress in restructuring its external debt and the normalisation of relations with external commercial creditors.

Performance

Gross of fees, the fund returned 2.35% in June and outperformed its benchmark by 8 bps.

Country allocation had a modestly positive impact on relative performance, driven by the overweights in Ecuador and Ghana. The overweight in Ukraine and underweight in Mexico detracted, however. Security selection weighed on performance slightly. Key detractors included the off-benchmark exposure to Brazilian chemicals company Braskem and overweight in UAE-based logistics company DP World, as well as the overweight in Argentinian sovereign bonds. On the other side, the overweights in Zambian and Ethiopian sovereign bonds boosted returns, along with the off-benchmark holding in Hong Kong property firm New World Development.

Duration positioning detracted modestly from relative performance; the fund was positioned short of the benchmark in an environment of falling yields. Curve positioning was also marginally unhelpful, due to the underweight in the 1-5 year segment.

Activity

In the primary market, we bought new Hungarian government bonds maturing in 2055. We also participated in a new 2032 issue from Brazilian ethanol producer Raizen.

In the secondary market, we topped up our holdings in Chilean copper mining firm, Codelco.

On the sales side, we exited our exposure to Hong Kong-based property developer New World Development. We also trimmed our sovereign holdings in Saudi Arabia and Egypt.

Outlook

The recovery in EM credit spreads since the dramatic widening after the 'Liberation Day' tariff announcements has been spectacular, reflecting a widespread belief in the market that the Geneva meeting between US and Chinese trade officials marked the high-water mark of tariff-related disruption.

While the temperature has undoubtedly dropped in recent weeks, the risks to global trade activity continue to loom; even a modest reduction in trade volumes may dent growth rates for many EM economies. And weaker oil prices may pose fiscal challenges for those governments that rely on export revenues.

That said, underlying EM fundamentals are fairly robust, with credit quality steadily improving and current growth rates reasonably stable in most of the emerging world. Data surprises continue to the upside. Additional stimulus from China – especially if this is aimed at reviving household consumption – and Europe can provide useful support for EM economies that are well-integrated into those value chains.

Moreover, a structurally weaker environment for the US dollar as a result of declining US “exceptionalism” may provide support to EM bond markets – both through the direct channel of debt issued in local currency, but also through easier financing conditions for those issuers with heavy dollar-denominated liabilities. Additionally, dollar weakness and (generally) well-contained inflation should enable EM central banks to mitigate economic slowdowns through easing monetary policy.

Despite tight valuations and looming risks, not least from a tightening of financial conditions via the steepening of the US Treasury curve, opportunities in EM hard currency markets do exist, for instance in credits where potential rating deterioration is excessively discounted by spreads. We choose to remain highly selective, maintaining a cautious approach to overall market direction.

12M Rolling Period Return in (USD) - as at 30 June 2025

Past performance does not predict future returns and future returns are not guaranteed.

	06/24- 06/25	06/23- 06/24	06/22- 06/23	06/21- 06/22	06/20- 06/21	06/19- 06/20	06/18- 06/19	06/17- 06/18	06/16- 06/17	06/15- 06/16
Fund (Gross) %	10.59	11.13	8.68	-19.68	10.37	0.80	11.43	-1.69	8.38	8.50
Index (Gross) %	9.51	8.35	6.85	-19.25	6.81	1.52	11.32	-2.45	5.52	10.32

Source: Columbia Threadneedle Investments as at 30/06/2025. Gross of fee fund returns are time-weighted rates of return net of commissions transactions costs and non-reclaimable taxes on dividends interest and capital gains using pricing of investments which is either the last traded price or a bid basis. Cash flows are factored as of the end of the day and exclude entry and exit charges. Index returns include capital gains and assume reinvestment of any income. The index does not include fees or charges and you cannot invest directly in it. The return of your investment may change as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation.

The past performance information for the period prior to 30 September 1994 is from the (a UK authorised UCITS fund launched on 31 January 2005), which merged into this Fund on .

For detailed information on Fund Changes please see Significant Events - Threadneedle (Lux) Funds PDF available on www.columbiathreadneedle.com/en/changes

Key Risks

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

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.

The Fund invests in securities whose value would be significantly affected if the issuer refused, was unable to or was perceived to be unable to pay.

The Fund invests in markets where economic and regulatory risk can be significant. These factors can affect liquidity, settlement and asset values. Any such event can have a negative effect on the value of your investment.

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.

Changes in interest rates are likely to affect the Fund's value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

The Fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) 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.

The Fund may invest in the China Interbank Bond Market (CIBM) via Hong Kong Bond Connect which is subject to regulatory, volatility and liquidity risk, as well as risks associated with settlement, default of counterparties and market suspension. Furthermore, the Fund may incur significant trading, taxation and realisation costs.

The fund may exhibit significant price volatility.

The risks currently identified as applying to the Fund are set out in the "Risk Factors" section of the prospectus.

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