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Scott Woods
Fund Manager
Since: 15/04/2019

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: MSCI World Small Cap Index

Inception Date: 03/03/2016

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

FUND COMMENTARY – JUNE 2025

CT (Lux) Global Smaller Companies

Summary

- Global small-cap stocks rose in June.
- Gross of fees, the fund underperformed its benchmark during the month.
- New purchases included ClearWater Analytics and Sinfonia Technology.

Market Background

Global small-cap equities rose in June amid optimism that Washington and Beijing could reach a trade deal, which eased fears of a global recession. The MSCI World Small Cap Index returned 4.2% in local currency terms despite shares falling mid-month as conflict between Israel and Iran intensified, driving a temporary spike in oil prices. However, markets recovered following a US-brokered truce, and investors were further cheered later in the month as Washington and Beijing reached a deal to reduce tariffs and export controls and normalise trade in rare earth minerals.

US small-cap equities had a good month, aided by hopes that the Federal Reserve could soon resume interest-rate cuts. Economic datapoints allayed recession fears but still pointed to cooling growth. Meanwhile, consumer price inflation for May undershot forecasts. This increased expectations for Fed rate cuts, especially in the face of President Trump's calls to do so. That said, at its meeting in June, the Fed held rates, and Chairman Powell emphasised that decisions will remain data dependent due to high uncertainty and an expected "meaningful increase" in inflation from tariffs.

Europe ex UK small-cap stocks faced headwinds from tensions in the Middle East, which prompted some profit-taking. Expectations of further rate cuts mounted as the preliminary eurozone inflation data for May was below the European Central Bank's (ECB's) 2% target for the first time since September 2024. The bank did indeed cut rates by 25 basis points two days later, though ECB President Lagarde struck an unexpectedly hawkish tone.

In the UK, concerns about government debt also lingered. Prime Minister Starmer had to make concessions to Labour MPs who rebelled against planned cuts to disability support and benefits, thereby further reducing Chancellor Reeves' already narrow fiscal headroom. Shortly thereafter, the government's spending review highlighted the limited fiscal resources available to boost growth in the near term. The Bank of England left rates on hold at its meeting, though three of the nine rate setters voted for a cut – a more dovish outcome than anticipated. This cemented hopes of further monetary easing, as did some cooling economic data, notably evidence of slowing wage growth.

Japanese small caps posted positive returns. Expectations of the pace of monetary tightening were scaled down. During its meeting in June, the Bank of Japan left rates unchanged but said that it will slow the pace at which it buys government bonds following a spike in yields on fears of sluggish demand. Far East ex Japan equities were aided by easing trade-war jitters.

*The Fund promotes environmental or social characteristics and is categorised as Article 8 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.)

By region, US stocks fared best, comfortably outperforming the MSCI World Small Cap Index. Japanese, UK and Far East ex Japan followed but trailed the benchmark. Europe ex UK brought up the rear, although still in positive territory.

By sector, technology led gains amid renewed optimism about AI and hopes for trade deals. Communication services and energy also outperformed, with the latter supported by a rise in oil prices in response to the conflict between Iran and Israel. At the other end, consumer staples, utilities, healthcare and consumer discretionary lagged amid signs of softening consumer demand and tariff-related uncertainty.

Performance

Gross of fees, the fund underperformed its benchmark in June. The underperformance was primarily due to stock selection. Our picks in technology, industrials and materials were unhelpful, but there was a positive contribution from choices in consumer discretionary. Sector allocation was flat: the overweight in consumer staples detracted, but this was offset by contributions from the beneficial overweights in industrials and technology.

At the stock level, detractors included Skyward Specialty Insurance and Descartes Systems.

Skyward's shares weakened in early June as investors took profits following its outperformance in May, when the firm reported strong Q1 revenues and earnings that topped forecasts. Although we also realised some gains in June, we retain our conviction in the stock. Skyward is a provider of commercial property and casualty insurance products that serve various niche markets, where the company's innovative services are helping it gain market share. The firm's advanced technological solutions amplify its underwriting and claims capabilities, as well as improving the operational efficiency of the business. Skyward's strategic partnerships with top technology experts add another advantage.

Descartes Systems fell following the firm's fiscal 2026 Q1 results; although revenues and earnings grew year-on-year, both missed consensus forecasts. Despite this, we retain our conviction in Descartes, a global provider of cloud, device and data content-based solutions across a wide range of industries. The company's products and solutions improve the productivity, security and sustainability of logistics-intensive businesses. Descartes' Logistics Technology Platform unites a growing global community of logistics parties, allowing them to transact business while utilising an array of applications to help their businesses thrive. The well-managed firm could also benefit from the increasingly complex global trade environment.

On the positive side, contributors included Ryohin Keikaku and Japan Elevator Service (JES).

Keikaku's share price continued to climb in June, extending a rally that began in March, due to ongoing investor optimism around the firm's growth plans. The firm is undergoing a rural expansion based on a strategy of opening stores next to supermarkets in order to offer a one-stop shopping experience. Results have been encouraging, with rapid growth in store numbers and overall revenues. Keikaku is a global retailer, known for its popular Muji brand products. We favour the firm for its strong positioning in the household and consumer goods market as well as its solid financial position, including low debt levels. Keikaku plans to considerably grow its store numbers in Japan in the next few years, while also expanding further in China and southeast Asia. A new management team is also making investments to simplify the company's manufacturing footprint, improve logistics and strengthen its omni-channel marketing approach.

Shares of JES maintained their momentum in June after the firm posted strong Q1 results the previous month. A share buyback announcement provided a further boost. JES is an independent maintenance firm that provides upkeep services for elevators and other equipment. The firm benefits from having a large market share in an industry with little competition. JES has a reputation for its technical capabilities and the quality of its services in the Japanese market, and the firm is aiming to attain dramatic growth by offering its services to the global market. Customers like the JES brand, and the fact the company produces its own control units, has a massive inventory of genuine parts and uses a remote monitoring system all help to differentiate it from other independents. In addition, JES is more flexible than original equipment manufacturers, which is helping the company to grow its market share in the service business.

Activity

We opened new positions in ClearWater Analytics and Sinfonia Technology.

ClearWater Analytics is a software-as-a-service fintech providing automated investment accounting, performance, compliance and risk reporting for a range of financial services companies, as well as other corporates and government institutions. We like the company for its durable, best-in-class financial profile, solid competitive position and strong underlying efficiencies. Potential catalysts for the business include its Prism platform, which could help to drive meaningful expansion.

Sinfonia manufactures aerospace parts, electronic equipment, factory automation and motion control equipment. A key part of Sinfonia's business is manufacturing load ports for the semiconductor market; it shares a duopoly in the space with Rorze. Sinfonia enjoys high market share, and increasing chip complexity is driving growth for the company; the firm has been in discussions with key semiconductor firms about outsourcing front-end modules, which could lead to significant benefits for Sinfonia. The firm's motion control segment is also performing well, driven by defence applications and air power supply systems used in Japanese aircraft.

We exited Graphic Packaging. Even though the company has a dominant position in a consolidating industry, it has been unable to raise prices over the last 18 months amid headwinds from weak volumes and consumer demand in the US. We also sold out of Lattice Semiconductor amid some concern around the durability of pricing gains over the coming years. We decided to reallocate capital to higher-conviction names.

Outlook

The new US administration has undoubtedly created uncertainty both geopolitically and for equity markets. This is not necessarily expected to abate in the near term, and macroeconomic headwinds have recently increased.

However, we continue to believe that high-quality, well-managed companies should continue to perform well over the longer term. In our view, well-managed small cap companies with strong fundamentals that have weathered the challenging operating environment of the past few years will likely continue to outperform, and we plan to take advantage of bouts of volatility to add to high-conviction names. A global approach with a focus on quality continues to make sense in this environment. Less dependence on the strength of particular economies will be important, as will diversification as investment to tackle issues such as decarbonisation, deglobalisation and energy efficiency creates a broader opportunity for earnings growth.

Our focus continues to be on building a diversified portfolio of quality businesses that are multi-year compounders, with pricing power and less gearing to the broader economy. We believe that our bottom-up approach will allow us to find such quality growth companies across a range of sectors and geographies.

12M Rolling Period Return in (EUR) - 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) %	-9.22	6.33	15.11	-20.98	39.37	15.06	10.83	21.84	23.63	-4.98
Index (Gross) %	5.01	11.64	8.76	-11.10	45.35	-3.43	0.19	12.62	18.29	-3.02

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.

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 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.

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.

An investment style bias can impact a Fund's performance relative to its benchmark in a positive or negative way. No investment style performs well in all market conditions. When one style is in favour another may be out of favour. Such conditions may persist for short or long periods. A Fund exhibits a growth style bias relative to its benchmark if the majority of the Fund invests in companies with above average growth rates, or good growth potential (based on indicators such as earnings and sales growth) relative to its benchmark. However, there is no guarantee that such companies will continue to show such characteristics in the future. A Fund's investment style may also change over time.

The Fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe, and may impact the performance of the Fund positively or negatively relative to a benchmark or other funds without such restrictions.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

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

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