This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID / KID before making any final investment decisions.

FUND COMMENTARY – MAY 2025

CT (Lux) Pan European Focus

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Fund Manager
Since: 12/12/2024

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 Europe Index

Inception Date: 05/10/2018

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- European equity markets made further gains in May.
- Gross of fees, the fund outperformed its benchmark.
- Key relative contributors included Rolls-Royce, Prysmian and Safran.
- Detractors included Munich Re, 3i Group and Hannover Re.

Market Background

European equities moved higher as global trade relations improved; the fund's benchmark index rose by 4.9% in euro terms. The UK was the first country since 'Liberation Day' to agree a tariff deal with the US, and others could follow. The US and China agreed to reduce tariffs for 90 days, fuelling the rally. A US trade court ruled Trump had exceeded his authority on 'reciprocal' tariffs, but, following an appeal, levies will remain pending a full review.

Moody's downgraded its US credit rating, citing government debt and interest payments. Trump's proposed tax cuts cleared the House of Representatives, adding to worries about the fiscal outlook and tempering expectations of rate cuts. Chair Jerome Powell said the Fed 'can afford to be patient' amid trade policy uncertainty and referred to the resilient economy, with more jobs added in April. A preliminary consumer sentiment survey showed a dip, but the final version improved following the US-China tariff pause. The flash May composite purchasing managers' index (PMI) beat forecasts and inflation eased in April.

Some disappointing eurozone economic data sparked jitters that the economy could stall. This could support interest-rate reductions, as could lower inflation in Germany, Italy and Spain. After EU/US trade tensions escalated, talks delayed the introduction of the new tariffs.

The Bank of England cut its key interest rate by 25 basis points to 4.25% in early May, although policymakers also noted that inflation remained above target. Consequently, investors reduced their expectations for the number of additional cuts before the end of the year. Data showed that consumer price inflation rose more than expected in April. This was largely driven by increases in utility bills, but services inflation – a key area of focus for the Bank of England – also moved higher.

The strongest markets were Austria, Ireland and the Netherlands. Laggards included Switzerland, Belgium and France. Technology and industrials led the outperformers; the defensive healthcare and consumer staples sectors showed more modest gains.

Performance

The fund outperformed its benchmark index on a gross basis, boosted by favourable country and sector allocation. The underweights in Switzerland and healthcare proved especially beneficial, as did the overweights in the Netherlands and industrials.

*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.)

Top relative performers included Rolls-Royce, Prysmian and Safran. Rolls-Royce's shares hit record highs during the month, buoyed by ongoing strength in defence stocks. The company also reiterated its full-year guidance and highlighted efforts to mitigate the impact of tariffs. Cable firm Prysmian issued encouraging Q1 results and reaffirmed its financial guidance for 2025. The stock also benefited from a reduction in tariff tensions. Safran's Q1 results were strong, driven by momentum in civil aerospace, defence and aftermarket services.

Detractors included Munich Re, 3i Group and Hannover Re. Munich Re and Hannover Re reported Q1 results which were impacted by claims related to the Los Angeles wildfires in January this year, and by currency headwinds. Nevertheless, both reinsurance firms reiterated their full-year guidance. Shares in 3i (private equity and infrastructure) lagged after reaching multi-year highs.

Activity

We opened a new holding in Lifco, a successful Swedish conglomerate, which specialises in niche businesses such as dental and industrials, with exposure to construction.

Outlook

Inflation, interest rates, growth and tariffs continue to dominate markets. Tariffs could restrict global growth, but Trump's volatile dealmaking makes this unpredictable. A solution to the Ukraine war seems no closer, US support is uncertain and Putin's belligerence on the increase. This means higher defence expenditure in Europe is likely, to support Ukraine and bolster defences for others. Germany is relaxing the debt brake on infrastructure and defence, which could potentially encourage other European governments to increase capital expenditure.

In the US, the Republican majority in Congress, combined with use of Presidential decrees, is enabling Trump to push through controversial policies on immigration, taxation, energy prices, trade tariffs and global conflict. All of these have an element of unpredictability as Trump deal-makes to cement his legacy. Negotiations regarding tariffs continue.

European stocks are still trading on a substantial discount to US peers and the risk premium in Europe is more attractive too. Europe is not only attractive on valuation grounds; inflation has proved to be less sticky and, as a result, there is now wider dispersion in rate-cut expectations, with Europe better placed than the US. Falling interest rates stand to benefit the longer-term, high-quality business models we own. The European consumer is in a stronger position too, with more excess savings than US counterparts. The first half of 2025 may show slow growth, but the second half should be better. Trump's proposed tariffs have caused some short-term turmoil in markets, but they have brought a lower oil price which reduces costs and inflationary pressures in Europe – supporting the case for lower interest rates both in absolute terms, and also relative to the US.

Despite the softness in the European economy, many of the businesses we own are global leaders, generating profits worldwide. As such, they are less exposed to the domestic European economy. Longer term, the NextGenerationEU plan, the use of AI to boost productivity, and increased capital expenditure may reinvigorate European growth. Banks and European corporates have strong balance sheets, which supports capital expenditure and renewed lending. As always, there are risks – notably geopolitical tensions, tariffs, a weak economic outlook and a fragmented European marketplace – but there are still a number of reasons to invest in Europe.

In summary, there are reasons to remain optimistic. Earnings have been resilient and, over the longer term, share prices tend to follow earnings. Good companies continue to grow, and we are still seeing opportunities in the current market. In managing this fund, our focus is on stock selection, informed by macro-economic and thematic views. We favour high-quality companies with the pricing power to sustain strong returns, and we also favour opportunities where businesses are in transformation or are attractively positioned in the value chain of an industry.

12M Rolling Period Return in (EUR) - as at 31 May 2025

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

	05/24-05/25	05/23-05/24	05/22-05/23	05/21-05/22	05/20-05/21	05/19-05/20	05/18-05/19	05/17-05/18	05/16-05/17	05/15-05/16
Fund (Gross) %	7.85	20.41	6.73	-1.14	34.72	-4.36	3.12	-0.78	8.50	-5.36
Index (Gross) %	9.12	18.30	5.86	3.71	30.38	-3.77	-0.01	1.62	16.52	-10.78

Source: Columbia Threadneedle Investments as at 31/05/2025. 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 05 October 2018 is from the Pan European Equity Dividend (a UK authorised UCITS fund launched on 08 May 2006), which merged into this Fund on 06 October 2018.

In December 2024, the fund revised its investment objective and strategy – for instance, the fund now no explicit income target. This was also reflected in a change in the name of the fund. Performance data before this date reflects the previous strategy and so may not be indicative of future results under the new investment approach. Prospective investors should not rely on past performance as an indicator of future performance.

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 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 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 Fund has a concentrated portfolio (holds a limited number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the Fund’s value.

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.

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

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