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 – JUNE 2025

CT (Lux) European Smaller Companies

Mine Tezgul
Fund Manager
Since: 01/12/2019

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 Europe ex UK Small Cap Index

Inception Date: 23/10/2018

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- European small-cap equity markets made further gains in June.
- Gross of fees, the fund outperformed its benchmark.
- Top relative contributors included Nexans and ASM International.
- Detractors included SIG and Avanza Bank.

Market Background

Following recent strong gains, pan-European smaller companies fared more modestly in June as concerns about the impact of US trade tariffs and conflict in the Middle East triggered profit-taking. A stronger euro weighed on sentiment towards exporters. The fund's benchmark index gained 0.9% in euro terms.

Early in June, equities rose in anticipation of easing monetary policy in the eurozone and fiscal stimulus in Germany. Expectations for a rate cut 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 ECB cut rates by 25 basis points two days later, though bank President Christine Lagarde struck an unexpectedly hawkish tone suggesting rate cuts had 'nearly concluded'. Meanwhile, Germany announced tax breaks to stimulate the economy.

Risk appetite dwindled as oil prices rallied after Israel and Iran traded fire. Fears that Iran could block the Strait of Hormuz caused a wobble in equity markets. However, the oil price stabilised following a US attack on Iran's nuclear capabilities, and a subsequent ceasefire agreement between Iran and Israel. This sparked a relief rally, but European equities were held back by concerns about US tariffs. The US and China reached a deal to reduce tariffs and export controls and normalise trade in rare-earth minerals.

Eurostat's final estimate of first-quarter GDP growth for the eurozone was revised up to 0.6%, twice the previous estimate, due to growth in Ireland and Germany. The preliminary June composite purchasing managers' index (PMI) for the region remained unchanged, with growth close to stalling; however, the final version in early July showed a better picture as the services PMI edged into growth.

UK GDP shrank by more than expected in April, the first month to include the effect of the tax increase on employers. Unemployment rose to a near-four-year high, while wage growth slowed. Inflation in May was above the Bank of England's (BoE's) target, and higher than forecast. The BoE left rates unchanged, though three of the nine rate-setters voted for a cut – a more dovish outcome than anticipated.

Technology and energy were the best-performing sectors, while consumer staples, financials and healthcare fared worst. France, the Netherlands and Germany were the top performers while laggards included Luxembourg, Sweden and Finland.

*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.)

Performance

On a gross basis, the fund outperformed its benchmark in June. Stock selection was favourable, as was country positioning, with the latter helped by the underweighting in Sweden and the overweighting in France. Sector allocation effects detracted modestly, largely due to the overweighting in financials and underweighting in energy.

Top relative contributors included Nexans and ASM International.

Nexans is a key player in the global market for power and data transmission cables. The shares rose after the company released impressive quarterly results, underpinned by robust growth in its electrification segment. ASM makes wafer processing equipment for semiconductors. The shares benefited from positive sentiment towards chipmakers. The company also received a broker upgrade during the month.

Detractors included SIG and Avanza Bank.

SIG is a Swiss-based provider of packaging for the food industry (specifically milk, yoghurt and juice packaging). The company was downgraded by some brokers as weaker-than-expected underlying consumer demand may impinge on short-term quarterly results. Weaker trading activity dragged down online share trading platform Avanza Bank. The company is no longer offering access to third-party deposits on its platform – internalising deposits should improve returns.

Activity

We initiated positions in Piraeus Bank, Uniphar and Alzchem Group.

Greek financial institution Piraeus is a high-quality bank, and we funded the purchase by reducing our holding in Bankinter.

Irish diversified health services business Uniphar has operations across medical supply chains and retail, pharmaceuticals, and medtech. The supply chain and retail business generates stable revenues, with a large market share in Ireland and the UK. In pharma, the firm provides on-demand and exclusive access to certain drugs and is a leader in cell and gene therapy. Medtech, meanwhile, is a growing segment across Europe.

Alzchem is a chemical producer that serves multiple sectors. It is the only Western player producing nitroguanidine – a propellant widely used across the defence industry. This portion of the business is growing amid increased European defence spending. Alzchem is also a leading producer of creatine (a health supplement), and the company is looking to expand capacity here.

Sales included Verallia, Campari and Addtech.

Verallia was sold following a takeover bid, while the others were sold on valuation grounds and to focus on higher-conviction holdings elsewhere.

Outlook

Inflation, interest rates, growth and tariffs continue to dominate markets. Tariffs could restrict global growth, but Trump's dealmaking makes this unpredictable. A solution to the Ukraine war seems no closer, US support is uncertain and Putin's belligerence is 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 dealmakes 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. We favour companies that have competitive advantages and pricing power generated by brands, patented processes, regulatory barriers to entry and strong market positions.

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) %	5.71	7.12	15.18	-24.57	36.38	4.72	1.84	13.13	25.93	3.09
Index (Gross) %	12.85	11.52	8.28	-17.49	44.57	-1.24	-0.54	6.12	28.49	-2.69

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 23 October 2018 is from the European Smaller Companies Fund (a UK authorised UCITS fund launched on 10 November 1997), which merged into this Fund on 24 November 2018.

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.

CTEA6596390.1 05/2024