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) Pan European Smaller Companies

Philip Dicken
Fund Manager
Since: 29/08/2018

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 Small Cap Index

Inception Date: 29/08/2018

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Pan European small caps posted modestly positive returns in June
- The fund underperformed the index on a gross basis.
- At the stock level, top relative contributors included National Bank of Greece and Allfunds. Detractors included Breedon and GlobalData.
- We initiated several new positions during the month.

Market Background

Following recent strong gains, pan European small-cap equities 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 further fiscal stimulus in Germany. Expectations for a rate cut mounted as the preliminary eurozone inflation data for May was below the European Central Bank (ECB)'s 2% target for the first time since September 2024. The ECB cut rates by 25 basis points two days later, though Christine Lagarde struck an unexpectedly hawkish tone suggesting rate cuts had 'nearly concluded'. Meanwhile, Germany announced tax breaks to stimulate the economy.

Risk appetite later dwindled as oil prices rallied after Israel and Iran traded fire. Fears that Iran could block the Strait of Hormuz wobbled equity markets. However, the oil price later stabilised following US intervention in a long-range 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 scheduled for 9 July. More positively, towards month-end, 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 estimate of June's composite eurozone purchasing managers' index (PMI) 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 territory.

In the 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 on hold, though three of the nine rate-setters voted for a cut – a more dovish outcome than anticipated.

Within the fund's benchmark, technology, energy and communication services were the top sectors. Consumer staples, financials and healthcare fared worst. By country, France, Netherlands and Germany were the top performers while Sweden, Finland and Denmark lagged.

*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

Gross of fees, the fund underperformed its index over the month.

Stock selection was unfavourable, and sector positioning also detracted, primarily due to the underweight in technology.

However, country allocation was beneficial, especially the off-benchmark holding in Greece.

Top relative contributors included National Bank of Greece and Allfunds. Shares in National Bank of Greece continued their strong recent momentum, supported by the positive outlook for the Greek economy and expectations of dividend payouts, which the lender is resuming for the first time since the financial crisis. Allfunds' investors were cheered as the wealth management platform announced the appointment of a new CEO.

Detractors included Breedon and GlobalData. For construction materials company Breedon, earnings forecasts have been lowered due to adverse weather and project delays. Meanwhile, shares of GlobalData fell after the UK-based data analytics firm said it had ended takeover talks with Intermediate Capital; the latter had planned an all-cash acquisition.

Activity

New holdings included Piraeus Bank, IG Group, Uniphar, Alzchem Group, Vidrala and IONOS Group.

Greek financial institution Piraeus is a high-quality bank further down the market-cap scale, and we funded the purchase by switching out of AIB and 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.

Vidrala is a European manufacturer of glass bottles for food and beverages. The company has a diverse customer base across Iberia, the UK and Italy. It benefits from scale advantages and has bolt-on M&A opportunities. Q1 results were strong.

IONOS is a German software business that provides web hosting and cloud services. The company is benefiting from data sovereignty and digitalisation trends. Recently, the firm raised its adtech sales guidance for 2025.

IG Group is an online trading business that provides access to public markets. After a management change in 2024, the firm has renewed its focus on improving efficiency, business culture, customer numbers and margins.

We sold out of Bankinter and AIB following strong performance. As both companies have become larger, we now see less upside potential. Likewise, we exited Nemetschek following a period of good returns, which resulted in the stock moving outside the benchmark.

Other sales included building materials business Ibstock and oil services company TGS, which we exited to fund other purchases. Ibstock issued a profit warning in June.

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. 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) %	5.81	2.56	7.76	-28.50	37.45	3.51	1.37	15.10	23.93	-5.41
Index (Gross) %	12.85	12.88	6.50	-18.15	45.65	-3.83	-2.34	7.31	25.98	-7.58

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 29 August 2018 is from the Pan European Smaller Companies Fund (a UK authorised UCITS fund launched on 21 November 2005), which merged into this Fund on 06 October 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.

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