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Louis Ubaka
Fund Manager
Since: 01/02/2024



Nicolas Janvier
Fund Manager
Since: 23/10/2018

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: Russell 2500 Index

Inception Date: 23/10/2018

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

FUND COMMENTARY – JUNE 2025

CT (Lux) American Smaller Companies

Summary

- The Russell 2500 index returned 4.6% in US dollars in June.
- Gross of fees, the fund returned 3.9%, underperforming the Russell 2500 benchmark by 65 basis points (bps).
- Key detractors included Simulations Plus, Primo Brands and Yelp. FIGS was the top contributor.
- We opened positions in NOV and Scotts Miracle-Gro Company.

Market Background

US small-cap equities made gains again in June as investors remained sanguine in the face of escalating geopolitical tensions, persistent tariff uncertainty and some softer economic data. However, small caps slightly trailed large caps as the Federal Reserve remained hawkish on rate cuts in the face of the uncertain path of inflation – small caps are considered more economically sensitive than large caps. The Russell 2500 index returned 4.6% in dollar terms.

The positive performance came as investors remained sanguine in the face of escalating geopolitical tensions, persistent tariff uncertainty and some softer economic data. Early in the month, sentiment was supported by ongoing resilient jobs figures and the resumption of trade talks between the US and China, even as President Trump doubled levies on steel and aluminium imports from 25% to 50%. Later, geopolitics took centre stage as Israel carried out a major airstrike campaign against Iran, designed to knock out the country's nuclear capabilities. US stocks fell on risk-off sentiment as retaliatory strikes from Iran ensued, before both sides launched further attacks. 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, helping risk sentiment to recover. The rally gathered steam into month end after Israel and Iran agreed to a US-brokered ceasefire and as news on tariffs turned increasingly positive, with talks set to resume between the US and Canada after the latter revoked its digital services tax, the EU signalling a readiness to negotiate and US officials confirming that a deal had been signed with China regarding rare earth exports to the US.

Early in the month, some hotter-than-expected US jobs data weighed on rate-cut hopes, with non-farm payrolls in May slightly above expectations. However, the numbers fell from April, while March and April's figures were revised down. Initial jobless claims remained above average for the year to date, while continuing jobless claims rose above expectations to their highest level since November 2021. Other data also pointed to cooling activity. Revised US GDP figures showed the economy contracted more than previously estimated in the first quarter (Q1) due to a downgrade in reported consumer spending and exports. The S&P Global US composite purchasing managers' index for June continued to indicate expansion, but growth cooled a fraction as service sector output softened slightly; manufacturing was unchanged at a 15-month high according to a preliminary reading. On the consumer side, retail sales in May were weaker than expected – the biggest fall in four months

*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.)

– and factory orders in April declined sharply. More positively, consumer confidence rose for the first time in six months in June, rebounding from a near-record low. The recent streak of below-forecast inflation data continued: the consumer price index showed annual inflation rose for the first time in four months in May, but the print was lower than expected. Producer price inflation also rose less than expected, after declining in April.

Emboldened by the below-expectation inflation data, President Trump renewed his calls for the Federal Reserve to slash interest rates by one percent – or 100 bps – and branded Fed Chair Jerome Powell a “stupid person”. Nevertheless, policymakers voted to hold rates steady for a fourth consecutive meeting in June, with Powell emphasising that decisions will remain data dependent due to high levels of uncertainty and an expected “meaningful increase” in inflation from tariffs. After the meeting, markets were pricing in two 25-bp cuts this year: one in September and one in December.

Ten out of the eleven benchmark sectors posted gains in June, led by technology and communication services as renewed optimism about AI and hopes for trade deals supported semiconductor names. Financials, energy and industrials also outperformed. At the other end, consumer staples was the only sector to fall, hurt by signs of softening consumer demand and tariff-related uncertainty. The interest-rate sensitive utilities and real estate sectors were also weak, though both eked out a small gain during the month.

Performance

Gross of fees, the fund returned 3.9% in June, underperforming the benchmark by 65 bps.

Stock selection drove the relative underperformance, particularly in industrials, communication services, healthcare and consumer staples, although picks in consumer discretionary were beneficial. Allocation effects also weighed modestly on performance, primarily due to the unhelpful overweight in consumer staples and underweight in energy, although the overweight in technology added value.

At the stock level, Simulations Plus was a key detractor. Shares of the pharmaceutical simulation software company fell after it announced below-expectation preliminary Q3 results and cut its full-year revenue outlook. Management noted that uncertainty around medical funding, drug prices and tariffs has led pharmaceutical and biotech firms to reduce budgets and cancel projects, impacting Simulation Plus’s services business. However, management stated that the firm’s software business remains resilient. Earlier in June, the company also announced a restructuring to reduce costs and increase efficiency, including job cuts.

Primo Brands also weighed on relative returns amid a rotation towards growth names at the expense of value stocks. Shares were also pressured after the stock went ex-dividend on 6 June. Additionally, Primo’s price target was cut by an analyst during the month.

The holding in local business platform Yelp also detracted. The shares fell back after making gains in May, when the company released forecast-beating results, driven by strength in its services segment. Sentiment may have also been impacted by concerns over lower consumer spending and uncertainty about how AI will affect the advertising industry.

More positively, our holding in FIGS was the top contributor. The shares rallied after falling in May, despite the company’s Q1 revenue beating expectations. Given the high expected impact of US tariffs on clothing firms, sentiment towards FIGS may have improved in June amid encouraging trade-deal news. During the month, the company also set out its strategic plans at the Annual Consumer Growth and E-Commerce Conference, including international expansion (with a recent launch in Japan and plans to launch in Korea), product innovation and improved efficiency at its new distribution centre. In addition, management noted the company’s strong cash position as offering potential for share buybacks and investing in the business.

Activity

We reopened a position in oilfield services company NOV during the month, having previously sold the stock in March – a fall in the share price early in Q2 due to tariff concerns and OPEC+ production hikes created an attractive re-entry point with an improved risk-reward ratio.

NOV sells equipment to companies involved in deep-water drilling and offshore wind. The company has underperformed for several years due to a combination of restrained spending from its oil service customers, improved efficiency from US onshore oil producers and severe supply chain issues. On the positive side, demand for NOV’s core Rig Technologies segment has rebounded sharply amid higher maintenance spending by offshore drillers, rig reactivations and increased demand for spare parts from both offshore and land drillers. Capital expenditure requirements should stay relatively low, giving NOV potential to improve its free-cash-flow profile, while near-zero net debt should allow for capital return opportunities, possibly including share buybacks. Initiating a position in NOV also reduces the portfolio’s underweight to the energy sector.

We also opened a new position in Scotts Miracle-Gro Company, the leading manufacturer of branded consumer lawn and garden products – such as fertiliser, seeds and nutrients – in North America. The firm's key brands include Scotts, Turf Builder, Miracle-Gro and Ortho. Following a period of sharp increases in the costs of raw materials and uncertain demand, Scotts Miracle-Gro is a turnaround story, with its premier product line and dominant domestic market share supporting the company's efforts to rebuild margins as it renews relationships with retailers and as prices catch up to inflation. The company's valuation versus peers has been penalised by uncertainty around its Hawthorne Gardening Company cannabis business (which has not yet been spun off) and high financial leverage. We believe the company can reduce financial leverage by benefitting from significant raw material and fixed cost leverage as volumes recover, and by raising cash.

We also added to our holdings in Life Time Group, Uranium Energy Corporation and Certara, among others.

We sold out of BXP, while trims included Atlantic Union Bankshares, Cirrus Logic and WillScot.

Outlook

The outlook for US risk assets has undeniably become more challenged in 2025. Economic fundamentals have remained firm for the year to date, despite a noticeable uptick in volatility and uncertainty around tariffs, immigration and other policies. The labour market continues to show resilience, with non-farm payrolls firmly in positive territory, unemployment remaining low, wages rising at a healthy clip and layoffs staying minimal. Consumer spending is also holding up, while inflation has plateaued close to the Fed's target.

Despite early – and broad-based – market weakness following the “Liberation Day” tariff announcements, US equity indices across the cap spectrum had fully recovered their initial losses and even rose beyond the levels seen prior to the announcement by the end of Q2. Headlines about trade negotiations – particularly with China – along with strong Q1 corporate results and robust economic data have buoyed sentiment. However, there are still many unknowns, with the ever-changing policy landscape creating heightened uncertainty and making it exceptionally difficult to forecast either corporate or economic outcomes. Investors continue to debate the extent to which recent announcements are a negotiating ploy, and thus transitory, versus an effort by President Trump to rebalance trade relationships. With the effective tariff rate still set to rise dramatically, many believe we are yet to see the full economic impact of the administration's tariff policy in hard economic indicators.

In spite of recent market turbulence, Q1 earnings results beat expectations in aggregate. The year-over-year earnings growth rate exceeded consensus expectations, marking the second straight quarter where the market achieved double-digit growth. However, while Q1 results were unexpectedly strong, forward guidance has been fraught, with companies generally deciding to either lower forecasts to account for negative trade impacts or retract guidance altogether, citing heightened uncertainty and limited visibility into future operating environments.

Companies may respond to increasing tariffs in a number of ways to maintain profit margins, including a mixture of price rises, cost reductions and, ultimately, avoidance by reshoring manufacturing to the US. In the near term, with companies expected to pass through price increases, inflation is forecast to rise, as entire supply chains will be impacted. After the initial “Liberation Day” announcements, the market quickly moved to price in more rate cuts in the expectation that the Fed would have to ease its policy rate aggressively to support a faltering economy. The market has since pared back those expectations given the administration's openness to negotiation on tariffs. Fed Chair Jerome Powell has steadfastly stated that policymakers will exercise caution and not rush to ease rates.

Against this backdrop, we remain committed to our process, with a sharp focus on fundamentals and identifying and owning companies we believe can withstand this uncertainty and weather near-term headwinds.

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) %	4.20	7.40	23.09	-20.81	76.34	-2.07	4.90	13.43	21.27	-4.21
Index (Gross) %	9.91	10.47	13.58	-21.00	57.79	-4.70	1.77	15.66	18.57	1.33

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 American Smaller Companies Fund (a UK authorised UCITS fund launched on 14 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.

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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