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Fund Manager
Since: 01/09/2022

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: iBoxx Euro Corporate Bond Index

Inception Date: 21/09/2018

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

FUND COMMENTARY – JUNE 2025

CT (Lux) European Corporate Bond

Summary

- Euro investment grade (IG) credit indices edged higher in June.
- Gross of fees, the fund performed broadly in line with its benchmark.
- IG spreads are still not cheap, but the yield on the market is attractive in our view for those seeking income without too much risk.

Market Background

Indices of euro IG corporate bonds generally edged higher in June as the impact of rising German Bund yields was offset by coupon income and the effect of tighter credit spreads (the yield premium over 'risk-free' government bonds). The fund's benchmark index returned 0.25% for the month.

Early in May, Bund yields fell as the preliminary eurozone inflation print came in below the European Central Bank's 2% target. The ECB duly reduced borrowing costs at its policy meeting two days later but the bank's president struck a hawkish tone in suggesting that rate cuts had now 'nearly concluded'. Bunds sold off in response but recovered over the following week as US inflation slowed more than forecast and stalling US-Iran nuclear talks fuelled demand for safe havens.

The mounting tensions in the Middle East came increasingly into focus, though the effect on core government bonds was unusual. As the crisis evolved, investors' concerns appeared to switch from its likely impact on growth to its inflationary impact. Treasury and Bund yields briefly spiked after Israel's surprise attacks on Iran sent oil prices sharply higher. Iran's token retaliation for US strikes and its subsequent ceasefire with Israel saw oil give back most of its gains but Bunds and Treasuries had contrasting fortunes over the last week of the month.

While Treasury yields fell along with oil prices, and were further supported by softer US economic data, Bund yields rose as investors refocused on Germany's fiscal position. The trigger was the release of the German government's draft budget for 2025 and broad plans for the next four years. As well as surge in public investment, spending on defence specifically is to rise to 3.5% of GDP by 2029 (versus 2.1% last year) by which time German debt interest payments are projected to have doubled.

In economic news, the final estimate of eurozone first-quarter GDP growth was twice the previous figure, due in part to stronger expansion in Ireland and Germany. June's flash composite purchasing managers' index for the eurozone was unchanged from May, continuing to suggest that growth was close to stalling.

Overall, the 10-year Bund yield rose 11 bps to 2.61%, while the US and UK equivalents respectively fell 17 bps to 4.23% and 16 bps to 4.49%. Meanwhile, as per ICE BofAML indices, euro IG credit spreads tightened by 7 bps (versus 6 bps and 10 bps in the US and UK) amid improving global risk appetite – as US-China trade tensions continued to de-escalate – and favourable supply-demand dynamics. Spreads tightened in nearly all the sectors we monitor, led by media. Telecoms and utilities were notable laggards but the only sector in which spreads widened was non-cyclical services.

*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

The fund returned 0.24% in gross terms for the month, almost exactly in line with the benchmark index. An overweight in credit risk helped performance fractionally as credit spreads tightened, but this was offset by marginally unfavourable selection effects. There were no large individual positive or negative contributors here: fractional detractors included pharmaceutical companies Roche and Amgen, as well as US banking group JPMorgan Chase. Positives on a similar scale included Thames Water and the lack of exposure to Worldline, which sold off amid allegations that the French payments processor had covered up fraud by one of its clients.

Activity

The fund's slight overweight in credit risk (measured by duration times spread, or 'DTS') was broadly unchanged; another measure of credit risk, spread duration, fell modestly though this was mainly attributable to month-end duration extension in the index (as newly issued bonds entered the index and maturing bonds left it).

At the sector level, we increased the slight overweights in banks, real estate and insurance and narrowed underweights in chemicals and travel & leisure. Aside from an addition to an existing bond from Linde (in the chemicals sector), this was all through new issues. We took part in new offerings from banking groups OP, CaixaBank, Commerzbank and Banco BPM; real estate issuers Realty Income and Supernova; insurers Pacific Life, New York Life and MassMutual. In chemicals and travel & leisure, we respectively took part in new issues from Air Products and food concession operator Compass.

Conversely, we moved modestly underweight in healthcare, by reducing positions in Roche and AstraZeneca and exiting Bristol Myers Squibb, and moved further underweight in food & beverages, where we trimmed positions in drinks giants Diageo and AB InBev and exited Coca-Cola. Elsewhere, we offset some of the purchases above by exiting Hannover Ruck (insurance) and reducing MetLife (insurance) and Vonova (real estate). We also swapped out of existing bonds from the aforementioned OP and CaixaBank.

Outlook

At present, meaningful estimates of the impact of Trump's trade tariffs are all but impossible to calculate. US inflation will be likely be higher as a result, though the effects on eurozone inflation are less clear. It seems probable that growth will be lower across the board than previously envisioned. Slower growth, with the risk of recession, would also be a less positive – or even negative – environment for spreads, especially for more levered and cyclical issuers.

At the time of writing, euro IG spreads remain inside (more expensive than) historic averages. The outright yield on the market is more compelling, above its long-run mean; this should continue to attract investors seeking income without too much risk. The market is also supported by robust credit fundamentals, such as low leverage for corporates and high levels of capital for banks.

All things considered, our outlook for euro IG spreads remains fairly neutral. The fund retains a modest overweight in credit risk, albeit tilted to some of the more defensive areas of the market. At month-end, utilities remained our largest sector overweight by some distance. Smaller overweights included banks and telecoms. Food & beverages remained the largest of several modest underweights.

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) %	5.89	7.21	0.65	-12.79	4.44	1.71	5.34	1.56	1.92	5.64
Index (Gross) %	5.97	6.38	0.11	-12.94	3.50	-0.47	4.84	1.08	1.21	5.02

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.

The past performance information for the period prior to 21 September 2018 is from the European Corporate Bond Fund (a UK authorised UCITS fund launched on 22 October 2002), which merged into this Fund on 22 September 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 invests in securities whose value would be significantly affected if the issuer refused, was unable to or was perceived to be unable to pay.

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.

Changes in interest rates are likely to affect the Fund's value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

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 may exhibit significant price volatility.

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

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