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Gareth Simmons
Fund Manager
Since: 17/07/2019



Roman Gaiser
Fund Manager
Since: 17/07/2019

Fund Information

Please refer to the Prospectus and KIID/KID for the Fund objective.

Inception Date: 17/07/2019

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 6*

FUND COMMENTARY – JUNE 2025

CT (Lux) European Short-Term High Yield Bond

Summary

- Gross of fees, the fund returned 0.33% in June.
- Top contributors included Mahle, CPI Property Group and Heimstaden.
- In the primary market, we bought new bonds from FiberCop.
- We trimmed the exposure to Avis Budget.

Market Background

Short-dated European high-yield (HY) bonds delivered modest positive returns in June. The positive return was driven by coupon income, as underlying German Bund yields rose modestly and spreads ended the month slightly wider.

Investor sentiment remained surprisingly resilient in the face of escalating geopolitical tensions, persistent tariff uncertainty and some softer economic data in the US. The month's most notable development was Israel's major airstrike campaign against Iran on 13 June. The attack, designed to knock out the country's nuclear capabilities, led to a sharp rise in oil prices and a sell-off in equities. Retaliatory strikes from Iran ensued, before both sides launched further attacks. The US eventually joined the conflict, attacking three Iranian nuclear facilities. Iran's token retaliation and subsequent ceasefire with Israel helped risk sentiment to rebound, while oil gave back most of its earlier gains. Towards month-end, sentiment was further supported by reports that the US and China had signed a deal regarding rare earth exports.

In the US, some hotter-than-expected US jobs data weighed on rate-cut hopes. Non-farm payrolls in May were slightly above expectations but down sequentially from April's total; additionally, March and April's figures were revised down. Annual inflation in the US, per the consumer price index (CPI), rose for the first time in four months, but the print was still lower than expected. Other data indicated a cooling in activity: the S&P Global US composite purchasing managers' index remained in expansionary territory in June according to a preliminary reading but showed a modest softening as service sector output slowed slightly. First-quarter (Q1) GDP was revised down, reflecting a larger contraction. The Federal Reserve left interest rates unchanged, as expected, despite President Trump once again ramping up public pressure on Chair Jerome Powell. Fed policymakers raised their inflation forecast for this year, and downgraded growth forecasts for this year and next.

In the eurozone, CPI inflation dipped below the European Central Bank's target in May. As expected, the ECB then lowered interest rates by 25 bps in early June, the central bank's eighth rate cut since June 2024. However, President Christine Lagarde noted that the monetary policy easing cycle had "nearly concluded". Consequently, investors scaled back expectations for additional cuts this year to just one.

In the UK, GDP shrank more than expected in April, the first month to include the effect of the government's tax increase on employers. Unemployment also rose to a multi-year high in the three months to April, while wage growth slowed more than anticipated over the same period. May retail sales figures also undershot forecasts. While the

*The Fund integrates sustainability risks into the investment decision making process and is categorised as Article 6 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.)

weaker tone of the data reinforced expectations that the Bank of England would make two further interest-rate cuts this year, a reduction in June was not anticipated. Annual CPI for May came in higher than forecast, unchanged versus April (once the latter figure is adjusted for a data error). At its policy meeting the next day, the Bank left rates on hold as expected, though three of the nine rate-setters voted for a cut – a more dovish vote split than anticipated.

In the all-maturity European HY market, higher rated credits outperformed the broad market and delivered positive total returns, while CCCs underperformed materially and registered a negative return. After turning positive in May, flows into European HY funds continued in June, tailing off towards the end of the month. Inflows were driven largely by managed accounts. Net inflows for the full month were €1.7 billion, bringing the year-to-date total to €2.9 billion, including €3.1 billion gross from managed accounts.

Primary market activity remained robust in June; the third week saw a new record set for primary issuance in a single day, and was the fifth busiest week of corporate issuance since 2010. Overall, June's net new issuance totalled €19.5 billion – beating the previous monthly high set in June 2021. New bonds were mostly rated single B or BB, and experienced strong demand, with books typically three or four times oversubscribed and the bonds going on to perform well post launch. The strong primary supply is expected to continue in the coming weeks, before tailing off into the summer holiday season. For the year to date, gross issuance is €68.5 billion.

Performance

Gross of fees, the fund returned 0.33% over the month. The fund is managed with a steady hand and a focus on shorter maturities to maintain a lower volatility level relative to the overall European HY market. Our positioning remains defensive, favouring the core HY market (with credit spreads of <1000 bps), and the fund ended Q2 with a higher overall weight in BB and B credits. The European HY market yield dropped over June to 4.1%.

At the sector level, real estate, healthcare and services contributed most to absolute returns. On the same basis, retail was the sole detractor.

At the issuer level, contributors to the absolute return included car-parts supplier Mahle, for a second consecutive month. At the end of June, the issuer successfully placed a new €300 million bond and issued a partial tender offer for its outstanding senior notes due 2028, which are held by the fund. Elsewhere, real estate firms CPI Property Group and Heimstaden added to the absolute return. CPI Property's bonds were supported by a successful tender offer for its 2027 bonds and management's continued commitment to repaying short-term bonds via asset disposals. Heimstaden's bonds were also boosted by the issuer's proactive debt management; subsidiary Heimstaden Bostad placed new green bonds in June and issued a tender offer for its outstanding 2026 maturities. The firm's Q1 results also showed a reduction in year-over-year interest-bearing liabilities.

On the other side, car-interiors maker Antolin detracted from the absolute return. At the end of May, the firm reported a return to net profit, driven by cost reductions achieved as part of its transformation plan initiatives. However, quarterly sales fell and debt levels increased. Elsewhere, telco Virgin Media O2 weighed on returns amid reports that it was taking part in talks to potentially acquire its heavily indebted rival CityFibre; however the latter denied that a potential sale was being discussed. Chemical maker Ineos also detracted from returns; Fitch downgraded Ineos Quattro to B+, citing concerns about oversupply in the chemicals market, weak demand and possible hits to earnings from global trade tensions.

Activity

Despite the busy primary market, we took part in just one new issue in June, from Italian network operator FiberCop.

In the secondary market, we topped up holdings in German metering services company Techem, board-game publisher Asmodee, pharmaceutical company Cheplapharm, and car-parts supplier ZF. We also added to property company Vivion and blood-plasma products firm Grifols, among others.

Turning to sales, we trimmed our position in car rental agency Avis Budget.

Outlook

Headline inflation continues to ease towards central-bank target levels in many countries. Still, inflationary pressures linger, and the macroeconomic outlook has become more clouded due to shifting US tariff policies. Trade tensions have eased since Trump's April "Liberation Day" announcements, amid reported progress in bilateral trade talks, most recently with China. However, uncertainty around US tariff policy remains high as we approach Trump's July deadline on implementing "reciprocal" tariffs. As such, the Federal Reserve has adopted a data-driven approach to interest-rate decisions and indicated increased uncertainty regarding its monetary-easing path, leading market participants to moderate their expectations regarding the timing of interest-rate cuts this year. US trade tariffs, if maintained, are expected to weigh on international trade and disrupt supply chains, driving up

inflation. This has prompted fears of “stagflation” – low economic growth, high inflation and high unemployment. For now, the US labour market remains healthy but is showing signs of cooling, while we are also seeing some weakening of other economic indicators and expect to see more over the second half of the year. Additionally, the US Senate is preparing to vote on Trump’s new spending plan, which would add \$3.3 trillion to the US debt burden, prompting concerns about the sustainability of the country’s fiscal position.

While the growth outlook in Europe has improved due to German stimulus measures, concerns remain about the impact of US tariffs on the eurozone economy. There are suggestions that the European Central Bank will continue to ease policy further this year. In China, economic activity remains subdued as the property sector continues to struggle, and domestic demand remains weak. China’s government continues to roll out stimulus measures to boost the economy and offset tariff impacts. Away from economic data, elevated geopolitical risks add to the uncertain outlook, including the conflict between Israel and Hamas, and the war in Ukraine.

Company earnings releases have shown that many corporates remain in good financial shape, with robust balance sheets and liquidity following a period of strong issuance in recent years and well received refinancings. Reported Q1 2025 corporate earnings mostly met or exceeded expectations. Leverage is improving, specifically for BB and B rated issuers. However, companies in some industries – notably chemicals and packaging – remain weak but stable. We still see a mixed outlook among cyclical industries, such as automotive and aerospace, further weighed down by tariff announcements. In the autos sector, manufacturers and original equipment manufacturers (OEMs) had already begun to mark down their guidance (or in some cases remove guidance) for 2025 due to the uncertain European market; the introduction of a 25% levy on imports of cars to the US will add further to the pressures on the sector. We have also seen pockets of balance-sheet strain, and, among over-leveraged corporates, some issuers have undertaken liability management exercises (LMEs). While the negative sentiment surrounding these has eased somewhat, we continue to see an increased risk in balance-sheet restructuring activity in the shorter term (due to specific names already well known). There have also been signs of a modest pick-up in activity related to mergers and acquisitions (M&A) and leveraged buyouts (LBOs) in recent weeks. Overall, we therefore forecast that defaults will rise from low current levels to moderate levels over the next 24 months, but note this is largely already reflected in market pricing.

The default rate increased through 2024 and, after a pause in the early part of 2025, the 12-month trailing default rate rose to 4.2% by the end of May. Still, if distressed exchanges were excluded, the rate would be 2.85%. The recovery rate rose to 65%, far above the historical average of 45%. We view the longer-term outlook for defaults as moderate; our default forecast of 5.1% for the 12 months from May 2025 has risen from our October 2024 forecast of 3.8%, due to names which have been well flagged for some time. The deterioration in our headline forecast is largely driven by already-known restructuring exercises drawing closer to a conclusion. It also reflects a more conservative view across many of the more cyclical sectors, given the prevailing tariff-related uncertainties.

After a slow start to 2025, primary market activity has picked up significantly and is expected to be brisk in 2025. While we have seen an increase in new issues related to corporate activity (LBOs, M&A and distributions to shareholders) in recent weeks, refinancings continue to dominate and new issues are being met with strong demand. This is enabling even challenged issuers to access the primary market. That said, we have seen greater dispersion in demand in recent weeks across ratings and sectors. For example, demand for defensive credits has been robust, while demand for cyclicals and names perceived to be most sensitive to tariffs has softened. In addition, the expansion in new-issue activity related to M&A or LBOs, IPOs and other corporate activity witnessed in late 2024 has now tailed off. Corporates have adopted a wait-and-see approach given the macroeconomic uncertainty. Nevertheless, we have continued to see new issuers coming to the high-yield (HY) market over the year to date with a robust pipeline expected for the coming weeks.

In 2024, the European HY market was supported by net inflows, credit upgrades and flows from tenders, maturities and coupons. The asset class also benefited from a significant number of rising stars, which outpaced the number of fallen angels. So far this year, this trend has continued (for example, Nexi recently received a rating upgrade), while market flows picked up strongly in June with €1.7bn added to the asset class via both ETFs and managed accounts. As 2025 progresses, we expect fallen angels to begin to outpace rising stars. We still anticipate some fallen angels among property names, given the significant recent stress within the real estate sector due to higher financing costs and structural changes, including reduced commercial demand. However, the number of potential fallen angel candidates among property names has declined as sentiment towards the sector has improved on the back of falling interest rates and the start of asset disposals.

Spreads are still inside the long-term average, but yields remain near historical highs. Additionally, the higher coupons offered on newly issued bonds have enhanced breakeven rates (how much spreads can rise before the total return of a bond becomes negative), offering a meaningful cushion in the event of spread widening. Nevertheless, we acknowledge that current valuations price in little room for error from escalating geopolitical tensions or an economic downturn, and that market volatility has risen and is likely to remain elevated, at least in the near term. We believe the elevated default risk for over-leveraged credits is largely reflected in market pricing.

Overall, until we get more certainty on the tariffs and how they will affect different sectors, we will be cautious on the overall market, preferring opportunities that are least sensitive to tariff-related risks.

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
Fund (Gross) %	6.31	9.22	8.61	-7.55	6.37

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.

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 enter into financial transactions with selected counterparties. Any financial difficulties arising at these counterparties could significantly affect the availability and the value of fund assets.

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's assets may sometimes be difficult to value objectively and the actual value may not be recognised until assets are sold.

The Fund may invest materially in derivatives (complex instruments linked to the rise and fall of the value of other assets). A relatively small change in the value of the underlying investment may have a much larger positive or negative impact on the value of the derivative.

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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