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**Daisuke Nomoto**  
Fund Manager  
Since: 14/12/2023

### 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 Japan Index

**Inception Date:** 14/12/2023

**Fund Currency:** JPY

**Fund Domicile:** Luxembourg

**SFDR:** Article 8\*

## FUND COMMENTARY – JUNE 2025

### CT (Lux) Japan Equities

#### Summary

- The MSCI Japan index rose 1.8% in yen terms in June.
- Gross of fees, the fund outperformed the benchmark.
- We added to the position in Sumitomo Electric Industries, while MS&AD Insurance, Morinaga & Co and Otsuka Corporation were sold.

#### Market Background

Japanese equities posted a positive return in June, with the MSCI Japan index gaining 1.8% in yen terms and 1.7% in US dollars.

News flow was dominated by escalating geopolitical tensions in the Middle East after Israel and Iran traded fire. This triggered a temporary spike in oil prices, while the yen strengthened. However, markets soon recovered following news that Israel and Iran had agreed to a US-brokered ceasefire. Japanese equities were also boosted by hopes of a more dovish Federal Reserve, a weaker US dollar and optimism around US-China trade talks. This last factor also stoked expectations of easing US restrictions on advanced chip exports to China, which proved supportive for technology stocks, as did optimism surrounding increased AI spending.

Towards the end of June, investors were further cheered as Washington and Beijing reached a deal to reduce tariffs and export controls and normalise trade in rare earth minerals, spurring hopes for similar arrangements with other trading partners. However, there was little sign of progress in trade talks between Japan and the US. Tariff negotiations between Prime Minister Shigeru Ishiba and President Trump on the fringes of the G7 summit broke down as the two sides continued to disagree on auto tariff rates.

In economic news, the Cabinet Office reported that GDP contracted by less than initially estimated in the three months to the end of March. Later, the au Jibun composite purchasing managers' index showed that Japan's manufacturing activity returned to growth in June, for the first time in nearly a year, while the service sector continued to expand. Meanwhile, business sentiment improved modestly in Q2, despite tariff-related concerns, according to a leading gauge of sentiment at large manufacturers.

On the monetary front, the Bank of Japan (BoJ) left rates unchanged at its June meeting but said it will slow the pace at which it buys government bonds following a spike in yields on fears of sluggish demand. Inflation remained above target, with the core figure hitting its highest level in more than two years in May, strengthening expectations that the BoJ will increase rates in July.

Within the MSCI Japan Index, communication services and technology were the top performing sectors. On the other side, consumer discretionary, healthcare and financials were the only sectors to post declines.

\*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](http://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 outperformed its benchmark. Sector allocation detracted from relative performance, but this was comfortably offset by favourable security selection effects.

Consumer discretionary made the biggest relative contribution, followed by communication services and industrials; in all three cases, this was entirely due to selection effects. Conversely, successful stock picks in technology were not enough to counter the negative impact of being underweight in one of the June's best-performing sectors. A slight underweight in energy also proved marginally unfavourable.

At the stock level, positive contributors included Anycolor, which operates the Nijisanji virtual-YouTuber agency, along with semiconductor equipment manufacturers Tokyo Electron and Disco Corporation. Anycolor outperformed after releasing better-than-expected results for its 2025 fiscal year. Revenue and net profit were up 34% and 32%, respectively, on the prior period, helped by stronger-than-forecast merchandise sales. Shares in Tokyo Electron and Disco rallied along with other semiconductor-related stocks amid optimism surrounding increased AI spending. The Israel Iran ceasefire (and the resulting receding of supply-chain and energy concerns) and hopes of easing US restrictions on advanced chip exports to China also boosted the sector.

Detractors included the lack of exposure to Advantest, which makes chip-testing equipment, and holding company SoftBank, the majority owner of semiconductor business Arm. Both stocks benefited from the aforementioned rally in chip-related stocks towards the end of June.

The holding in commercial shutter business Sanwa was unhelpful too. Concerns about the lack of progress in trade talks with the US triggered some profit taking in a stock that had recently reached multi-decade highs. A weaker dollar was a further hindrance.

## Activity

We made no new additions to the fund in June, but sold MS&AD Insurance, confectionary company Morinaga & Co and IT services group Otsuka Corporation.

We had been trimming MS&AD for some time and decided to exit the position over the month to consolidate the fund's insurance exposure. The Morinaga sale was part of a Selective reduction in small-caps where we felt that current upside potential did not sufficiently compensate for liquidity constraints; this was used as a source of funds. We saw reduced upside for Otsuka and chose to recycle the capital elsewhere.

Conversely, we continued to build up the position in Sumitomo Electric Industries, which was a new holding in May. We expect the company to be a key beneficiary of greater infrastructure investment in AI data centres.

## Outlook

We believe Japan's economy will be supported by reflation, rising wages, better corporate governance and a pick-up in M&A activity as we progress through 2025. Unlike in the past, the earnings growth of companies geared to domestic demand is also likely to be beneficial for the equity market. We expect the BoJ to proceed carefully, with any further rate adjustments in 2025 contingent on trade developments. With inflation now embedded in both the economy and the corporate mindset, we do not expect policy normalisation to derail growth momentum.

Corporate governance reform stands as the cornerstone of Japan's investment transformation. After decades of inefficient capital allocation, Japanese companies are now systematically unlocking shareholder value through concrete actions. Record shareholder returns, systematic balance-sheet optimisations and the surge in strategic reorganisations all demonstrate corporate Japan's commitment to capital efficiency. With potential for ROEs to expand through the activation of underutilised assets, the path to value creation is both clear and measurable.

This corporate evolution is supported by robust economic fundamentals. A self-reinforcing cycle of wage growth and domestic demand has established resilience to external shocks, while recent market uncertainty – particularly around trade discussions – appears to be masking rather than reflecting Japan's underlying strength.

We expect Japan to be relatively insulated from US tariff threats compared to other major economies, thanks to its substantial offshore production and stable geopolitical ties. We anticipate constructive bilateral negotiations, supported by Japan's ability to offer concessions such as increased imports of US agricultural products, purchases of defence equipment and investment in the Alaska LNG project. With these negotiation tools in hand, we expect baseline tariffs to stay in place, while the excess levies are likely to be reduced through further negotiation.

While we remain mindful of the risks posed by a broader global slowdown, recent market softness has made Japanese equities appear more attractive – both relative to their own historical averages and to global peers, particularly on a price-to-book basis.

The long-term story also remains intact: corporate Japan has transformed from the market-share-chasing, low margin, high-capital-expenditure model of the 1980s to one with a focus on returns and capital efficiency. We believe Japanese companies are in much better shape than in previous decades.

## 12M Rolling Period Return in (JPY) - as at 30 June 2025

Past performance does not predict future returns and future returns are not guaranteed.

	06/24-06/25
Fund (Gross) %	7.25
Index (Gross) %	2.63

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](http://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 has a concentrated portfolio (holds a limited number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the Fund's value.

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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**CTEA6596390.1 05/2024**