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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 – Q2 2025

CT (Lux) American Smaller Companies

Summary

- The Russell 2500 index returned 8.6% in US dollars in the second quarter (Q2).
- Gross of fees, the fund returned 6.2%, underperforming its benchmark by 219 basis points (bps).
- Detractors included Champion Homes, Energy Recovery and Aris Water Solutions. Shake Shack was a key contributor.
- We opened positions in NOV, Scotts Miracle-Gro, Marex, Lending Tree, Rigetti Computing and Quantum Computing Inc.

Market Background

US small-cap equities rebounded in Q2 of 2025 as investors overcame a “wall of worry” – a combination of unpredictable and rapidly changing US tariff policy, uncertainty about the US economic outlook and elevated geopolitical risk. On the other side, risk sentiment was underpinned by a strong corporate earnings season, generally resilient economic data and ongoing expectations for Federal Reserve interest-rate cuts this year. However, small caps underperformed their large-cap equivalents amid uncertainty about the US fiscal outlook and the path of rate cuts – small caps are considered more economically sensitive than large caps. The fund’s benchmark, the Russell 2500 index, returned 8.6% in US dollars for Q2, while the S&P 500 index returned 10.9%. Year-to-date returns for the Russell 2500 and S&P 500 stood at 0.4% and 6.2%, respectively.

Risk appetite was weak at the start of the period following President Trump’s “Liberation Day” announcement of sweeping “reciprocal” tariffs, which prompted a spike in market volatility and Treasury yields. However, the US administration then paused many of the highest tariffs and entered into trade talks with several countries, including China, which allayed fears of a global economic downturn and paved the way for a broad-based risk rally. The rally gathered steam in May after the UK became the first country to strike a trade deal with the US, and the US and China agreed to reduce tariffs for 90 days, easing trade-war and growth worries.

Later in the quarter, geopolitics took centre stage as Israel launched a major airstrike campaign against Iran on 13 June. The attack, designed to knock out Iran’s nuclear capabilities, led to a sharp rise in oil prices. Retaliatory strikes from Iran ensued, before both sides launched further attacks. The US eventually joined the conflict, striking three Iranian nuclear facilities. The limited nature of Iran’s retaliation against the US and the subsequent agreement of a US-brokered ceasefire between Israel and Iran helped risk sentiment to rebound. The rally strengthened into month end after US officials confirmed that a deal had been signed with China regarding rare earth exports to the US.

On the economic front, there were signs of weakening activity. Non-farm payrolls data remained generally above forecasts, but the March and April readings were subject to

*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.)

downward revisions during the period. Revised US GDP figures showed the economy contracted more than previously estimated in 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, however, hit its highest level in over three years in June. On the consumer side, retail sales in May experienced their biggest fall in four months. Meanwhile, inflation data was mostly below forecasts: the consumer price index showed annual inflation rose for the first time in four months in May, but the print was still lower than expected. Producer price inflation was also softer than expected over the quarter.

The Fed left interest rates unchanged, as expected, despite President Trump ramping up public pressure on Chair Jerome Powell to begin easing monetary policy. Policymakers at the central bank raised their inflation forecast for 2025 and downgraded growth forecasts for this year and next. In May, Moody's stripped the US of its triple-A credit rating due to the country's worsening fiscal position. The significant tax cuts in President Trump's proposed tax and spending bill, which was amended and advanced by the Senate in June, added to the worries about the US fiscal outlook.

As in Q1, there was considerable market dispersion during the period. Nine of the eleven market sectors registered gains, led by an almost 19% gain in technology stocks as optimism about AI rebounded into the end of the quarter and hopes for trade deals supported semiconductor names. Industrials and consumer discretionary also posted double-digit returns, while financials also outperformed the wider index, rising more than 9%. Elsewhere, communication services, utilities and materials registered robust gains but trailed the broad index. At the other end, real estate and energy were the only sectors to post a loss in Q2, with uncertainty regarding interest rates and lower oil prices, respectively, weighing on stocks in these segments. Healthcare and consumer staples posted small gains but significantly lagged the wider market.

Performance

Gross of fees, the fund returned 6.2% during the quarter, underperforming the benchmark Russell 2500 index by 219 bps. The relative underperformance was due to unfavourable selection effects, particularly in industrials, consumer discretionary, financials and utilities. However, the impact was partially offset by favourable choices in technology, real estate and materials. Sector allocation was supportive for relative returns in aggregate. The most beneficial positions were the underweights in energy and materials, together with the overweight in technology. On the other side, the overweight in consumer staples was unhelpful.

At the stock level, key detractors included Champion Homes. The shares fell after the firm's fiscal Q4 2025 results disappointed investors. Sales and earnings both missed analysts' estimates, while operating profitability (the adjusted EBITDA margin) weakened year on year. More positively, management announced a \$50 million increase to its existing share repurchase programme, bringing the total to \$150 million. Several analysts lowered their price targets for the stock following the results announcement.

Energy Recovery was another detractor during the period. The provider of industrial fluid flow solutions was similarly hurt by disappointing results, as Q1 earnings and revenue missed estimates by a meaningful margin. Management noted that revenue was in line with its own forecasts – with an increase expected in the latter part of the year – and that minimal “Megaprojects” revenue had been booked during the quarter, also as expected. More positively, the firm upgraded or maintained its full-year guidance for all metrics, with the exception of wastewater revenue, which was paused due to uncertainties around the impact of tariffs on China.

The holding in Aris Water Solutions – a water-management company that serves the oil and gas sector – also weighed on relative performance. Aris's shares corrected sharply in early April following the announcement of Trump's Liberation Day tariffs, which resulted in a deterioration in the economic outlook and lowered expectations for commodity demand. Economic uncertainty continued to weigh on the stock over the quarter, as did concerns about the effect of commodity prices in the firm's Q2 outlook in May. However, the firm's Q1 results beat forecasts: revenue and earnings were both higher than expected, while Aris also reported record volumes for produced water handling.

On the other side, the holding in Shake Shack was the top contributor in Q2. While the firm's Q1 earnings and revenue were slightly weaker than expected, investors were reassured by a double-digit year-over-year increase in revenue and improved profitability, as well as by management's plans to open around 50 new locations in 2025. Management slightly cut the lower end of its full-year sales guidance but increased its restaurant-level profit margin guidance for the year and over the medium term. Subsequent broker upgrades supported the stock over the rest of the period, with shares hitting an all-time high in June.

Activity

We opened new positions in Scotts Miracle-Gro, Marex, Lending Tree, Rigetti Computing and Quantum Computing Inc. We also reopened a position in oilfield services company NOV during the quarter, 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.

Scotts Miracle-Gro Company is 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.

Marex is a diversified global financial services platform with clearing, market making, agency and execution, and hedging and solutions segments. Through these businesses, the company provides clients with market access, infrastructure and deep liquidity (where buyers and sellers trade substantial volumes of an asset at stable prices) services across energy, commodities and financial markets. Marex's clearing business is well positioned to perform well over the long term, which should support sales and margins. This should serve as a hedge to more cyclical aspects of the business, which have their own growth and margin opportunities. The company is one of the five largest non-bank players in the clearing market and is taking share organically, while it is taking market share inorganically in its other segments.

LendingTree is a digital consumer finance marketplace that enables users to compare various financial products and loans, as well as to receive offers from multiple providers through a single platform. Recent stock moves imply investors are starting to anticipate a severe downturn in the mortgage market and a meaningful deterioration in credit. While a slowdown seems plausible, a severe credit cycle downturn seems less likely, and, in our opinion, the stock appears to have been overly penalised. We also believe that short-term declines in the insurance market due to regulatory changes should prove transient.

Rigetti Computing offers a comprehensive quantum computing platform as a cloud service directly to end users, as well as designing and building superconducting quantum computers – and the quantum processors that power them – at its own fabrication plant. Rigetti is well placed to benefit significantly from growth in supercomputing, so an uptick in user activity should support the firm's revenue and margins.

Quantum Computing Inc. (QCi) designs cutting-edge optical technology used for high-performance computing applications, remote sensing and imaging, and quantum cybersecurity. The technology has applications across a diverse range of industries, and, as in the case of Rigetti Computing, QCi is well placed to benefit from increased user activity and growth in supercomputing.

We also added to our holdings in Life Time Group, Installed Building Products and Liquidity Services, among others.

We exited Radius Recycling, BXP, Charles River Laboratories, HanesBrands, Dun & Bradstreet, Exact Sciences, Altimimmune, Annexon and Serve Robotics. Meanwhile, trims included Avista, Cirrus Logic and Lamb Weston.

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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