This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID / KID before making any final investment decisions.

FUND COMMENTARY – Q2 2025

CT (Lux) Pan European Smaller Companies

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Fund Manager
Since: 29/08/2018

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: MSCI Europe Small Cap Index

Inception Date: 29/08/2018

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- European equity markets gained during the quarter.
- The fund underperformed its benchmark index on a gross basis.
- Key relative contributors included National Bank of Greece and Nexans.
- Detractors included Azelis and Auction Technology Group.

Market Background

European equities made further gains in the second quarter (Q2) of 2025, with the fund's benchmark returning 10.0% in euro terms. For the year to date, the index returned 11.5% and remained comfortably ahead of most developed markets.

The period started with a sell-off in markets following President Trump's Liberation Day announcement of tariffs, which were more than expected in size and scope. Markets then rebounded as Trump paused the highest tariffs on trading partners other than China. Later, Washington and Beijing agreed to reduce bilateral tariffs and optimism grew that the US would negotiate trade deals with other regions, including the EU. In May, the UK and US agreed a trade deal and in June, the US and China reached a deal to reduce tariffs and export controls and normalise trade in rare-earth minerals.

European equities were also supported by some better-than-expected corporate earnings and optimism about further fiscal stimulus in Germany. That said, equity markets wobbled briefly in June, following a brief spat between Iran and Israel and the resulting surge in oil prices. However, the oil price later stabilised following US intervention via a long-range attack on Iran's nuclear capabilities, and a subsequent ceasefire agreement between Iran and Israel.

In terms of the eurozone economy, GDP growth in Q1 was stronger than expected but some other data was disappointing. Along with falling inflation, this paved the way for the European Central Bank (ECB) to cut interest rates by 25 basis points (bps) in April and again in June. However, the bank's accompanying commentary in June hinted at a potential pause to the easing cycle, and rates now stand at 2%.

In the UK, growth appeared to slow after a strong start to 2025. The Bank of England (BoE) lowered interest rates in May by 25 bps, although policymakers also noted that inflation remained above target. Consequently, investors reduced their expectations for the number of additional cuts before the end of the year. However, the tide turned after the BoE's meeting in June, when the governor stated that "interest rates remain on a gradual downward path", with the policymaking committee citing a cooling in the labour market.

Ireland, Luxembourg and Switzerland led the benchmark's gains in Q2; the main laggards were Sweden, Finland and Norway. On a sector basis, the more domestically oriented industrials and utilities sectors fared particularly well. Consumer staples was weakest, while materials also lagged.

*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

On a gross basis, the fund underperformed its benchmark. Sector allocation was unfavourable, mainly due to the overweighting in materials. Country allocation was positive, boosted by the underweighting in Sweden and overweighting in Ireland. Stock selection was unhelpful in aggregate.

Top relative performers included National Bank of Greece and Nexans.

Shares in National Bank of Greece were supported by the positive outlook for the Greek economy and expectations of dividend payouts, which the lender is resuming for the first time since the financial crisis. National Bank of Greece operates in a relatively consolidated banking market and is making good progress with digitalisation, while asset quality trends and credit expansion remain supportive. Nexans is a key player in the global market for power and data transmission cables. The shares rose after the company released impressive quarterly results, underpinned by robust growth in its electrification segment.

Detractors included Azelis and Auction Technology Group (ATG).

Speciality chemicals distributor Azelis reported weaker-than-expected Q1 results. Demand has been subdued, and visibility is limited owing to the rapidly shifting tariff environment. However, the company has good longer term growth potential. There are M&A opportunities in a consolidating sector. ATG reported a rise in profits and revenues for the first quarter of its financial year and reaffirmed its full-year guidance. However, investors were disappointed as the firm expressed concerns over the near term, citing macroeconomic uncertainty. Nevertheless, ATG is a cash-generative business with a low-cost, capital-light business model. The firm is enjoying high margins and boasts competitive advantage as the online auction market, where it has a high market share, is underpenetrated.

Activity

New holdings included LondonMetric Property, Shaftesbury Capital and Piraeus Bank. LondonMetric is a UK real estate business that specialises in commercial properties focused on logistics, a segment of the market with reliable and repeatable operating income. Our conviction in the stock is strengthened by the firm's strong management team and the business's upside potential. For example, LondonMetric's recent merger with LXi REIT should provide significant scale advantages.

Real-estate investment trust Shaftesbury owns unique and culturally important assets in the West End of London, including in Soho and Covent Garden. Rents are recovering, and Shaftesbury's portfolio should benefit from a rebound in domestic and international tourism. Moreover, the company's focus on improving the energy efficiency of buildings should position it well for the energy transition.

Greek financial institution Piraeus is a high-quality bank further down the market-cap scale, and we funded the purchase by switching out of AIB and Bankinter. Following a period of good performance, both AIB and Bankinter have become larger companies. We now see less upside potential for these stocks. Other sales included FinecoBank – this is now a large-cap company and is no longer in the fund's benchmark. As part of our investment process, we continue to recycle capital into smaller-cap ideas.

Outlook

Inflation, interest rates, growth and tariffs continue to dominate markets. Tariffs could restrict global growth, but Trump's volatile dealmaking makes this unpredictable. A solution to the Ukraine war seems no closer, and Putin's belligerence is on the increase. This means higher defence expenditure in Europe is likely, to support Ukraine and bolster defences for others. Germany is relaxing the debt brake on infrastructure and defence, which could encourage other European governments to increase capital expenditure.

In the US, the Republican majority in Congress, combined with use of Presidential decrees, is enabling Trump to push through policies on immigration, taxation, energy prices, trade tariffs and global conflict. All of these have an element of unpredictability as Trump deal-makes to cement his legacy. Negotiations regarding tariffs continue.

European stocks are still trading on a discount to US peers and the risk premium in Europe is more attractive too. Europe is not only attractive on valuation grounds; inflation has proved to be less sticky and, as a result, there is now wider dispersion in rate-cut expectations, with Europe better placed than the US. Falling interest rates stand to benefit the longer-term, high-quality business models we own. The European consumer is in a stronger position too, with more excess savings than US counterparts. The first half of 2025 may show slow growth, but the second half should be better. Trump's proposed tariffs have caused some short-term turmoil in markets, but they have brought a lower oil price which reduces costs and inflationary pressures in Europe – supporting the case for lower interest rates both in absolute terms, and also relative to the US.

Despite the softness in the European economy, many of the businesses we own are global leaders, generating profits worldwide. Longer term, the NextGenerationEU plan, the use of AI to boost productivity, and increased capital expenditure may reinvigorate European growth. Banks and European corporates have strong balance sheets, which supports capital expenditure and renewed lending. As always, there are risks – notably geopolitical tensions, tariffs, a weak economic outlook and a fragmented European marketplace – but there are still a number of reasons to invest in Europe.

In summary, there are reasons to remain optimistic. Earnings have been resilient and, over the longer term, share prices tend to follow earnings. Good companies continue to grow, and we are still seeing opportunities in the current market. In managing this fund, our focus is on stock selection. We favour companies that have competitive advantages and pricing power generated by brands, patented processes, regulatory barriers to entry and strong market positions.

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) %	5.81	2.56	7.76	-28.50	37.45	3.51	1.37	15.10	23.93	-5.41
Index (Gross) %	12.85	12.88	6.50	-18.15	45.65	-3.83	-2.34	7.31	25.98	-7.58

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 29 August 2018 is from the Pan European Smaller Companies Fund (a UK authorised UCITS fund launched on 21 November 2005), which merged into this Fund on 06 October 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.

An investment style bias can impact a Fund’s performance relative to its benchmark in a positive or negative way. No investment style performs well in all market conditions. When one style is in favour another may be out of favour. Such conditions may persist for short or long periods. A Fund exhibits a growth style bias relative to its benchmark if the majority of the fund invests in companies with above average growth rates, or good growth potential (based on indicators such as earnings and sales growth) relative to its benchmark. However, there is no guarantee that such companies will continue to show such characteristics in the future. A Fund’s investment style may also change over time.

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.

CTEA6596390.1 05/2024