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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 – Q2 2025

CT (Lux) European Corporate Bond

Summary

- Euro investment-grade (IG) credit indices advanced in the second quarter (Q2).
- Gross of fees, the fund outperformed its benchmark in Q2.
- IG spreads are not cheap, but the yield on the market is attractive in our view for those seeking income without too much risk.

Market Background

Euro IG corporate bonds advanced in Q2, driven by coupon income, a fall in underlying German Bund yields and a tightening in credit spreads (the yield premium over 'risk free' government bonds).

Bund yields fell sharply in April amid concerns about the impact of US trade policy and as falling inflation allowed the European Central Bank to cut interest rates; yields rose in mid-May as trade-war concerns eased but drifted lower again as eurozone inflation fell back towards target, spurring anticipation of another ECB rate cut in June, which duly arrived. Bund yields finished Q2 on a rising note, on concerns about German debt levels, but this was not enough to offset earlier declines.

President Trump's 'Liberation Day' of reciprocal tariff announcements on 2 April was more aggressive and wide-ranging than anticipated. Treasuries initially strengthened amid a global risk-off move but later sold off – to the benefit of German Bunds – even as equities continued to fall. The Treasury rout, rather than the equity sell-off, eventually persuaded Trump to call a 90-day pause on most of his harshest tariffs. Treasuries stabilised and risk appetite improved over the remainder of the quarter as the US reached outline trade agreements with the UK and China.

The quarter was marked by concern about rising government debt, both in the US – as Trump's tax-cutting bill made its way through Congress – and in Germany. In the latter, the new government unveiled its draft budget for 2025 and broad plans for the next four years. As well as a 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.

While US interest rates remained on hold, the ECB cut twice during the quarter, by a total of 50 basis points (bps). In early June, the preliminary eurozone inflation print came in below the bank's 2% target. Although the ECB cut rates as expected two days later, Bund yields rose on the day as the bank's president struck a hawkish tone with her assessment that the rate-cutting cycle had 'nearly concluded'.

Over Q2 as a whole, the 10-year Bund yield fell 13 bps to 2.61%, though the yield curve steepened on fiscal concerns. Meanwhile, having widened amid the Liberation Day turmoil, credit spreads came back in as the pause in US tariffs and subsequent trade talks saw risk appetite improve. Forecast-beating corporate results, especially in the US, also lifted sentiment, as did anticipation of German fiscal stimulus. Of the sectors we cover, media performed best in spread terms over Q2, followed by banking and real estate; retail, telecoms and financial services widened modestly.

*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 1.89% in gross terms for the quarter, outperforming its benchmark by 16 bps. Interest-rate-related factors, such as the effects of duration (sensitivity to interest rates) and yield-curve positioning, helped relative performance modestly. An overweight in credit risk also added value as credit spreads tightened. Credit/issuer selection had little overall impact in Q2. Marginal detractors here included media giant Warner Bros Discovery, Commerzbank and Vier Gas Transport. Positives on a similar scale included drinks maker Bacardi, telecoms group Swisscom and restaurant chain McDonald's (the last being a new addition in Q2).

Activity

The fund's slight overweight in credit risk (measured by duration times spread, or 'DTS') was broadly unchanged overall. There were some changes at the sector level, however. The biggest increases were in banks and insurance, where we moved overweight via new issues from banking groups OP, CaixaBank, BNP, Credit Agricole and Morgan Stanley; and insurers Aviva, Pacific Life, New York Life and MassMutual.

We also modestly extended the small overweight in real estate, and narrowed underweights in industrial goods & services, technology and chemicals. Again, this was mainly driven by additions from the primary market, including deals from Aroundtown, Realty Income and Supernova in real estate; Aeroporti di Roma and Siemens in industrials; Alphabet and Fiserv in technology; and Air Products in chemicals – where we also added to existing bonds from Linde.

Conversely, we moved marginally underweight in healthcare, by reducing positions in Roche and AstraZeneca and exiting Bristol Myers Squibb, and moved further underweight in food & beverages, where we sold some of the positions in drinks giants Diageo and AB InBev and exited Coca-Cola. We also trimmed the overweights in telecoms and media. In the former, we bought a new issue from NBN but sold some of an existing bond from the same issuer as well as reducing the position in Swisscom. In media, we sold most of the position in Warner Bros Discovery amid concerns about the entertainment company's proposed split.

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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