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

Scott Woods
Fund Manager
Since: 15/04/2019

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 World Small Cap Index

Inception Date: 03/03/2011

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

FUND COMMENTARY – Q2 2025

CT (Lux) Global Smaller Companies

Summary

- Global small-cap stocks rose over the period.
- Gross of fees, the fund underperformed the benchmark.
- New purchases included Descartes Systems, Car Group and ClearWater Analytics.

Market Background

Global small-cap equities advanced in the second quarter (Q2) of 2025, with the MSCI World Small-Cap index returning 9.3% in local currencies. Equities sold off sharply at the start of the period following US President Trump's "Liberation Day" announcement of sweeping "reciprocal" tariffs. However, the US administration later 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.

US equities were impacted by concerns that the import tariffs, which were steeper than anticipated, could lead to "stagflation" (higher inflation and slower economic growth). Higher Treasury yields early in the period due to worries about rising US deficit levels also formed a headwind. However, once global trade tensions subsided, generally strong corporate earnings fuelled a rebound, led by technology and other growth stocks. Encouragingly, inflation eased more than expected. Despite Trump's public pressure on policymakers to lower interest rates, the Federal Reserve held fire during the period, as expected. Fed Chair Jerome Powell said that the central bank "can afford to be patient" and noted the potential inflationary impact of tariffs.

In the UK, small-caps fared better than their large-cap counterparts during the tariff-driven volatility as these stocks are viewed as more domestically oriented. The Bank of England (BoE) added support when it lowered interest rates by 25 basis points (bps) in May. However, inflation remained above target, prompting investors to scale down expectations of further rate cuts this year, although the vote split at the BoE's June meeting was slightly more dovish than expected. Slowing economic growth remained a concern; while Q1 GDP data beat forecasts, the Office for National Statistics reported in June that the UK economy contracted more than expected month on month in April.

European small-cap equities were supported by optimism for the eurozone economy in the wake of recent defence spending packages and pro-growth reforms in Germany and other countries. Falling inflation was also helpful, with the annual reading for May dipping below the European Central Bank's (ECB's) 2% target. The ECB cut interest rates by 25 bps in April and June, but accompanying commentary in June hinted at a potential pause to the easing cycle. A short-lived spike in oil prices due to the Israel–Iran conflict moderated risk appetite late in the quarter.

Following the initial US tariff shock, Japanese stocks joined the wider risk rally. However, inflation remained above the Bank of Japan's (BoJ's) target, with the core

*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.)

figure hitting its highest level in more than two years in May, strengthening expectations that the BoJ will increase rates in July. The threat of a trade war between the US and China hung over Far East ex Japan markets, especially early in the period when US tariffs on Chinese imports rose to 145% and China retaliated with similar levies. Performance improved later following a thaw in US–China trade relations, culminating in a deal being agreed late in the period. Other tailwinds came in the form of a weaker US dollar and stimulus measures from Chinese authorities to further boost economic activity.

In local currency terms, the UK fared best, followed by Europe ex UK; both regions have benefited from increased defence spending plans. Japan and the US slightly lagged the index, while Far East ex Japan brought up the rear but remained comfortably in positive territory.

By sector, technology stocks fared best amid the renewed enthusiasm for the AI theme. Industrials also outperformed. On the other side, returns were weakest in the healthcare sector, which was impacted by Trump's plans to reduce drug prices in the US. Energy also underperformed: increased OPEC production contributed to oil prices declining over the period, despite a brief spike due to the Israel–Iran conflict.

Performance

Gross of fees, the fund underperformed its benchmark in Q2. Security selection detracted, especially in the technology, industrials and materials sectors. Some of the detraction was due to our lack of exposure to technology stocks that rebounded following weakness in Q1. The lack of exposure to industrials that benefitted from European defence spending also proved unhelpful. However, choices in consumer discretionary added value. Sector allocation was positive in aggregate. The industrials overweight and real estate underweight were most helpful, though the healthcare overweight detracted, as the sector faced headwinds from reduced US government funding and US-China trade concerns.

At the stock level, ACI Worldwide and Aris Water Solutions detracted the most.

ACI shares fell in the wake of the firm's generally strong Q1 financial results, which included expectation-beating revenues and earnings. However, a small change in the firm's current-quarter guidance triggered some profit-taking after ACI's strong run. Despite this, we continue to favour ACI, a global leader in mission-critical electronic payments software. The company develops, markets, installs and supports a broad line of software products and solutions, primarily focused on facilitating real-time digital payments. It benefits from a global customer base across a wide range of industries, including banking, government, insurance, healthcare, higher education, mortgages and telecommunications. In addition, the firm provides fraud detection and trade finance services.

Aris shares weakened early in Q2 due to the firm's close ties to the oil and gas industry, which meant the global economic concerns weighed on its outlook. Aris also posted mixed Q1 results; although revenues and earnings exceeded expectations, its EBITDA guidance fell short of forecasts due to deferred maintenance costs. Despite this, we continue to favour the water solutions company. Aris is a high-growth, high-margin business that benefits from a dominant market position in the water-handling and recycling industry. We see Aris as a best-in-class industrials business, enabling it to invest in areas such as research and development. The business is well positioned in the industry and is actively taking market share from more balance-sheet-constrained competitors.

On the positive side, contributors included Ryohin Keikaku and Japan Elevator Service (JES).

After we purchased Keikaku early in the period, its share price rose steadily in Q2 due to ongoing investor optimism around the firm's growth plans. The company is undergoing a rural expansion based on a strategy of opening stores next to supermarkets in order to offer a one-stop shopping experience. Results have been encouraging, with rapid growth in store numbers and overall revenues. Keikaku is a global retailer, known for its popular Muji brand products. We favour the firm for its strong positioning in the household and consumer goods market as well as its solid financial position, including low debt levels. Keikaku plans to considerably grow its store numbers in Japan in the next few years, while also expanding further in China and southeast Asia. A new management team is also making investments to simplify the company's manufacturing footprint, improve logistics and strengthen its omni-channel marketing approach.

JES posted strong Q1 results in May, which triggered a sustained rally through the end of the period. A share buyback announcement provided a further boost. JES is an independent maintenance firm that provides upkeep services for elevators and other equipment. The firm benefits from having a large market share in an industry with little competition. JES has a reputation for its technical capabilities and the quality of its services in the Japanese market, and the firm is aiming to attain dramatic growth by offering its services to the global market. Customers like the JES brand, and the company differentiates itself from other independents by producing its own control units, holding a massive inventory of genuine parts and using a remote monitoring system. In addition, JES is more flexible than original equipment manufacturers, which is helping the company to grow its market share in the service business.

Activity

In addition to the aforementioned Ryohin Keikaku, new purchases included Descartes Systems, Car Group and ClearWater Analytics.

Descartes is a global provider of cloud, device and data content-based solutions across a wide range of industries. The company's products and solutions improve the productivity, security and sustainability of logistics-intensive businesses. Descartes' Logistics Technology Platform unites a growing global community of logistics parties, allowing them to transact business while utilising an array of applications to help their businesses thrive. The well-managed firm could also benefit from the increasingly complex global trade environment.

Car Group operates a global digital marketplace for vehicles. As the leading used car sales platform in Australia, Car Group benefits from a strong network effect, which is fuelled by a first-mover advantage and strong reputation. We believe the firm can continue building its presence outside of Australia and add to the stock's upside.

ClearWater Analytics is a software-as-a-service fintech providing automated investment accounting, performance, compliance and risk reporting for a range of financial services companies, as well as other corporates and government institutions. We like the company for its durable, best-in-class financial profile, solid competitive position and strong underlying efficiencies. Potential catalysts for the business include its Prism platform, which could help to drive meaningful expansion.

We sold out of Charles River Laboratories due to news that the US Food and Drug Administration plans to phase out the requirement for animal testing for monoclonal antibodies and other drugs. Although the company remains a world-leading pre-clinical contract research organisation, this regulatory change creates uncertainty about the near-term outlook. Other sales included Reynolds Consumer Products, Huhtamaki and Herc Holdings.

Outlook

The new US administration has undoubtedly created uncertainty both geopolitically and for equity markets. This is not necessarily expected to abate in the near term, and macroeconomic headwinds have recently increased.

However, we continue to believe that high-quality, well-managed companies should continue to perform well over the longer term. In our view, well-managed small cap companies with strong fundamentals that have weathered the challenging operating environment of the past few years will likely continue to outperform, and we plan to take advantage of bouts of volatility to add to high-conviction names. A global approach with a focus on quality continues to make sense in this environment. Less dependence on the strength of particular economies will be important, as will diversification as investment to tackle issues such as decarbonisation, deglobalisation and energy efficiency creates a broader opportunity for earnings growth.

Our focus continues to be on building a diversified portfolio of quality businesses that are multi-year compounders, with pricing power and less gearing to the broader economy. We believe that our bottom-up approach will allow us to find such quality growth companies across a range of sectors and geographies.

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) %	-9.22	6.33	15.11	-20.98	39.37	15.06	10.83	21.84	23.63	-4.98
Index (Gross) %	5.01	11.64	8.76	-11.10	45.35	-3.43	0.19	12.62	18.29	-3.02

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.

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.

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