

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



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 – Q2 2025

CT (Lux) Japan Equities

Summary

- The MSCI Japan index rose by 7.6% in yen terms over the quarter but currency moves meant it rose by 11.4% in US dollars.
- The fund strongly outperformed its benchmark in gross terms over the quarter.
- We started new positions in MatsukiyoCocokara, Sumitomo Electric Industries, IHI, Capcom and Shizuoka Financial Group.
- We exited Fujikura, MS&AD, Morinaga & Co, Otsuka and Daiwabo Holdings.

Market Background

Japanese equities rose strongly in the second quarter (Q2). The benchmark MSCI Japan index rose 7.6% in yen terms and 11.4% in dollars.

The most significant market-moving event of the quarter took place at the beginning of the period. In common with global equities, the Japanese market plunged in response to President Trump's so-called 'Liberation Day' of sweeping 'reciprocal' tariffs. The levies – which included baseline import taxes of 24% on Japan and 54% on China – went much further than had been anticipated in terms of both scale and scope, sparking fears of a possible global recession.

When US Treasuries joined the sell-off, however, Trump called a 90-day pause on most of the harshest tariffs, triggering a powerful relief rally. Outline trade agreements with the UK and China followed, further boosting risk appetite. Nevertheless, although Japan was the first country to start formal trade talks with the US, there was little visible progress on the deal that would eventually be signed in July.

In economic news, the au Jibun composite purchasing managers' index (PMI) moved back above the neutral 50 mark in June. Within it, both the services and manufacturing PMIs finished the quarter in growth territory, in the latter case for the first time in almost a year. Less positively, measures of business confidence in both segments declined to multi-year lows in April given tariff-related concerns, and had risen only slightly by the time the June PMIs came out.

In a headache for the Bank of Japan (BoJ), core consumer price inflation rose to a two-year high of 3.7% in May, including a 7.7% increase in non-perishable food prices. The BoJ had kept interest rates on hold at both meetings during Q2; citing tariff-related concerns, the bank also halved its GDP growth projection for fiscal 2025 to 0.5%, while cutting its core inflation forecast from 2.7% to 2.2%.

Within the benchmark MSCI Japan index, communication services and technology were the best-performing sectors by some distance, mirroring a strong rise in their US counterparts. The cyclical industrials sector also outperformed as risk appetite improved. Conversely, energy was by far the weakest sector as global oil and natural gas prices fell, but its low weighting meant this had little effect on the overall index. Financials and healthcare also underperformed, posting only marginal positive returns over the quarter.

*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

Gross of fees, the fund made a strong positive return and comfortably outperformed the index. Stock selection drove the outperformance. At the sector level, consumer discretionary, communication services and healthcare added most value, thanks to stock selection in each case. An underweight in technology proved unfavourable.

Stock-level contributors included 'Virtual YouTuber' agency operator Anycolor, engineering group Kinden, pachinko-machine maker Sankyo, and engineering conglomerate IHI, a new addition during the quarter.

Anycolor and Kinden outperformed on strong results for fiscal 2025, with net profits rising 32% and 42%, respectively, year on year. Sankyo outperformed after making further progress on its share-repurchase programme, announcing plans to buy another 14% of its outstanding stock over the next year. IHI reported record highs in new orders, sales and operating profit over fiscal 2025; the stock also took part in a broader rally of defence-related stocks in anticipation of greater military spending.

Detractors included our lack of exposure to Mitsubishi Heavy Industries, which benefited from the improved sentiment towards the defence sector. The zero weights in Advantest, which makes chip-testing equipment, and holding company SoftBank, the majority owner of semiconductor business Arm, also proved unhelpful. Both stocks rallied amid optimism surrounding increased AI spending and hopes of easing US restrictions on advanced chip exports to China.

Activity

During the quarter, we initiated positions in MatsukiyoCocokara, Sumitomo Electric Industries, the aforementioned IHI, Capcom and Shizuoka Financial Group.

Following the Liberation Day sell-off, we took advantage of share-price dislocation by increasing exposure to stable, domestic-orientated businesses. This included the purchase of MatsukiyoCocokara. The retail pharmacy operator has a strong domestic market position, robust digital strategy and strategic partnerships which we expect to support growth; the company should also benefit from resilient consumer demand.

Sumitomo Electric Industries is a manufacturer of wire and optical cables. We expect the company to be a key beneficiary of greater infrastructure investment in AI data centres. Our investment thesis is further supported by the firm's diversified business mix.

With roots in shipbuilding, IHI has expanded into many other heavy industries including the manufacture of space launch vehicles, aircraft engines and gas turbines. We are constructive on the company due to its diversified business model and strong engineering capabilities. We expect earnings to be driven by IHI's aerospace and defence business, where order demand is robust.

Capcom is a video-game developer with a dominant market position and a reputation for high-quality titles. We are constructive on the firm's high-margin digital model and diversification via media. By continually refining its game development and engaging its loyal player base, Capcom has become one of the most resilient gaming companies in the industry.

Lastly, Shizuoka Financial is a Japanese regional bank. We are constructive on the company due to its strong capital and low credit risk. The outlook for return on equity (ROE) is also favourable due to improving capital management.

We closed our position in Fujikura, the wire and cable manufacturer, whose share price had more than doubled since our purchase a year earlier. As part of our shift to reduce the fund's cyclical exposure against the backdrop of volatility seen during April, we decided to exit the stock due to its highly volatile and cyclical nature, and its sensitivity to the yen/dollar exchange rate.

Later in the quarter, we sold out of MS&AD Insurance, confectionary company Morinaga & Co, IT services group Otsuka Corporation and PC distribution business Daiwabo Holdings. We had been trimming MS&AD for some time and decided to exit the position to consolidate the portfolio'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. Finally, we saw reduced upside for Otsuka and Daiwabo and chose to recycle the capital into higher-conviction ideas elsewhere in the portfolio.

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

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.

IMPORTANT INFORMATION. FOR PROFESSIONAL INVESTORS ONLY. For marketing purposes. Your capital is at risk.

This financial promotion is issued for marketing and information purposes only by Columbia Threadneedle Investments in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Middle East, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK.

The Fund is a sub-fund of Columbia Threadneedle (Lux) I, a Luxembourg domiciled investment company with variable capital ("SICAV"), managed by Threadneedle Management Luxembourg S.A..

The SICAV's current Prospectus, the Key Investor Information Document (KIID)/Key Information Document (KID) and the summary of investor rights are available in English and/ or in local languages (where applicable) from the Management Company Threadneedle Management Luxembourg S.A., International Financial Data Services (Luxembourg) S.A., your financial advisor and/or on our website www.columbiathreadneedle.com. Threadneedle Management Luxembourg S.A. may decide to terminate the arrangements made for the marketing of the SICAV.

These documents are available in Switzerland from the Swiss Representative and Paying Agent CACEIS Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH 8027 Zurich.

This material should not be considered as an offer, solicitation, advice or an investment recommendation. This communication is valid at the date of publication and may be subject to change without notice. Information from external sources is considered reliable but there is no guarantee as to its accuracy or completeness.

In Spain, Columbia Threadneedle (Lux) I is registered with the CNMV under No. 177. The Fund is a non-Spanish collective investment scheme duly registered with the CNMV for marketing in Spain. The fund should be subscribed to through locally authorised appointed distributors. Investors must read the relevant Prospectus and KID for each fund they want to invest before subscribing. All other statutory documentation, as well as the NAV can be obtained from www.columbiathreadneedle.com.

In the EEA and Switzerland: Issued by Threadneedle Management Luxembourg S.A. registered with the Registre de Commerce et des Sociétés (Luxembourg), Registered No. B 110242, 44 rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg. In the UK: Issued by Threadneedle Asset Management Limited. Registered in England and Wales, No. 573204. Registered Office: 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority.

In the Middle East: This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it.

This document may be made available to you by an affiliated company which is part of the Columbia Threadneedle Investments group of companies: Columbia Threadneedle Management Limited in the UK; Columbia Threadneedle Netherlands B.V. in the EEA; Columbia Threadneedle Investments (Swiss) GmbH in Switzerland, acting as representative office of Columbia Threadneedle Management Limited. Certain funds and/or share classes may not be available in all jurisdictions.

© 2023 Columbia Threadneedle Investments. Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.

CTEA6596390.1 05/2024