

FUND COMMENTARY – Q2 2025

CT GLOBAL SOCIAL BOND FUND



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Summary

- Global investment-grade (IG) credit indices advanced over the quarter.
- Gross of fees, the fund performed broadly in line with its benchmark¹.
- We bought a range of new labelled issues including a green bond from the Community of Madrid and a social bond from bLEND.
- Valuations (credit spreads) are looking expensive, but we view the current elevated yields as attractive for investors seeking income without too much risk.

Market Background

Global IG corporate bonds advanced in Q2, driven by coupon income and tightening credit spreads (the yield premium over 'risk free' government bonds). Yields on 10-year US Treasuries were little changed, though the German and UK equivalents fell, and yield curves steepened in all three markets.

US trade policy was the key focus for much of Q2. President Trump's 2 April 'Liberation Day' of reciprocal tariffs was more aggressive and wide-ranging than anticipated. Treasuries initially strengthened amid a global risk-off move but later sold off, even as equities continued to fall. This persuaded Trump to call a 90-day pause on most tariffs, sparking a recovery in equities and Treasuries alike.

Outline trade agreements with the UK and China followed, further boosting risk assets, though this came increasingly at the expense of Treasuries. Longer-dated bonds were pressured by mounting concerns about the US deficit. As Trump's fiscally expansive tax-and-spending bill made its way through Congress, credit rating agency Moody's downgraded US debt, removing its last triple-A rating.

In June, renewed conflict in the Middle East stoked volatility. Treasury yields spiked on inflation concerns as oil prices surged, but they later fell as Iran's token retaliation to US strikes and subsequent ceasefire with Israel saw oil prices decline. Treasuries were also supported late in Q2 by some softer-than-expected US inflation and GDP data, and by renewed attacks by Trump on Federal Reserve chair Jerome Powell, which spurred anticipation that a more dovish successor might soon be named.

The Fed's policymakers had angered Trump by keeping US interest rates on hold since December, while respectively lowering and raising their growth and inflation forecasts in response to his tariff plans. By contrast, the European Central Bank cut rates twice in Q2, by 50 basis points (bps) in total, as eurozone inflation returned to target levels. The Bank of England was also in action, cutting rates by 25 bps in May. Although the BoE then held fire at its June policy meeting, three of the Bank's nine rate-setters voted for a cut – a more dovish vote split than had been anticipated.

Over Q2 as a whole, 10-year Treasury yields rose 2 bps to 4.23%, while the German and UK equivalents respectively fell 13 bps to 2.61% and 19 bps to 4.49%. Meanwhile, having widened amid the Liberation Day turmoil, global IG credit spreads retightened alongside a strong rise in equity prices as tariff fears eased and corporate results beat expectations in aggregate. Per ICE BofAML corporate bond indices, US IG spreads narrowed by around 11% in risk-adjusted terms, versus around 10% in the sterling market and just 4% in euro IG. All the sectors we monitor tightened, led by media, technology and capital goods; autos brought up the rear.

There was more progress on the reset in relations between the UK and the EU in Q2, this time on the ESG front. In May, the two sides committed to linking their emissions trading schemes (ETS). This should help to harmonise carbon prices, reduce volatility in ETS markets, and ease trade frictions, allowing each region to avoid the other's 'carbon border adjustment mechanisms' – new taxes aimed at reducing 'carbon leakage' (which occurs, for example, when companies shift carbon-intensive production to countries with laxer emissions regulations).

Performance

The fund returned 1.91% in gross terms for the quarter versus 1.94% from its benchmark¹.

Interest-rate-related factors – such as the effects of duration (sensitivity to interest rates) and yield-curve positioning – detracted marginally from relative performance, while credit strategies made a similarly small positive contribution.

In terms of asset allocation effects, exposure to high-yield credit added value fractionally as did an overweight to agency/quasi government debt. At the industry level, our positioning in healthcare and media proved mildly favourable, while the underweight in technology detracted marginally.

Credit/issuer selection had a neutral impact overall. Positive contributors included New York Life and educational publishing and services company Pearson. The fund also benefited from its lack of exposure to US entertainment company Warner Bros Discovery, which weakened amid concerns about its upcoming split. Detractors included the zero weight in telecoms and mass media group Charter Communications along with the overweights in grid operators Statnett and Ausgrid.

On the social side, the fund's average social intensity score ended Q2 at 18.0 (out of a maximum of 31), with the proportion of the fund invested in category A impact investments at 55%. The proportion of the fund in bonds of the lowest social intensity (C3 and C4) is at 6%. The fund aligns each holding with one of the 17 United Nations Sustainable Development Goals and the underlying 169 targets. The fund's largest weightings are currently allocated to Goal 11 (Sustainable Cities and Communities), Goal 3 (Good Health and Well-Being) and Goal 7 (Affordable and Clean Energy) with weights of 24.1% 22.9%, and 16.6% respectively.

Activity

We were active in the primary market during the quarter, participating in a range of new issues. These included green bonds from French public-sector loan provider Caisse Française de Financement Local (CAFFIL), Portuguese utility EDP and the Community of Madrid.

The proceeds of CAFFIL's issue, the organisation's seventh green bond, will be directed towards green projects by local authorities in categories such as renewable energy, energy efficiency in construction, and sustainable water and waste management. The Community of Madrid is the first European region to issue a public green bond aligned with the EU Green Bond regulation. Proceeds from the €500 million, five-year bond, will be used to fund low-carbon transport projects, contributing to the EU's climate change mitigation objectives and supporting Madrid's Energy, Climate and Air Strategy Horizon 2030.

We also participated in new green bond issues from Dutch grid operators Alliander and Enexis, thereby increasing our overweight to the defensive utilities sector. Both offerings were €1 billion dual-tranche issues; the proceeds will be used to fund projects to further the transition to lower-carbon energy in these companies' respective energy networks.

Additionally, we bought new green bonds from property developer Amvest, entrepreneurial development bank FMO and banking groups Commerzbank, ING and BPCE.

We added new social bonds from UK housing finance provider bLEND, banking groups NatWest and BPM, and German development bank NRW. bLEND's £260 million, seven-year bond is the shortest maturity achieved for a secured housing association bond of this size. The proceeds will be used for housing associations to finance the building of affordable new homes and environmental improvements to existing homes. NRW's social bond was its 11th such issue and the first under the bank's new 2025 social bond framework. Among other projects, proceeds will be invested in schemes to support the healthcare sector, promote affordable home ownership in the region and create education and employment opportunities.

New sustainability issues added to the portfolio in Q2 included bonds from Australian state-owned broadband network operator NBN, the Japan International Cooperation Agency (JICA), International Development Association and the regional government of Galicia in Spain. While NBN is Australia's largest issuer of ESG bonds, this was the firm's inaugural sustainability issue. Around 80% of the proceeds is expected to be channelled towards the increasing use of fibre – which is more energy efficient than copper – in NBN's network, which includes rural communities. The remaining 20% will go to eligible social projects, for example, helping socio-economic advancement by improving digital access for remote communities.

¹ Past performance does not predict future returns. Please refer to the KIID document found on our website for further information on the fund performance.

We exited UnitedHealth and Telefonica, while reducing exposure to insurer Bupa, research charity Wellcome Trust, banking groups BNG and BBVA, and utilities Oncor, Cadent and Consolidated Edison.

We also swapped out of existing bonds from JICA, NBN, NatWest and the Community of Madrid to take advantage of their new issues.

Outlook

At present, meaningful estimates of the impact of Trump's trade tariffs are all but impossible to calculate. What seems most likely, however, is that inflation will be higher, at least in the US, and growth lower than previously envisioned. This complicates the picture for central bankers looking to support their economies by cutting interest rates. Lower growth, with the risk of recession, would be a less positive – or even negative – environment for spreads, especially for more levered and cyclical issuers.

While credit spreads (at the time of writing) are still inside (i.e. more expensive than) historic averages, the outright yield offered by the market is comfortably above its long-run mean, which 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, the rewards for taking credit risk appear relatively low at present; rather, sources of performance such as issuer and security selection – our traditional focus – are more likely to yield results in our view.

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's assets may sometimes be difficult to value objectively and the actual value may not be recognised until assets are sold.

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 may exhibit significant price volatility.

The fund aims to invest in assets that are deemed to be supporting and funding socially beneficial activities and development and utilises a Social Assessment Methodology. This will influence the fund's exposure to certain issuers, industries, sectors and regions, and may affect the relative performance of the fund positively or negatively.

The risks currently identified as applying to the fund are set out in the "Risk Factors" section of the prospectus.

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