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 – MAY 2025

CT (Lux) American Smaller Companies

Louis Ubaka
Fund Manager
Since: 01/02/2024

Nicolas Janvier
Fund Manager
Since: 23/10/2018

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: Russell 2500 Index

Inception Date: 23/10/2018

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- The Russell 2500 index returned 6.0% in US dollars in May.
- Gross of fees, the fund returned 4.7%,[1] underperforming the Russell 2500 benchmark by 120 basis points (bps).
- Key detractors included Champion Homes, Energy Recovery and Certara. Shake Shack was the top contributor.
- We opened new positions in LendingTree, Rigetti Computing and Quantum Computing Inc.

Market Background

US small-cap equities rallied in May as easing trade-war worries allayed fears of an economic downturn. However, they slightly trailed their large-cap counterparts amid uncertainty about the US fiscal outlook, as small caps are generally more domestically focused than large caps. The Russell 2500 index returned 6.0% in dollar terms.

Hopes that key trading partners could broker deals with the US were bolstered as the UK became the first country to do so early in the month. Markets were further cheered by mid-month news that the US and China agreed to reduce tariffs for 90 days – faster and more substantial progress than had been expected given President Trump's earlier rhetoric. Meanwhile, the US president's tour of the Middle East resulted in the announcement of multibillion dollar contracts related to defence, aviation and AI, which helped buoy company shares in these industries, while progress in taming inflation and generally strong corporate earnings underpinned US stocks more broadly. The rally faded later in the month, however, amid some mixed tariff and macroeconomic news: Moody's stripped the US of its triple-A credit rating due to the country's worsening fiscal outlook, and Trump threatened to impose 50% tariffs on European goods from June – although he then postponed this to July. Later, a US trade court ruled Donald Trump's sweeping "Liberation Day" reciprocal tariffs to be illegal, threatening to derail his trade agenda. However, the ruling was suspended by a federal appeals court the following day, with a date scheduled in early June for another hearing.

On the economic front, labour market data indicated a potential softening of recent tight conditions. Non-farm payrolls in April trailed March's three-month high but still came in far higher than expected; however, initial jobless claims rose above expectations in the penultimate week of the month, and outstanding claims rose to their highest level since November 2021. Inflation data was generally encouraging: the consumer price index showed annual inflation eased more than expected in April, reaching its lowest level since February 2021, while the core rate (which excludes food and energy prices) was unchanged at a four-year low. Producer price inflation also slowed, hitting its lowest annual rate since September 2024. A preliminary reading of the S&P Global US composite purchasing managers' index for May showed stronger

*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.)

expansion than in April, driven by an unexpected jump in services activity; however, growth remained soft compared with historical levels.

On the monetary-policy front, the Federal Reserve held rates steady at its meeting in early May, with chair Jerome Powell stating that the central bank is awaiting “further clarity on tariffs and their implications for the economy” before considering any adjustments to its policy stance. Powell noted that US economic resilience is allowing the Fed to be patient on rates. Markets reacted to his cautious messaging by scaling back expectations of future cuts this year from three to two 25-bp moves.

Ten of the eleven market sectors rose in May. Consumer discretionary led the pack, delivering a double-digit gain as worries about the economic outlook eased. Technology was next, aided by some upbeat earnings news from the sector. Industrials, energy and financials also outperformed the broad index. Healthcare was the only sector to fall, hurt by news of Trump’s executive order aimed at lowering prices for prescription drugs. Real estate, consumer staples and communication services were also material laggards; real estate suffered as market participants lowered their expectations for Fed interest-rate cuts.

Performance

Gross of fees, the fund returned 4.7%, underperforming the benchmark by 120 bps.

Stock selection drove the relative underperformance, particularly in consumer discretionary and healthcare, although picks in technology were beneficial. Allocation effects weighed modestly on performance in aggregate, in part due to the unhelpful overweight in consumer staples, although the lack of exposure to materials added value. The fund’s cash allocation also detracted in a strong month for small-cap equities.

At the stock level, Champion Homes was a key detractor after the firm’s fiscal fourth-quarter (Q4) 2025 results disappointed investors. Sales and earnings both came in short of analysts’ estimates, and operating profitability (the adjusted EBITDA margin) weakened year over year. Several analysts subsequently lowered their price targets for the stock. However, downward price pressure eased towards month-end after management announced it had raised its existing share repurchase programme by $50 million, bringing the total to $150 million.

Energy Recovery, a provider of industrial fluid flow solutions, was similarly hurt by disappointing results as Q1 earnings and revenue missed estimates by a meaningful margin. Management noted that revenue was in line with its own forecasts – with an increase expected in the latter part of the year – and that minimal “Megaprojects” revenue had been booked during the quarter, also as expected. More positively, the firm upgraded or maintained its full-year guidance for all metrics, with the exception of wastewater revenue, which was paused due to uncertainties around the impact of tariffs on China.

Healthcare company Certara – last month’s top contributor – also hindered relative performance in May. Shares in the company, which provides proprietary biosimulation software, technology and services to biotechnology firms, fell back from April’s eight-month high despite Certara’s Q1 2025 results beating estimates early in the month. Quarterly revenues picked up materially year on year, and the firm reported positive net income for the quarter after registering a net loss in Q1 2024. Management reaffirmed its full-year guidance and highlighted that the US Food and Drug Administration’s recent announcement regarding phasing out requirements for animal research is favourable for the company’s “Non-Animal Navigator” solution, which is designed to offer a software-based alternative to animal testing in pre-clinical trials.

More positively, restaurant chain Shake Shack was the top contributor. While the firm’s Q1 earnings and revenue were slightly weaker than expected, investors were reassured by a double-digit year-over-year increase in revenue and improved profitability, as well as by management’s plans to open around 50 new locations in 2025. In addition, management slightly cut the lower end of its full-year sales guidance but increased its restaurant-level profit margin guidance for the year and over the medium term.

Activity

We opened new positions in LendingTree, Rigetti Computing and Quantum Computing Inc.

LendingTree is a digital consumer finance marketplace that enables users to compare various financial products and loans, as well as to receive offers from multiple providers through a single platform. Recent stock moves imply investors are starting to anticipate a severe downturn in the mortgage market and a meaningful deterioration in credit. While a slowdown seems plausible, a severe credit cycle downturn seems less likely, and, in our opinion, the stock appears to have been overly penalised. We also believe that short-term declines in the insurance market due to regulatory changes should prove transient.

Rigetti Computing offers a comprehensive quantum computing platform as a cloud service directly to end users, as well as designing and building superconducting quantum computers – and the quantum processors that power them – at its own fabrication plant. Rigetti is well placed to benefit significantly from growth in supercomputing, so an uptick in user activity should support the firm's revenue and margins.

Quantum Computing Inc. (QCi) designs cutting-edge optical technology used for high-performance computing applications, remote sensing and imaging, and quantum cybersecurity. The technology has applications across a diverse range of industries, and, as in the case of Rigetti Computing, QCi is well placed to benefit from increased user activity and growth in supercomputing.

We also topped up our positions in Installed Business Products, Progyny, Champion Homes, nCino, Construction Partners and Liquidity Services.

Charles River Laboratories and HanesBrands were sold. Meanwhile, trims included ATI, Avista and Casella Waste Systems.

Outlook

The outlook for US risk assets has undeniably become more challenged in 2025. Economic fundamentals have remained firm for the year to date, despite a noticeable uptick in volatility and uncertainty around tariffs, immigration and other policies. The labour market continues to show resilience, with non-farm payrolls firmly in positive territory, unemployment remaining low, wages rising at a healthy clip and layoffs staying minimal. Consumer spending is also holding up, while inflation has plateaued close to the Fed's target.

Despite early – and broad-based – market weakness following the "Liberation Day" tariff announcements, US equity indices across the cap spectrum have almost fully recovered to the levels seen prior to the initial announcement. Headlines about trade negotiations – particularly with China – along with strong Q1 corporate results and robust economic data, have buoyed sentiment. However, there are still many unknowns, with the ever-changing policy landscape creating heightened uncertainty and making it exceptionally difficult to forecast either corporate or economic outcomes. Investors continue to debate the extent to which recent announcements are a negotiating ploy, and thus transitory, versus an effort by President Trump to rebalance trade relationships. With the effective tariff rate still set to rise dramatically, many believe we are yet to see the full economic impact of the administration's tariff policy in hard economic indicators.

In spite of recent market turbulence, Q1 earnings results have so far beat expectations in aggregate. The year-over-year earnings growth rate has exceeded consensus expectations, marking the second straight quarter where the market has achieved double-digit growth. However, while Q1 results have been unexpectedly strong, forward guidance has been fraught, with companies generally deciding to either lower forecasts to account for negative trade impacts or retract guidance altogether, citing heightened uncertainty and limited visibility into future operating environments.

Companies may respond to increasing tariffs in a number of ways to maintain profit margins, including a mixture of price rises, cost reductions and, ultimately, avoidance by reshoring manufacturing to the US. In the near term, with companies expected to pass through price increases, inflation is forecast to rise in lockstep as entire supply chains will be impacted. After the initial "Liberation Day" announcements, the market quickly moved to price in more rate cuts in the expectation that the Fed would have to ease its policy rate aggressively to support a faltering economy. The market has since pared back those expectations given the administration's openness to negotiation on tariffs. Fed Chair Jerome Powell has steadfastly stated that policymakers will exercise caution and not rush to ease rates.

Against this backdrop, we remain committed to our process, with a sharp focus on fundamentals and identifying and owning companies we believe can withstand this uncertainty and weather near-term headwinds.

12M Rolling Period Return in (USD) - as at 31 May 2025

Past performance does not predict future returns and future returns are not guaranteed.

	05/24-05/25	05/23-05/24	05/22-05/23	05/21-05/22	05/20-05/21	05/19-05/20	05/18-05/19	05/17-05/18	05/16-05/17	05/15-05/16
Fund (Gross) %	-2.51	20.71	0.99	-10.03	77.92	2.64	-1.75	12.51	22.03	-5.09
Index (Gross) %	3.49	21.70	-5.34	-11.62	60.45	-0.80	-4.29	16.69	17.16	-0.42

Source: Columbia Threadneedle Investments as at 31/05/2025. 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 23 October 2018 is from the American Smaller Companies Fund (a UK authorised UCITS fund launched on 14 November 1997), which merged into this Fund on 24 November 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.

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.