FUND COMMENTARY – Q1 2025

CT (Lux) American Smaller Companies

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Since: 01/02/2024

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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 -7.5% in US dollars in the first quarter (Q1).
- Gross of fees, the fund returned -12.9%, underperforming its benchmark by 585 basis points (bps).
- Detractors included Victora's Secret, SiTime and HanesBrands. The holding in Radius Recycling added value.
- New positions included Charles River Laboratories, Chart Industries, Gildan Activewear, CCC Intelligent Solutions and Ollie's Bargain Outlet.

Market Background

US small-cap equities declined in Q1 2025 and underperformed their large-cap counterparts. The fund's benchmark, the Russell 2500 index, returned -7.5%, while the S&P 500 index returned -4.3%. Small caps tend to be domestically focused so were less impacted by concerns about the effect of new US trade tariffs and retaliatory levies on firms' overseas revenues than large caps, but other tariff-related worries, such as resurgent inflation and the outlook for domestic growth, weighed on the asset class.

In Q1, the key market drivers for US stocks were President Trump's executive orders, tariff announcements and the shifting geopolitical landscape – all of which contributed to heightened uncertainty and, in turn, market volatility. A solid Q4 earnings season and robust early economic data initially supported risk appetite, but sentiment towards large-cap AI-related stocks was dented by the launch of a new low-cost AI model by Chinese start-up DeepSeek. As the quarter wore on, concerns that the impact of tariffs could derail global trade and economic growth – as well as push up inflation – pressured US stocks, particularly considering some weaker economic data and signs of sticky inflation. This drove investors to rotate out of growth names in favour of value and defensive stocks. Cautious central-bank commentary, given heightened macroeconomic uncertainty, was an additional headwind for the asset class.

US equities kicked off the year in a solid fashion, and small caps outperformed large caps in January. Optimism about a pro-growth agenda from President Trump – who assumed office mid-January – initially overcame concerns about much-touted tariffs, while positive sentiment was bolstered by a strong start to the Q4 2024 corporate earnings season and ongoing robust economic data. However, investors began to question some firms' large AI-related capital spending commitments after DeepSeek unveiled a new low-cost AI model in January. US equities continued to march higher over much of February despite Trump issuing executive orders to impose new tariffs. Sentiment was later undermined by signs of sticky inflation and hawkishness on rate cuts from the Federal Reserve, which saw investors moderate expectations around monetary-policy easing. A sharp sell-off began in late February, led by tech names as AI optimism faltered; the apparent collapse of a potential US-Ukraine minerals deal following an Oval Office clash between the two countries' leaders weighed on

*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.)

sentiment as well. Stocks continued to decline over the remainder of the quarter following the introduction of further aggressive US trade tariffs by President Trump, which clouded the outlook for growth. With the new levies expected to drive prices higher, concerns about potential “stagflation” – an environment of low growth, rising unemployment and high inflation – arose towards the end of the quarter.

On the economic front, Bureau of Economic Analysis data showed that US GDP grew 2.4% year on year in Q4 2024, down from 3.1% in Q3 and the lowest growth in three quarters. On the labour front, non-farm payrolls missed forecasts in January and February, but unemployment and weekly jobless claims remained low, providing reassurance that the employment market remains healthy. Annual consumer price index inflation and core inflation rose unexpectedly in January, but both eased more than expected in February; however, the Fed’s preferred measure, core PCE inflation, rose above forecasts in February, exacerbating concerns about sticky inflation. Elsewhere, retail sales missed forecasts over the period – particularly in January amid the impact of wildfires in Los Angeles – and consumer sentiment declined over the quarter, reaching its lowest level since November 2022. Meanwhile, a widely watched gauge of business activity showed growth slowing as services activity eased to a 15-month low, albeit while remaining in expansionary territory. However, preliminary data for March showed a rebound in activity.

The Fed held rates steady at its January and March meetings. Accompanying commentary stressed that policymakers are not “in a hurry” to cut rates. Officials cited uncertainty around tariffs and immigration policy as reasons for caution; nevertheless, by the end of the quarter, the central bank still indicated that two further rate cuts are likely by the end of the year. In March, Fed officials also lowered their forecast for growth versus December’s projection, while unemployment and inflation forecasts were raised slightly.

All but one of the eleven benchmark sectors declined in Q1. The exception was utilities, which rose strongly amid the rotation to defensive areas of the market. Consumer staples, real estate and energy were also relatively robust, posting only modest losses, while financials, communication services and materials fell further but outperformed the wider market. At the other end, technology was weakest, falling almost 17% amid waning AI enthusiasm. Meanwhile, consumer discretionary and industrials fell by around 10% to 12%, impacted by growing fears of a possible recession.

Performance

Gross of fees, the fund returned -12.9% during the quarter, underperforming the benchmark Russell 2500 index by 585 bps. The relative underperformance was due to unfavourable selection effects, particularly in the healthcare, consumer discretionary and technology sectors. However, choices in materials were beneficial. Sector allocation had little impact in aggregate, with contributions from the overweights in utilities and consumer staples offset by unhelpful positioning elsewhere, including the underweight in financials and our change of positioning in energy (we started the quarter overweight but ended underweight).

At the stock level, key detractors included lingerie maker Victoria’s Secret. The lingerie maker reported better-than-expected Q4 2024 revenue and earnings. However, the shares fell after the firm’s forward guidance was softer than forecast, in part due to the potential impact of US tariffs on China. News that the company’s current CFO is planning to retire in June 2025 also weighed on the shares. We subsequently sold out of the stock.

Precision timing solutions firm SiTime was another detractor. SiTime reported a strong Q4: earnings and revenues were comfortably ahead of expectations for the quarter and more than doubled year on year. However, investors were disappointed by the firm’s Q1 2025 revenue and earnings guidance, which predicted a decline versus its Q4 2024 results. Management attributed the guidance to revenue seasonality and higher costs associated with increasing output of new products. In addition, the stock rallied partially towards the end of the quarter amid reports that SiTime components are being used in the new iPhone.

Clothing firm HanesBrands also weighed on relative performance. Shares fell sharply in response to the firm’s Q4 results and the announcement that incumbent CEO Steve Bratspies will leave his role by the end of this year. While quarterly earnings came in ahead of analysts’ estimates, revenues missed expectations, and management’s Q1 2025 guidance fell short of expectations for both revenue and earnings. In the Q4 earnings call, management said the firm entered 2025 “as a new company”, having executed its transformation strategy to simplify the business, and is therefore now seeking the “next leader” to build upon this momentum.

On the other side, Radius Recycling was the top contributor over the quarter. Shares rose on news of a $1.34 billion takeover by Toyota Tsusho – a premium of around 115% compared to where the stock was trading on the day prior to the announcement. Management states that it anticipates that Radius will benefit from Toyota Tsusho’s “financial strength, recycling technology, and experience in providing recycling services to the automotive sector”. The transaction is expected to complete in the second half of 2025.

Activity

New positions included Charles River Laboratories, Chart Industries, Gildan Activewear, CCC Intelligent Solutions and Ollie's Bargain Outlet.

Charles River Laboratories is a global full-service contract research organisation (CRO) that provides an array of preclinical development services to support the biopharmaceutical industry. Over the last decade, Charles River has transformed itself from a tiny animal-model supplier into the world's leading preclinical CRO. It accomplished this with a disciplined M&A strategy, focusing on high-growth areas that support biotech innovation. The company is now benefiting from these actions; however, sentiment has recently turned bearish amid weaker underlying demand. We believe this has created an attractive entry point, with the stock trading at low levels. Factoring in cost savings and operating leverage, Charles River is well positioned for growth and earnings generation over the long term.

Chart Industries designs and manufactures highly engineered cryogenic equipment for use across the entire liquid gas supply chain. Essentially, the company offers a turnkey solution, which takes the gas, liquefies it and then stores it; Chart is one of the only operators to offer this capability. Since 2018, management has been positioning the business to be less cyclical by building up the highly profitable aftermarket services business, which is more recurring in nature. The stock price pulled back following the acquisition of Howden (an air and gas handling business) owing to the increase in leverage, and the valuation looks attractive. The acquired business is both potentially beneficial for margins and less cyclical than Chart's, and management has done well in integrating Howden and realising synergies. The company should also be able to pay down its debt with the free cash flow generated. In addition, Chart has a significant commercial growth pipeline, particularly with products related to liquified natural gas and hydrogen and carbon capture, and management is optimistic about the firm's growth outlook over the coming years.

Gildan Activewear is a manufacturer and marketer of high-quality branded activewear for wholesale and retail markets. Following a period of governance challenges, Gildan has turned its financial performance around and continues to illustrate healthy business trends, with its focus on an industry-leading cost structure proving to be a material advantage. This, along with an increase in capacity, should help to support earnings this year. In addition to its low-cost structure, we believe that Gildan's material runway for growth, difficult-to-replicate assets, and consistent margin and free-cash-flow progression make it an attractive name.

CCC Intelligent Solutions is a software-as-a-service (SaaS) company that provides a mission-critical workflow platform to the automotive claims segment of the insurance industry. As the dominant SaaS platform for the auto property and casualty insurance and collision insurance markets, the company is well placed to benefit from accelerating digital investment by insurance carriers and repair facilities that are seeking to reduce the automotive claims cycle timeline. Emerging solutions related to diagnostics, estimates, subrogation and payments could help CCC Intelligent Solutions to grow its products' network effects and sustain healthy upselling and cross-selling, which it has a proven track record of achieving. The company's steady longer-term customer base and software subscription model should support profit-margin expansion as sales grow. The stock's valuation is also attractive relative to its peers.

Ollie's Bargain Outlet is a discount retailer that offers merchandise across a variety of brands and categories, including housewares, food, books, floor coverings, electronics and toys. The firm's value-oriented business model means it is well positioned to benefit in an uncertain consumer spending environment. In addition, the company's competitive position stands to benefit as its competitors close operations, leaving Ollie's with improved choice over the discounted merchandise it offers. Ollie's pipeline for store openings also appears robust and highly visible, with management recently expressing confidence in the company's long-term growth algorithm after acquiring units from a competitor. Increasing scale also has the potential to lead to improved purchasing power with vendors. In addition, the company has a strong balance sheet, with plenty of cash and very little debt, so it is well placed to return capital to shareholders via a share buyback programme.

We also opened positions in Life Time Group (health and wellness experiences), nVent (electrical connection and protection solutions), Progyny (fertility solutions), Dun & Bradstreet (data analytics and insights), Enerpac (industrial tools and services), Installed Building Products (residential insulation installer), Annexon (biotechnology), SkyWater Technology (semiconductor manufacturing) and Serve Robotics (delivery robots).

We also added to our existing positions in Chefs' Warehouse, Shake Shack and Cirrus Logic, among others.

As well as Victoria's Secret, we exited Beacon Roofing Supply, NOV, BILL, Celsius Holdings, ICF International, Bumble, MarketAxess, IonQ, Generac, Albemarle, Arcus Biosciences, Peloton Interactive, Acadia Pharmaceuticals, Latham Group and Cullinan Therapeutics. Trims included Globe Life, Carriage Services and Altimmune.

Outlook

The outlook for US risk assets has undeniably become more challenged in 2025. For Q1, economic fundamentals remained strong despite a noticeable uptick in volatility and uncertainty around tariffs, immigration and other policies. Job growth accelerated, with non-farm payrolls rising, unemployment remaining low, wages rising at a healthy clip and layoffs staying minimal. Consumer spending also proved resilient, while inflation cooled and plateaued close to the Fed’s target. That was before President Trump announced his long-anticipated “reciprocal” tariff policy, consisting of a baseline rate of 10% incremental tariffs on all countries, with higher rates on about 60 “worst offenders” – countries Trump’s administration identified as operating unfair trade policies against the US.

The announcement is the largest tariff increase since 1930 and perhaps the largest single tax increase of any kind in recent history. This is worse than investors had feared, with the rates announced higher than what most in the market were anticipating, having underestimated the potential for Trump to follow through on his threats. US equity markets, alongside other regional equity markets, have since sold off, with questions remaining about how durable these tariffs will be and the likelihood of retaliation from other governments around the world, particularly China. Talk of legal challenges and relief for certain products abounds, but, with tariffs already going into effect, we have to deal with the situation as it currently stands.

The effective tariff rate is set to rise dramatically, and if these rates are sustained for much of this year, they are high enough to sharply lower the growth outlook, significantly increase the odds of a recession and, from a revenue perspective, to make a major dent in the deficit. Companies may respond in a number of ways to protect 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. Consequently, the market has quickly increased its expectations for interest-rate cuts this year, although Fed Chair Jerome Powell has steadfastly stated that policymakers will exercise caution and not rush to ease rates. Should tariffs remain at these levels, we expect business and consumer confidence to stay low, earnings estimates to be reduced further and the market to continue to grind lower.

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 March 2025

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

	03/24-03/25	03/23-03/24	03/22-03/23	03/21-03/22	03/20-03/21	03/19-03/20	03/18-03/19	03/17-03/18	03/16-03/17	03/15-03/16
Fund (Gross) %	-4.39	17.10	-6.67	2.99	110.60	-17.88	6.61	9.04	23.88	-7.41
Index (Gross) %	-3.11	21.43	-10.39	0.34	89.40	-22.47	4.48	11.57	20.92	-3.60

Source: Columbia Threadneedle Investments as at 31/03/2025. 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.

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