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 – Q1 2025

CT (Lux) European Social Bond

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Fund Manager
Since: 30/06/2022

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: 50% ICE BofA Euro Non-Sovereign Index, 50% ICE BofA Euro Corporate Euroland Issuers Index

Inception Date: 23/05/2017

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 9*

Summary

- Euro investment-grade (IG) credit indices were little changed in Q1.
- Gross of fees, the fund underperformed its benchmark.

Market Background

As measured by the fund's benchmark, Euro investment-grade (IG) credit indices were little changed over the first quarter (Q1), as a rise in underlying German Bund yields was offset by coupon income and tighter credit spreads. Spreads in the benchmark tightened by 9 basis points in Q1.

Bund yields were reasonably stable in January and February, supported by progress on the inflation front and anticipation of interest-rate cuts. Annualised consumer inflation in the eurozone slowed to 2.3% in February, not too far above the European Central Bank's 2% target. The ECB lowered rates by 25 basis points in January and March.

Bund yields soared in early March following the federal election in Germany. The results largely matched forecasts, with the conservative CDU/CSU taking the largest share of the vote. Parties subsequently agreed to create a €500 billion infrastructure fund and amend the country's constitutional 'debt brake' in order to allow greater defence spending amid fears about the potential withdrawal of US military support.

Separately, and around the same time, EU leaders agreed an €800 billion plan to bolster defence capabilities across the bloc's member states. The realisation that such an abrupt shift in fiscal policy would likely result in higher structural deficits across Europe led to a jump in longer-dated yields. Shorter-dated yields rose by a smaller amount amid concerns about the near-term economic outlook due to uncertainty around the impact of US tariffs. These fears grew as the quarter drew to a close ahead of Trump's so-called 'Liberation Day' of sweeping 'reciprocal tariffs'.

Worries about the impact to growth from a potential trade war resulted in Bunds recouping some earlier losses amid a rush to safe havens, while risk assets sold off. Euro IG spreads widened in this environment, though they had previously tightened amid optimism over the planned surge in fiscal spending in Germany and some encouraging data on the eurozone economy. For instance, the eurozone composite Purchasing Managers' Index (PMI) edged into expansionary territory in January, led by the services sector. A flash estimate showed that manufacturing output also improved in March, following a lengthy period of contraction.

In ESG news, in January the European Commission unveiled its 'Competitiveness Compass' roadmap, aimed at increasing the EU's business competitiveness while the region continues its transition to net zero. As well as initiatives to bolster innovation, productivity and access to clean, affordable energy, the roadmap also highlighted the need to ease the burden of ESG reporting, particularly on SMEs. In February, the Commission published the first of its 'Omnibus' packages, aimed at simplifying sustainable finance reporting, sustainability due diligence and taxonomy.

*The Fund has a sustainable investment objective and is categorised as Article 9 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.)

A big story over the past year has been the retreat of high-profile US financial firms from ESG initiatives, such as the Climate Action 100+ (CA100+) scheme. Nevertheless, in February, a coalition of 26 financial companies with combined funds of $1.5 trillion released the Asset Owner Statement on Climate Stewardship, calling on asset managers “to develop and evidence a robust stewardship strategy that addresses the urgency of action needed on climate-related risks”. The People’s Pension, one of the UK’s largest pension funds, later withdrew £28 billion that had been managed by State Street – which left CA100+ last year – in favour of more ESG-focused mandates.

The Republican-led anti-ESG agenda in the US has caused a significant decline in labelled bond issuance from US-based companies. Since Trump’s return to the White House, new issuance has plummeted; according to Bloomberg, labelled bonds from US corporations and financial institutions are down around 89% from last year. However, early indications suggest that issuers are continuing to spend proceeds on environmental projects, but not outwardly calling the bonds ‘green’. The same is not true in Europe, where labelled bond issuance is keeping pace with 2024’s stellar issuance levels.

Performance

The fund returned -0.15% in gross terms in Q1, versus 0.02% from the blended benchmark index. Allocation effects were broadly neutral for relative performance, while industry positioning detracted modestly, with the overweight in real estate proving disadvantageous. Credit selection was also detrimental in aggregate. Issuer-level detractors included NatWest and vehicle-leasing charity Motability (financial services) and KBC Group (banking). Contributors included Praemia Healthcare (real estate), Wellcome Trust (services) and Air Liquide (basic materials).

Duration (interest-rate sensitivity) had a positive impact on relative returns over the quarter, while curve positioning detracted slightly from relative performance, particularly in the 1-5-year segment.

On the social side, the fund’s average social intensity score ended Q1 at 20.4 (out of a maximum 31), with the proportion of the fund invested in category A impact investments at 44%. The proportion of the fund in bonds of the lowest social intensity (C3 and C4) is at 8%. 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 7 (Affordable and Clean Energy), goal 3 (Good Health and Well-Being) and goal 8 (Decent Work and Economic Growth).

Activity

We took part in a range of new issues in a busy quarter for the primary market. These included social bonds from Council of Europe Development Bank, French public-sector investment bank Bpifrance, the aforementioned Motability and Italy’s Banco BPM. Banco BPM’s offering, a covered bond, brought the total amount issued under the bank’s Green, Social and Sustainability Bonds Framework to €7 billion. The proceeds will be mainly used to refinance residential mortgages granted to disadvantaged people.

Still within the primary market, we purchased new green bonds from Italian insurer Generali, French national rail operator SNCF, grid operator Stedin, French regional transport authority Île-de-France Mobilités, commercial property firm Sagax and banking groups Swedbank, Commerzbank, and ABN AMRO. The latter’s issue was the first by any financial institution to adhere to the EU Green Bond Standard, a voluntary code introduced by the European Commission in December 2024 with the aim of fostering “consistency and comparability in the green bond market and [reducing] the risk of greenwashing”. In addition, we purchased sustainability bonds from the European Investment Bank and the Île-de-France regional authority, as well as 2030 and 2037 general corporate purpose bonds from Polish development bank BGK.

We were also active in the secondary market, establishing positions in Rentenbank and green bonds from utility Alliander. We also added to our existing holdings in Wellcome Trust, telco Orange, educational publishing firm Pearson, Dutch financial services company NN and property groups Digital Realty (datacentres) and P3 (logistics warehouses).

On the sales side, we exited Cadent Gas and Nationwide Building Society. Trims included the aforementioned Motability, along with banking groups Intesa Sanpaolo and BFCM; insurer Bupa, Inter-American Development Bank, and the utility company E.ON.

Outlook

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

At time of writing (in the second week of April), euro IG spreads have widened significantly since quarter end, pricing in at least some of the bad news, though they remain expensive relative to historic averages. That said, 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, our outlook for euro IG spreads remains fairly neutral.

12M Rolling Period Return in (EUR) - 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
Fund (Gross) %	3.55	6.64	-8.52	-5.88	6.10	-0.80	2.22
Index (Gross) %	3.91	6.18	-8.41	-5.75	6.50	-1.78	2.35

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.

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 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 aims to invest in assets that are deemed to be supporting and funding socially beneficial activities and development and utilises a Social Rating 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 fund may exhibit significant price volatility.

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

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