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 – Q3 2025

CT (Lux) Japan Equities

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*

Summary

- The MSCI Japan index rose 10.6% in yen terms over the quarter.
- Gross of fees, the fund trailed its benchmark.
- New positions included Taisei, Toyota Tsusho and NEC
- Sales included Mitsubishi Logistics, Toppan and Daiichi Sankyo.

Market Background

Japanese equities rallied strongly in the third quarter (Q3), bolstered by global and local developments. The MSCI Japan index returned 10.6% for Q3 in yen terms, though currency moves meant the index returned 8.2% in US dollars. Energy and utilities were the top-performing sectors, followed by financials, which had a much bigger impact given its large weighting in the index. Consumer staples and healthcare were notable laggards.

Globally, equities were supported by easing trade-war fears and anticipation that the US Federal Reserve would soon resume its monetary easing cycle. On the tariff front, the US struck deals with key trading partners, including Japan, and agreed an extension of its truce with China, thereby deferring massive bilateral duties until November. Japan's deal reduces import tariffs from 25% (or 27.5% for autos) to 15%. In the US, weak jobs data and dovish Fed commentary reinforced expectations for an interest rate cut in September – which duly transpired – and two more before the end of this year. Robust US corporate earnings and a resurgence in AI enthusiasm provided more fuel for the risk-on rally.

There was also some good news on the Japanese economy. GDP grew more than expected in Q2, helped by surprisingly strong personal consumption. According to the Cabinet Office, the economy expanded by 2.2% (annualised) versus Q1, while the Q1 figure was revised up from a contraction of -0.2% to growth of 0.6%. Despite the impact of tariffs, there were signs, too, that the economy held up relatively well in Q3. The composite purchasing managers' index continued to indicate solid growth in services, more than offsetting a contraction in manufacturing.

The Bank of Japan kept rates on hold at 0.5% at both its policy meetings during Q3. The September meeting was seen as surprisingly hawkish. Two policymakers voted for a hike, and the BoJ unexpectedly announced it was to start selling down its holdings of exchange-traded funds and real estate investment trusts. Shortly before the rate decision, Japan's Statistics Bureau reported that core inflation (which strips out fresh food) had fallen below the 3% mark for the first time in nine months, though at 2.7%, it remained well above the central bank's 2% target.

The period was marked by political uncertainty as the ruling Liberal Democratic Party lost its majority in July's upper house election. Prime Minister Shigeru Ishiba faced growing calls to resign, and he duly stepped down in September. Over the remainder of the quarter, speculation that his successor might favour more fiscally expansive policies weighed on the yen and supported equities.

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*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 but trailed the index, hampered by its bias towards high-quality stocks – which significantly underperformed the broader market. At the sector level, industrials, communication services and technology were the main (and the only significant) detractors. In each case, this was driven by selection effects. Conversely, stock picks in consumer discretionary were strongly positive and an overweight in the sector added value modestly. Being underweight in consumer staples and healthcare also helped relative performance.

The main relative detractor at the stock-level was the lack of exposure to technology holding company SoftBank. The shares rallied strongly after the company announced better-than-forecast profits for its fiscal Q1, driven by a rise in the value of its flagship Vision Fund.

Of stocks held, negative contributors included commercial shutter supplier Sanwa and Tokyo Electron, which makes semiconductor manufacturing equipment.

Sanwa's Q1 net sales were down, though operating profit fell only marginally as the firm was able to pass price increases through to domestic customers. Tokyo Electron cut guidance in August, citing changes to the substance and timing of customer investment plans. The company still expects growth in 2026 and is confident in medium-term prospects, while fundamentals remain sound. As the shares fell 15% from our recent purchase price, we subsequently reduced the position, adhering to our disciplined stop-loss protocol.

Top contributors included Sumitomo Electric Industries, a wire and fibre-optic cable manufacturer, Niterra, a leading supplier of spark plugs and sensors for the automotive industry, and PAL Group, the clothing retailer.

Sumitomo Electric Industries benefited from renewed AI optimism during the quarter, as the growth in advanced datacentres augurs well for fibre-optic cable demand. Shares of Niterra rose after news of its acquisition of Denso's spark plug and exhaust gas sensor business was positively received. The deal should further bolster Niterra's potential for revenue growth as the business looks to increase the efficiency and performance of modern engines. PAL's shares rose sharply after the company revealed a year-on-year jump in operating profits, aided by a near 16% increase in online sales and an improved freight-cost-to sales ratio.

Activity

New additions to the fund over the quarter included Taisei Corporation, Toyota Tsusho, NEC, Subaru, Modec, Sanki Engineering and Sumitomo Metal Mining.

Taisei is a construction company with established civil engineering dominance and above-industry margins that we expect to strengthen further. A domestic operator, Taisei provides stable cash generation, while its deep project backlog ensures revenue visibility.

Toyota Tsusho is Toyota Group's general trading company and stands to benefit from its parent's strategic shift toward a value chain model. Toyota Tsusho's dominant presence in Africa, planned share buyback, and strategic investments in components for electric vehicles create multiple avenues for enhanced shareholder value in our view.

We are constructive on IT service-provider NEC due its shift to margin-focused management, which we expect to drive substantial profit expansion. With thriving domestic services, recovering international operations and a capacity-constrained defence business, NEC is well positioned for sustained earnings growth and enhanced shareholder returns in its upcoming medium-term plan.

Carmaker Subaru enjoys strong brand loyalty and a reputation for technical expertise, reliability and affordability. Its disciplined production strategy prioritises margins over volumes. Our conviction is strengthened by the firm's healthy balance sheet and shareholder-friendly capital return policy.

Modec is an offshore gas and drilling business. It maintains stability through a fabless model featuring EPC (engineering, procurement and construction) and O & M (operation and maintenance) services that insulate it from commodity price swings. Long-term contracts ensure predictable cashflows despite current volatility, while limited competition creates a favourable market position.

Sanki Engineering is a capital-light subcontractor mainly engaged in the fields of HVAC (heating, ventilation and air conditioning), electrical and security systems for commercial buildings. It offers stable operations with strengthening tailwinds; multi-year demand visibility stems from Japan's aging infrastructure replacement needs and labour shortages that enable sustainable price increases, positioning the company for improved profitability.

As well as extracting and refining metals, Sumitomo Metal Mining produces advanced materials, notably for use in rechargeable batteries. The company offers exposure to metals that benefit from strong secular demand

alongside a growing resource pipeline and mine/project participation, which we expect to support earnings. We see further opportunity around its gold mining asset, which is not marked to market.

As well as the reduction in Tokyo Electron outlined earlier, we closed positions in Mitsubishi Logistics, Toppan, Daiichi Sankyo, Suntory Beverage & Food, SWCC and Sangetsu.

Despite an adequate mid-term plan, Mitsubishi Logistics faces underperforming overseas operations and projected earnings weakness for several quarters. Its excessively conservative balance-sheet management remains disappointing, with underwhelming improvement initiatives; new subsidiaries have been struggling, and overall momentum is sluggish. We therefore felt the funds would be better reallocated elsewhere.

Printing company Toppan's disappointing Q1 performance suggests a delayed recovery in earnings; accordingly, alternatives like Inpex and Subaru now offer substantially better risk/reward profiles for capital redeployment.

We had been gradually reducing the position in pharmaceutical company Daiichi Sankyo since late 2024, prompted by its declining valuation metrics and weakening momentum indicators within our quantitative assessment framework.

For Suntory, we felt that the stock had limited return potential due to constraints on the company's capital allocation policy.

SWCC's weak Q1 results revealed concerning project management deficiencies, casting doubt on the wire and cable manufacturer's potential for a near-term earnings recovery, while its low quantitative metrics further diminished its investment appeal.

Lastly, we think the recent change in Sangetsu's management is likely to weigh on growth in the short term.

Outlook

We believe Japan's economy will be underpinned by reflationary dynamics, rising wages, improved corporate governance, and an uptick in M&A activity.

After decades of deflation that crippled Japan's economic growth, moderate inflation is now viewed as beneficial. Rising prices are resulting in a positive economic cycle by motivating Japanese corporations to pursue growth-oriented investments and improve capital efficiency – breaking the cautious, cash-hoarding behaviour that previously hindered expansion and productivity improvements.

Unlike in previous cycles, earnings growth from domestically oriented companies is also expected to contribute meaningfully to equity market performance. While the recent rally in Japanese stocks has pushed valuations above their historic averages, they remain attractive compared to global peers, particularly when measured on a price-to-book basis.

Markets welcomed the progressive US-Japan tariff negotiations, with Japan securing a significant reduction in automotive tariffs. While several key areas remain under discussion, we expect bilateral negotiations to continue.

Yen strength may materialise if the Fed implements further rate cuts, while tightening Fed policy could drive yen weakness due to widening interest-rate differentials. Currency movements create sector-specific effects: a weaker yen should benefit export-oriented industries and pressure domestic businesses, while yen appreciation typically has the opposite effect.

The long-term investment case for Japanese equities remains compelling: the country has evolved from its 1980s model – characterised by aggressive market-share expansion, low margins and high capital expenditure – towards one centred on capital efficiency and return-focused management. As a result, Japanese corporates are now structurally stronger and more disciplined than in past decades, in our view.

12M Rolling Period Return in (JPY) - as at 30 September 2025

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

	09/24-09/25
Fund (Gross) %	21.23
Index (Gross) %	20.57

Source: Columbia Threadneedle Investments as at 30/09/2025. 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.

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