

Thornburg International Equity Strategy

Portfolio Manager Commentary

31 March 2022



Market Review

- The 1st quarter was a losing one for international markets, with the MSCI ACWI ex USA Index down 5.33% and the MSCI EAFE Index down 5.91%. Emerging Markets lost 6.97% led by China, which was down 14.19% (MSCI Emerging Markets and MSCI China Indices).
- It was a quarter with a lot of macro crosswinds that impacted market performance and caused large dispersions in country and sector performance. The biggest macro drivers in the quarter were the war in Ukraine, the beginning of Fed tightening, and the continued rise in U.S. interest rates, with the 10-year Treasury yield rising 83 basis points and the 2-year yield rising 160 basis points - both ended the quarter at 2.34%. The yield curve is now flat from 2's to 10's, with an inverted yield curve traditionally seen as an indicator of a slowing economy.
- Given the impact of the war and the rise in interest rates Energy, Materials, and Financials outperformed while MSCI ACWI ex USA Value outperformed Growth by 11.0% in the 1st quarter. Among major markets the Eurozone and China underperformed while the UK, Canada, Brazil, Australia and most oil producers (excluding Russia) outperformed. The U.S. (S&P 500) lost 4.6% and Russia was removed from MSCI Indices during the quarter.

Global macro crosswinds led to a difficult 1st quarter, but will ultimately create interesting valuation opportunities, particularly in international markets.

Portfolio Managers

Matt Burdett
Portfolio Manager

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Supported by the entire Thornburg investment team

Annualized Returns (% , as of 31 Mar 2022)

In US\$ terms. Returns may increase or decrease as a result of currency fluctuations.

	QTR	YTD	1-YR	3-YR	5-YR	10-YR
International Equity Composite (NET)	-10.71	-10.71	-7.66	9.81	7.65	6.32
International Equity Composite (GROSS)	-10.54	-10.54	-6.97	10.62	8.44	7.05
MSCI ACWI ex US NTR	-5.33	-5.33	-1.33	7.57	6.80	5.57
MSCI EAFE NTR	-5.91	-5.91	1.16	7.78	6.72	6.27

Annual Return Performance Summary (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
International Equity Composite (NET)	16.26	16.09	-5.22	6.15	-2.16	25.68	-19.70	29.38	23.01	7.82
International Equity Composite (GROSS)	16.97	16.80	-4.62	6.87	-1.48	26.55	-19.11	30.32	23.92	8.62
MSCI ACWI ex US NTR	16.83	15.29	-3.87	-5.66	4.50	27.19	-14.20	21.51	10.65	7.87
MSCI EAFE NTR	17.32	22.78	-4.91	-0.81	1.00	25.03	-13.79	22.01	7.82	11.26

Periods less than one year are not annualized.

Performance data for the International Equity Strategy is from the International Equity Composite, inception date of 1 June 1998. The International Equity Composite includes discretionary accounts invested in the International Equity Strategy, with the exception of accounts in which currency hedging is not allowed. Returns are calculated using a time-weighted and asset-weighted calculation including reinvestment of dividends and income. Periods less than one year are not annualized. Individual account performance will vary. The performance data quoted represents past performance; it does not guarantee future results. Gross of fee returns are net of transaction costs. Net of fee returns are net of transaction costs and investment advisory fees. For periods prior to 2011, net returns for some accounts in the composite also reflect the deduction of administrative expenses. Thornburg Investment Management Inc.'s fee schedule is detailed in Part 2A of its ADV brochure. Performance results of the firm's clients will be reduced by the firm's management fees. For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual management fee of 0.75%, this increase would be 142%.

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First-Quarter 2022 Performance Highlights

- The 1st quarter was not a good one for performance with the strategy losing 10.71% (net of fees), 538 basis points behind the MSCI ACWI ex USA Index and 480 basis points behind the MSCI EAFE Index.
- As noted above macro factors drove a wide dispersion in performance between countries and sectors in the 1st quarter, not unlike the pandemic in the 1st quarter of 2020, and in many cases that dispersion negatively impacted the strategy's relative performance. For the strategy the two biggest drivers of underperformance were country allocation and bottom-up stock selection.
- The strategy was underweight the UK and Canada and zero weight Brazil, Australia, and Saudi Arabia/UAE/Qatar/Kuwait, all of which outperformed, and overweight the Eurozone and China, both of which underperformed. A zero weight in Russia was a big positive.
- On a sector basis the strategy was underweight Energy, Materials and Financials, which outperformed, and overweight Industrials and Information Technology, which underperformed. An average 5% in Cash was a positive.
- Most of the strategy's underperformance in stock selection occurred in the strategy's Basic Value basket, to which we had an average 50% allocation during the quarter. Many of our Basic Value stocks are higher quality (more consistent earnings or profitability, lower leverage, usually higher valuations) and they underperformed during a quarter where Value outperformed by 11%. We were underweight Emerging Franchise (about 9%) in a quarter where Growth underperformed, but many of those stocks also performed poorly. Our Consistent Earners (36%) did relatively well and a 5% allocation to Cash also helped.

Current Positioning and Outlook

During the quarter we trimmed Basic Value and Emerging Franchise exposure modestly, adding to Consistent Earner and Cash. Basic Value ended the quarter at 47%, Consistent Earner 39%, Emerging Franchise 7% and Cash 7%. While we view China as relatively cheap after a 43% decline since its peak in February of last year, we are cautious there for the moment given the potential economic and political impacts of an ongoing COVID outbreak, the conflict in Ukraine, and an ongoing dispute with the U.S. over the listing of Chinese companies there and have cut our exposure by about 3.5% to near index weight.

As we said last quarter, we continue to favor slightly more "boring" companies with pricing power, more consistent earnings and profitability, or discounted stocks with attractive valuations and rerating potential. A number of those names were good relative performers for the strategy in the 1st quarter. While we thought international equities began the year cheap to the U.S. given nearly 15 years of U.S. outperformance, relative valuations only got cheaper in the 1st

Top Performers (1Q22)

(Representative Account)

Name	Contrib. (%)	Avg. Weight (%)
Mitsubishi UFJ Financial Group, Inc.	0.36	3.06
Canadian Pacific Railway Ltd.	0.35	2.31
AstraZeneca PLC	0.32	1.98
Nintendo Co., Ltd.	0.14	1.82
Orange	0.12	1.35

Top Detractors (1Q22)

(Representative Account)

Name	Contrib. (%)	Avg. Weight (%)
ING Groep N.V.	-0.65	2.43
Infineon Technologies AG	-0.60	2.23
Shopify Inc.	-0.58	0.78
Recruit Holdings Co., Ltd.	-0.57	1.95
NIO	-0.53	0.64

Past performance does not guarantee future results. To obtain the calculation methodology and a list showing the contribution of each holding in the representative account to the overall account's performance during the reporting period, please email a request to bdg@thornburg.com. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients.

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quarter given the conflict in Ukraine, with the relationship between 12-month forward P/E ratios on the S&P 500 and the MSCI ACWI ex USA Index now 2.2 standard deviations cheap to its 15-year average. We note that the Eurozone and China in particular got cheaper during the quarter with the Eurozone likely on hold given the economic impacts of the conflict and China likely to ease monetary, fiscal and regulatory policy while the U.S. has just begun to tighten. None of this is a call for a market turn just yet and we are still cautious, but it might be a call for investors who remain underweight International vs. the U.S. to reexamine their positioning.

Important Information

The performance data quoted represents past performance; it does not guarantee future results.

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CBOE Volatility Index (VIX Index) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 Index options. This volatility is meant to be forward looking and is calculated from both calls and puts.

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The MSCI ACWI ex USA Net Total Return USD Index is a market capitalization weighted index representative of the market structure of 46 developed and emerging market countries in North and South America, Europe, Africa, the Middle East, and the Pacific Rim, excluding securities of United States issuers. The index returns reflect the reinvestment of dividends and other earnings, are net of withholding taxes, and do not include any trading costs, management fees or other expenses.

The MSCI EAFE (Europe, Australasia, Far East) Net Total Return USD Index is an unmanaged index. It is a generally accepted benchmark for major overseas markets. Index weightings represent the relative capitalizations of the major overseas developed markets on a U.S. dollar adjusted basis. The index is calculated with net dividends reinvested in U.S. dollars.

The S&P 500 Value Index is a market capitalization weighted index designed to measure the performance of value stocks in the S&P 500 Index. The S&P U.S. Style Indices measure Growth and Value in separate dimensions across six risk factors at the stock level.

Portfolio construction will have significant differences from that of a benchmark index in terms of security holdings, industry weightings, asset allocations and number of positions held, all of which may contribute to

Ten Largest Holdings

(as of 28 Feb 2022)

Holding	Rep. Acct.
TotalEnergies SE	3.8%
Mitsubishi UFJ Financial Group, Inc.	3.1%
China Merchants Bank Co. Ltd.	3.1%
CME Group, Inc.	3.0%
LVMH Moët Hennessy Louis Vuitton SE	2.8%
ABB Ltd.	2.7%
Kuehne + Nagel International AG	2.6%
Tencent Holdings Ltd.	2.5%
E.ON SE	2.4%
Intesa Sanpaolo SpA	2.4%

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14 Apr 22

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