

# Thornburg Emerging Markets Equity Strategy

Portfolio Manager Commentary

31 March 2022



## Market Review

Global equities sold off sharply in response to Russia's invasion of Ukraine in late February. In addition to sparking a large scale humanitarian crisis, the situation carries a wide-range of geopolitical and economic implications as well. While rising global inflation was already a growing concern for markets, surging commodity prices spurred by Russia's actions are stoking fears that inflation may persist for longer than anticipated.

While emerging markets declined in aggregate during the quarter, more than two-thirds of the index's country-level constituents saw positive returns despite the rising geopolitical tensions. Russia, which was officially cut from the MSCI EM Index during March, was the largest performance headwind, but China also an outsized detractor. Beijing's perceived ties to Russia, coupled with new lockdowns in Shanghai and renewed fears around ADR delisting in the U.S., continued to drive risk-off sentiment towards EM's largest economy.

It was not all bad news for EM though. Latin American markets, which were net beneficiaries of booming commodities prices, return more than 25% for the quarter. Other commodity net exporters, such as Saudi Arabia and South Africa, also posted strong gains.

In this environment, we are focused on identifying a range of possible macro outcomes and are building a portfolio we think can be durable across of variety of those scenarios.

## Average Annual 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
<b>Emerging Markets Equity Growth Composite (Net)</b>	-10.39	-10.39	-14.03	6.78	8.37	5.46
<b>Emerging Markets Equity Composite (Gross)</b>	-10.18	-10.18	-13.21	7.79	9.36	6.40
<b>MSCI Emerging Markets NTR</b>	-6.97	-6.97	-11.37	4.94	5.98	3.36

## Annual Return Performance Summary

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Emerging Markets Equity Composite (Net)</b>	-14.84	23.69	16.36	-2.30	-14.91	3.28	36.12	-14.72	29.67	23.29	-2.53
<b>Emerging Markets Equity Composite (Gross)</b>	-14.18	24.66	17.37	-1.45	-14.17	4.20	37.26	-13.94	30.88	24.44	-1.61
<b>MSCI Emerging Markets NTR</b>	-18.42	18.22	-2.60	-2.19	-14.92	11.19	37.28	-14.57	18.42	18.31	-2.54

Periods less than one year are not annualized.

Performance data for the Emerging Markets Equity Strategy is from the Emerging Markets Equity Composite, inception date of 1 January 2010. The Emerging Markets Equity Composite includes discretionary accounts invested in the Emerging Markets Equity Strategy. 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%.

## Portfolio Managers

### Ben Kirby, cfa

Co-Head of Investments and Portfolio Manager

### Charlie Wilson, PhD

Portfolio Manager

### Josh Rubin

Portfolio Manager

Supported by the entire Thornburg investment team

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### First-Quarter Performance Highlights

- The Emerging Markets Equity Strategy declined 10.39% (net of fees), underperforming its benchmark, the MSCI EM Index, which was down 6.97%.
- The financials and energy sectors both detracted from the strategy's relative performance. In both sectors, stock selection was the primary driver of underperformance. Stock selection within materials and consumer discretionary contributed positively to the strategy's relative performance.
- On a geographic basis, an underweight allocation to commodities-led economies like the UAE, South Africa and Saudi Arabia detracted from relative performance. Stock selection within Russia was detractive, but the strategy's underweight allocation contributed positively to relative performance. Additionally, security selection in China was detractive, while an overweight allocation to Latin America contributed positively to relative performance.

### Current Positioning and Outlook

Prior to the Russia-Ukraine crisis, our base case was the continuation of a broad-based global recovery across EM. We were cautious to the potential impact of inflation across markets, but generally viewed it as an outcome of demand recovering faster than idled supply restarts versus certain segments truly getting overheated. While a global shift from policy easing to tightening remains a risk to equities markets, we believed the backdrop for EM remained attractive due to strong corporate earnings, a healthy consumer base, and low valuations both on a historical basis and relative to developed markets.

In light of recent events, there is an elevated level of uncertainty at play and no one can predict with any reasonable amount of certainty exactly how the geopolitical situation will unfold. In this environment, we are focused on identifying a range of possible macro outcomes and are building a portfolio we think can be durable across a variety of those scenarios. As bottom-up investors, we are anchoring to fundamentals and asking ourselves which companies most control their own outcomes—regardless of what happens geopolitically. In areas of the market where things may be less clear, we are working to identify where we are being properly compensated to take external risk in areas.

While our shorter-term outlook has shifted, we believe current market forces remain favorable for our active approach and orientation toward identifying strong businesses durable enough to not to survive periods of EM volatility.

### Top Performers (1Q22)

Name	Contrib. (%)	Avg. Weight (%)
Fst Quantum Min	1.18	3.18
Sociedad Quimica Adr	0.99	1.92
B3 Brasil Bolsa Balcao	0.93	2.00
Grupo Aeroportuario Del Pacifico	0.40	2.17
Telefonica Brasil	0.32	1.12

### Top Detractors (1Q22)

Name	Contrib. (%)	Avg. Weight (%)
Pjsc Lukoil Spon Adr	-1.21	1.41
Tencent	-1.14	5.44
Pao Novatek	-1.07	0.94
Twn Semi-cont Man	-0.68	8.91
Hygeia Health	-0.62	0.91

*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](mailto:bdg@thornburg.com). The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients.*

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The MSCI ACWI Net Total Return USD Index is a market capitalization weighted index that is representative of the market structure of 47 developed and emerging market countries in North and South America, Europe, Africa, the Middle East, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

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 performance, characteristics and volatility differences. Investors may not make direct investments into any index.

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### Ten Largest Holdings (as of 28 Feb 2022)

Holding	Rep. Acct.
Taiwan Semiconductor Manufacturing Co. Ltd.	8.7%
Tencent Holdings Ltd.	5.6%
Samsung Electronics Co. Ltd.	4.0%
First Quantum Minerals Ltd.	3.6%
Yum China Holdings, Inc.	3.4%
AIA Group Ltd.	2.9%
Micron Technology, Inc.	2.9%
HDFC Bank Ltd.	2.8%
Alibaba Group Holding Ltd.	2.3%
B3 SA - Brasil Bolsa Balcao	2.3%

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