Thornburg International ADR Strategy–Wrap

Portfolio Manager Commentary
31 March 2022

Thornburg

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

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Supported by the entire Thornburg investment team

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	ITD
International ADR Wrap Composite (Net)	-10.27	-10.27	-9.71	6.35	2.99	1.96	5.21
International ADR Wrap Composite ("Pure" Gross)	-9.58	-9.58	-6.98	9.53	6.07	5.02	7.78
MSCI ACWI ex US NTR	-5.33	-5.33	-1.33	7.57	6.80	5.57	7.18
MSCI EAFE NTR	-5.91	-5.91	1.16	7.78	6.72	6.27	6.79

ITD–Inception to Date

Periods less than one year are not annualized.

Performance data for the International ADR Strategy - Wrap is from the International ADR Wrap Composite, inception date of August 1, 2003. The International ADR Wrap Composite includes broker-sponsored discretionary accounts invested in the International ADR strategy. Effective January 1, 2014, the composite includes broker-sponsored accounts including those that may pay transactions costs that are not included in a bundled fee. Prior to January 1, 2014, the composite included only broker-sponsored accounts that did not pay transaction costs. The composite was redefined to include broker-sponsored accounts in the same composite. 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. "Pure" Gross returns do not reflect the deduction of any expenses, including trading costs and are supplemental to net returns. Beginning January 1, 2009, net returns reflect the deduction of the maximum total wrap fee which is currently 3% per annum. Net returns are derived from subtracting 1/12th of 3% from each account's monthly gross return. The total wrap fee includes all charges for the trading costs, portfolio management, custody and other administrative fees. Prior to January 1, 2009 net returns reflect actual wrap fees for each account in the composite. Beginning January 1, 2014 returns reflect the deduction of transaction costs for some accounts in the composite. The standard fee schedule currently in effect is: 1% to 3% on all assets. Fees may be negotiated in lieu of the standard fee schedule. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available upon request and also may be found in Part II of its Form ADV.

First-Quarter 2022 Performance Highlights

- The 1st quarter was not a good one for performance with the strategy losing 10.27% (net of fees), 493 basis points behind the MSCI ACWI ex USA Index and 435 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, 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 48% 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 11%) 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 Emerging Franchise, adding to Consistent Earner, Basic Value and Cash. Basic Value ended the quarter at 48%, Consistent Earner 37%, Emerging Franchise 8% 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 US over the listing of Chinese companies there and have cut our exposure by about 3.5% to just above 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 quarter given the conflict in

Top Performers (1Q22)

Name	Contrib. (%)	Avg. Weight (%)
Canadian Pacific Railway Limited	0.62	3.07
Mitsubishi UFJ Financial Group, Inc.	0.45	3.06
AstraZeneca PLC	0.41	1.50
Nintendo Co., Ltd.	0.40	2.64
Orange SA	0.40	1.45

Top Detractors (1Q22)

Name	Contrib. (%)	Avg. Weight (%)
Meituan	-0.82	2.00
Recruit Holdings Co., Ltd.	-0.79	2.48
Infineon Technologies AG	-0.72	2.61
ING Groep NV	-0.66	2.37
Z Holdings Corporation	-0.63	2.11

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.

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 re-examine their positioning.

Important Information

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

Investments in the Strategy carry risks, including possible loss of principal. Carefully consider the Strategy's investment objectives, risks, and expenses before investing. There is no guarantee that the portfolio will meet its investment objectives.

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of March 31, 2022.

The views expressed are subject to change and do not necessarily reflect the views of Thornburg Investment Management, Inc. This information should not be relied upon as a recommendation or investment advice and is not intended to predict the performance of any investment or market.

Holdings may change daily and may vary among accounts.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Portfolio holdings and characteristics shown herein are from a representative account managed within the investment composite. The representative account is selected based on account characteristics that Thornburg believes accurately represent the investment strategy as a whole. Should these characteristics change materially, Thornburg may select a different representative account. Holdings may change daily and may vary among accounts, which may contribute to different investment results.

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

Ten Largest Holdings
(as of 28 Feb 2022)

Holding	Rep. Acct.
China Merchants Bank Co. Ltd.	3.6%
TotalEnergies SE	3.5%
Mitsubishi UFJ Financial Group, Inc.	3.4%
Canadian Pacific Railway Ltd.	3.0%
ABB Ltd.	3.0%
Nintendo Co. Ltd.	3.0%
Iberdrola S.A.	2.7%
Mastercard, Inc.	2.7%
LVMH Moet Hennessy Louis Vuitton SE	2.7%
CME Group, Inc.	2.7%

Portfolio Baskets

Basic Value: Companies generally operating in mature industries and which generally exhibit more economic sensitivity and/or higher volatility in earnings and cash flow.

Consistent Earners: Companies which generally exhibit predictable growth, profitability, cash flow and/or dividends.

Emerging Franchises: Companies with the potential to grow at an above average rate because of a product or service that is establishing a new market and/or taking share from existing participants.

