

# Thornburg International ADR 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

**Lei Wang, cfa**  
Portfolio Manager

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	ITD
International ADR Composite (NET)	-9.85	-9.85	-8.17	9.12	5.72	4.53	7.18
International ADR Composite (GROSS)	-9.71	-9.71	-7.69	9.65	6.23	5.09	7.82
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 is from the International ADR Composite, inception date of August 1, 2003. The International ADR Composite includes discretionary institutional and high net worth accounts that are not part of a broker-sponsored or wrap program. Effective January 1, 2014, the composite includes separately managed institutional and high net worth accounts. Prior to January 1, 2014, the composite also included broker-sponsored accounts that paid 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. Gross of fee returns are net of transaction costs. Net of fee returns are net of transaction costs and investment advisory fees. 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%.

## First-Quarter 2022 Performance Highlights

- The 1st quarter was not a good one for performance with the strategy losing 9.85% (net of fees), 451 basis points behind the MSCI ACWI ex USA Index and 394 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 U.S. 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

### Top Performers (1Q22)

(Representative Account)

Name	Contrib. (%)	Avg. Weight (%)
Canadian Pacific Railway Limited	0.46	3.07
Mitsubishi UFJ Financial Group, Inc.	0.38	3.06
AstraZeneca PLC	0.23	1.50
Nintendo Co., Ltd.	0.20	2.64
Orange SA	0.13	1.45

### Top Detractors (1Q22)

(Representative Account)

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

## THORNBURG INTERNATIONAL ADR STRATEGY

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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 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 31 March 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.

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.

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.

P/E - Price/Earnings ratio (P/E ratio) is a valuation ratio of a company's current share price compared to its per-share earnings. P/E equals a company's market value per share divided by earnings per share. Forecasted P/E is not intended to be a forecast of the fund's future performance.

### 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 Moët 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.

## THORNBURG INTERNATIONAL ADR STRATEGY



Basis Point (bp) - A unit equal to 1/100th of 1%. 1% = 100 basis points (bps).

Emerging EMEA (Europe, Middle East, Africa) - Includes but is not limited to the Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, and Turkey. Classifications are subject to change. Portfolio and benchmarks may or may not be invested in the named countries, depending upon the date and time period.

Yield Curve - A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.