

Thornburg International Equity Strategy

Portfolio Manager Commentary
30 June 2022



Market Review

- The second quarter was another difficult one for global equity markets, with the MSCI ACWI ex USA Index down 13.7% and the MSCI EAFE Index losing 14.5%. That marks the worst start to a year ever for both indices, which are now down 18.4% and 19.6% respectively year to date. Along with international markets the S&P 500 suffered its worst first-half loss in more than 50 years, losing 20.0%.
- The same global macro factors which impacted markets in the 1st quarter continued into the second with the war in Ukraine helping drive energy prices and commodity indices to levels not seen since 2008 and US inflation (CPI year-on-year) to levels not seen since the 70's. In response the US Federal Reserve delivered its largest rate increase since 1994 and the Treasury yield curve moved upwards and flattened, with 10-year yields touching 3.50% (up from 1.5% at year-end) before falling into the end of the quarter on increasing recession fears.
- In response most equity markets fell with the notable exception of China, which had fallen more than 50% from its peak in February of last year before rebounding to return 3.4% for the quarter. Emerging Markets outperformed

International equity markets had another difficult quarter but with prices down 18% and valuations (P/E ratios) down 23% interesting opportunities are emerging.

Portfolio Managers

Matt Burdett
Portfolio Manager

Lei Wang, CFA
Portfolio Manager

Supported by the entire Thornburg investment team

Annualized Returns (% as of 30 Jun 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)	-11.91	-21.34	-22.02	3.73	3.16	5.72
International Equity Composite (Gross)	-11.74	-21.04	-21.42	4.51	3.92	6.45
MSCI ACWI ex US NTR	-13.73	-18.42	-19.42	1.35	2.50	4.83
MSCI EAFE NTR	-14.51	-19.57	-17.77	1.07	2.20	5.40

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	-4.90	-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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developed mostly due to China, which is almost 1/3 of the index. The dollar continued to strengthen and all 11 sectors of the ACWI ex USA Index were down, with Energy continuing to outperform (-4.7%) despite a late quarter drop and Information Technology continuing to underperform (-22.6%).

Second Quarter 2022 Performance Highlights

- In the second quarter the strategy lost 11.91% (net of fees), outperforming the ACWI ex USA Index by 182 basis points and the EAFE by 260. Year to date the strategy is down 21.34%, 292 and 177 basis points behind its respective benchmarks.
- In the second quarter the strategy's relative performance versus its benchmarks rebounded, regaining some of the ground it lost in a difficult 1st quarter where macro factors drove most of the underperformance. Country allocation and currency, which were significant negatives in the 1st quarter, were positives in the 2nd with an underweight in Canada and zero weights in Australia, Brazil, India, and Saudi Arabia/UAE/Qatar all contributing. An average 8% in cash along with the currency impact of a 6% allocation to the U.S. were also positives.
- Sector allocation was positive, as an overweight in Utilities and an underweight in Materials were positives, while an overweight in Information Technology and an underweight in Health Care and Energy were negatives. Security selection was also positive on a sector basis, with companies in the Consistent Earners and Emerging Franchise baskets doing relatively well and our Basic Value companies underperforming the continued Value rally given our bias towards higher quality cyclicals.

Current Positioning and Outlook

- During the quarter we trimmed Basic Value, adding to Consistent Earners and Emerging Franchise as interest rates peaked during the quarter and recession concerns increased. Our basket weights ended the quarter at 43% Basic Value, 41% Consistent Earner, 8% Emerging Franchise, and 8% Cash. We trimmed Japan modestly and added to China/Hong Kong, which as noted above had declined more than 50% from its 2021 peak and at March 31st traded at a 20% P/E discount to the ACWI ex USA Index and an almost 50% discount to the S&P 500 despite loosening of monetary, fiscal and regulatory policy in China and tightening in the U.S.
- While the outlook remains uncertain for the second half of the year and we remain somewhat conservatively positioned (almost 50% in Consistent Earners and cash), markets are considerably cheaper than at the beginning of the year with the MSCI ACWI ex USA Index down 18.4% and valuations (forward P/E) down 20%. In market conditions like these interesting opportunities always emerge as quality companies cheapen along with the rest of

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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the market—an ideal environment for a high conviction active manager. We also believe that investors who have been underweight international equities given the long run of U.S. outperformance should consider rebalancing given the outlook for continued tightening in the U.S., the greater concentration of U.S. markets in mega cap growth stocks, and international's higher diversification and 30% discount to the U.S.

Ten Largest Holdings

(as of 28 Feb 2022)

Holding	Rep. Acct.
TotalEnergies SE	4.9%
Linde plc	2.9%
Kweichow Moutai Co. Ltd.	2.9%
CME Group, Inc.	2.8%
LVMH Moet Hennessy Louis Vuitton SE	2.7%
Meituan	2.7%
ABB Ltd.	2.7%
Canadian Pacific Railway Ltd.	2.5%
AstraZeneca plc	2.5%
Roche Holding AG	2.5%

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

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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

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