

Thornburg International Equity ESG Strategy

Portfolio Manager Commentary
30 June 2022



Market Review

- The 2nd 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 2nd 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 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

International markets and ESG Leaders had another difficult quarter but with prices down 18% and P/E ratios down 23% interesting opportunities are emerging.

Portfolio Manager

Lei Wang, CFA

Portfolio Manager

Supported by the entire Thornburg investment team

Average Annual Returns (% , as of 30 Jun 2022)

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

	QTD	YTD	1-YR	3-YR	5-YR	ITD (1 OCT 2015)
International Equity ESG Composite (Net)	-13.99	-20.61	-22.34	9.80	7.90	9.38
International Equity ESG Composite (Gross)	-13.79	-20.22	-21.58	10.86	8.81	10.28
MSCI ACWI ex US NTR Index	-13.54	-18.15	-19.12	1.48	2.57	5.09

Annual Return Performance Summary (%)

	2016	2017	2018	2019	2020	2021
International Equity ESG Composite (Net)	7.67	23.46	-13.21	24.79	26.90	21.05
International Equity ESG Composite (Gross)	8.71	23.89	-12.64	25.92	28.11	22.22
MSCI ACWI ex US NTR	4.50	27.19	-14.20	21.51	10.65	7.87

ITD - Inception to Date. Periods less than one year are not annualized.

Performance data for the International Equity ESG Strategy is from the International Equity ESG Composite, inception date of 1 October 2015. The International Equity ESG Composite includes discretionary accounts invested in the International Equity ESG 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. 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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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%).

- The MSCI ACWI ex USA ESG Leaders Index, made up of companies within the ACWI ex USA Index with high ESG performance relative to their peers, lost 14.6% in the 1st quarter, 88 basis points behind the broader ACWI ex USA Index. The ESG Leaders Index is underweight Value and Momentum and overweight Quality and Low Volatility versus the broad index with a higher P/E and Price to Book, which hurt in a quarter where Value outperformed.

Second Quarter 2022 Performance Highlights

- In the 2nd quarter Thornburg International Equity ESG Strategy lost 13.99% net of fees, 26 basis points behind the ACWI ex USA Index. The strategy lagged its benchmark in April and May but rebounded sharply in relative terms in June, outperforming by 243 basis points.
- Country allocation and currency, which were significant negatives in the 1st quarter, were both positives in the 2nd with an overweight in China and Hong Kong, an underweight in Taiwan, and zero weights in Korea, South Africa, India, and Saudi Arabia/UAE/Qatar all contributing. An average 10% in cash along with the currency impact of a 10% allocation to the U.S. were also positives.
- Sector allocation was negative, mostly due to the strategy's overweight in Information Technology and its zero weight in Energy. Stock selection was negative, mostly due to the strategy's factor tilt towards Growth and the underperformance of our Basic Value basket versus broader Value given our bias towards higher quality cyclicals. Note that the strategy's 220-basis point underperformance against its benchmark year to date is similar to the 200-basis point underperformance of the ACWI ex USA ESG Leaders Index versus the broader index.

Current Positioning and Outlook

During the quarter we trimmed Basic Value and put cash to work, adding to Consistent Earners and Emerging Franchise. 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. We also added to Australia, which had previously been a zero weight.

While the outlook remains uncertain for the 2nd half of the year, 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%. ESG Leaders have also cheapened versus the broader market given their 200-basis point underperformance year to date (see above). In market conditions like these

Top Performers (2Q22)

Name	Contrib. (%)	Avg. Weight (%)
Meituan	0.53	2.55
HKEX	0.45	1.82
Hundsun Technologies Inc., A	0.21	0.98
China Merchants Bank, A	0.15	0.60
Kanzhun Ltd. ADR	0.14	1.43

Top Detractors (2Q22)

Name	Contrib. (%)	Avg. Weight (%)
Recruit Holdings Co. Ltd.	-0.83	2.10
Norsk Hydro ASA	-0.81	1.54
NVIDIA Corp.	-0.63	1.38
Adyen NV	-0.59	2.00
ABB Ltd.	-0.57	2.61

Ten Largest Holdings (as of 31 May 2022)

Holding	Weight (%)
Meituan	2.8
ABB Ltd.	2.8
Seven & i Holdings Co. Ltd.	2.7
Tesco plc	2.6
Roche Holding AG	2.6
Canadian Pacific Railway Ltd.	2.6
Hitachi Ltd.	2.6
L'Oreal S.A.	2.5
Novartis AG	2.5
Taiwan Semiconductor Manufacturing Co. Ltd.	2.5

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interesting opportunities always emerge as quality companies cheapen along with the rest of 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. interesting opportunities always emerge as quality companies cheapen along with the rest of 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.

Important Information

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

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Holdings may change daily and may vary among accounts.

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.

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.

Environment, social and governance (ESG) integration is the practice of incorporating ESG information into investment decisions to help enhance risk-adjusted returns and is not a mandate to make a positive impact on society or the world.

The MSCI ACWI ex USA ESG Leaders Index consists of large- and mid-cap companies across 22 developed markets and 26 emerging markets countries. The Index is designed for investors seeking a broad, diversified sustainability benchmark with relatively low tracking error to the underlying equity market.

The MSCI ACWI ex USA Growth Net Total Return USD Index is a market capitalization weighted index that includes growth companies in developed and emerging markets throughout the world, excluding the United States.

The MSCI All Country (AC) World ex U.S. Value 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 is constructed using an approach that provides a precise definition of style using eight historical and forward-looking fundamental data points for every security. 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 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 is calculated with net dividends reinvested in U.S. dollars.

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 Total Return Index is an unmanaged broad measure of the U.S. stock market.

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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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.

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

Consumer Price Index (CPI) - Index that measures prices of a fixed basket of goods bought by a typical consumer, including food, transportation, shelter, utilities, clothing, medical care, entertainment and other items. The CPI, published by the Bureau of Labor Statistics in the Department of Labor, is based at 100 in 1982 and is released monthly. It is widely used as a cost-of-living benchmark to adjust Social Security payments and other payment schedules, union contracts and tax brackets. Also known as the cost-of-living index.

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.

Price/Book ratio (P/B ratio) - A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

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.

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