

Thornburg International Equity Strategy

Portfolio Manager Commentary

31 December 2023

Thornburg

Market Review

International equity markets ended the year with a sharp two-month rally that took them up about 15% from their October 26 lows through year-end. For the 4th quarter the MSCI EAFE Index (developed markets) rose 10.4% and the ACWI ex-U.S. Index (developed and emerging markets) rose 9.8%. For the year the MSCI EAFE Index rose 18.2% and the MSCI ACWI ex-U.S. Index 15.6%.

Moderating inflation, major central banks on hold, lower interest rates, decreasing investor concerns about recession and increasing optimism over the possibility of a soft landing helped support the rally with longer-term interest rates in the U.S., Europe, and the UK falling sharply from mid-October through year end. With interest rates falling, the U.S. Dollar (DXY) fell sharply in the 4th quarter and has fallen 10% since reaching a 20-year high in September of last year.

In the 4th quarter Europe, Australia, Canada, and Latin America outperformed while the UK, Japan, and China underperformed. Info Tech, Industrials, and Materials outperformed while Energy, Health Care and Consumer Staples underperformed. For the year Europe, Japan, and Latin America outperformed while China/Hong Kong underperformed. Info Tech, Industrials and Financials outperformed while Consumer Staples, Communication Services and Health Care underperformed. Value outperformed Growth in international markets for the third year in a row, unlike the U.S. where Growth outperformed in 2023.

The S&P 500 Index outperformed the MSCI ACWI ex-U.S. Index and MSCI EAFE Index in the 4th quarter and for the year, with almost 2/3 of U.S. returns coming from the "Magnificent Seven" growth stocks and the equal weighted S&P underperforming the S&P 500 Index by 12.5%. Note that since October 2022's 13-year low in relative performance the MSCI EAFE Index and MSCI ACWI ex-U.S. Index have outperformed the S&P 500 Index by 600 and 270 basis points respectively.

We continue to favor "boring but beautiful" companies which we believe will do well in a still uncertain investment environment.

Portfolio Managers

Lei Wang, CFA

Portfolio Manager

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Portfolio Manager

Supported by the entire Thornburg investment team

ANNUALIZED RETURNS (%)

AS OF 31 DECEMBER 2023

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 JUN 98)
Composite (Gross)	9.43	16.98	16.98	2.22	11.52	5.89	8.47
Composite (Net)	9.23	16.09	16.09	1.45	10.69	5.14	7.39
MSCI ACWI ex-U.S. Index	9.75	15.62	15.62	1.55	7.08	3.83	4.76
MSCI EAFE Index	10.42	18.24	18.24	4.02	8.16	4.28	4.50

CALENDAR YEAR RETURNS (%)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Composite (Gross)	16.98	-15.95	8.62	23.92	30.32	-19.11	26.55	-1.48	6.87	-4.62
Composite (Net)	16.09	-16.58	7.82	23.01	29.38	-19.70	25.68	-2.16	6.15	-5.22
MSCI ACWI ex-U.S. Index	15.62	-15.99	7.82	10.65	21.51	-14.20	27.19	4.50	-5.66	-3.87
MSCI EAFE Index	18.24	-14.45	11.26	7.82	22.01	-13.79	25.03	1.00	-0.81	-4.91

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

Periods less than one year are not annualized. ITD is inception to date.

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%.

Fourth Quarter 2023 Performance Highlights

- In 4Q23 the portfolio (net of fees) returned 9.23%, -52 basis points behind the MSCI ACWI ex-U.S. Index and -119 basis points behind the MSCI EAFE Index. Year to date the portfolio (net of fees) returned 16.09%, 47 basis points ahead of the MSCI ACWI ex-U.S. Index and -215 basis points behind the MSCI EAFE Index.
- Bottom-up stock selection, along with sector and country allocation, were both positive contributors to relative performance in the 4th quarter but were offset by negative currency effects, mostly exposure to the U.S. Dollar and dollar-linked currencies. Cash was a negative and underweights in Health Care and Consumer Discretionary were positives. Stock selection in Japan and the Eurozone were positives, as was an underweight in China.
- For the year bottom-up stock selection in the Eurozone, along with an overweight there, was the biggest contributor to outperformance versus the MSCI ACWI ex-U.S. Index, as was stock selection in the U.S. and Canada. Stock selection and an overweight in China/Hong Kong were the biggest negatives, along with stock selection in Japan. Currency effects were neutral. The fund's allocation to China, which is not part of the MSCI EAFE Index, was the primary reason for its underperformance versus that index.
- By style basket, stock selection in the Basic Value and Consistent Earner baskets were positives, but an underweight and stock selection in Emerging Franchise were negatives.

Current Positioning and Outlook

During the 4th quarter we trimmed a bit more than 2% from both Cash and Basic Value, adding to Emerging Franchise and Consistent Earner. As of December 31, basket weights were 43% Basic Value, 41% Consistent Earner, 9% Emerging Franchise and 7% Cash. We added to Financials and reduced Consumer Discretionary, added to the Eurozone and Japan and reduced China, which is now less than half of its index weight. As of December 31, we were overweight Industrials and Utilities, underweight Financials, Consumer Discretionary and Health Care. We are a large overweight in the Eurozone and a large underweight in Emerging Markets with China at half weight. Our largest country weights are France, Japan, and Switzerland with our largest underweights in the UK, India, and Australia.

After a two-month rally in international equities which ranks in the top 2% of the last 20 years, there is still a lot of uncertainty in both the economic and geopolitical outlook for 2024. Remember that at this time last year, most forecasts about the economy and markets for 2023 turned out to be off the mark, and there is a distinct possibility that 2024 will be the same. In 2023 our portfolio positioning was relatively conservative for most of the year and focused on idiosyncratic bottom-up opportunities, many of which were in "boring but beautiful" companies with steadier, more positive cash flow which we thought would do well in the face of the fastest rise in interest rates in 40+ years. We added opportunistically in the four market drawdowns in 2023, trimming in the four rallies. That approach worked extremely well for most of the year, led by bottom-up stock selection, although the fund trailed in the last two months of the year as it often does as a high conviction, bottom-up strategy in an explosive rally. We think our approach will continue to do well in 2024 and that our bottom-up, flexible relative value approach is an ideal way for investors who remain underweight international equity to add rebalance their exposure.

TEN LARGEST EQUITY HOLDINGS (%)

AS OF 30 NOVEMBER 2023

PORTFOLIO

TotalEnergies SE	4.3
L'Oreal S.A.	3.3
NN Group N.V.	3.2
Linde plc	3.0
Safran S.A.	3.0
Canadian Pacific Kansas City Ltd.	3.0
Hong Kong Exchanges & Clearing Ltd.	2.9
ABB Ltd.	2.8
Hitachi Ltd.	2.8
Roche Holding AG	2.7

TOP 5 CONTRIBUTORS (%)

4Q23

AVERAGE
WEIGHT

CONTRIB.
TO RETURN

NN Group NV	3.02	0.65
L'Oreal SA	3.26	0.63
ABB Ltd	2.75	0.61
Schneider Electric SE	2.59	0.51
Recruit Holdings Co Ltd	1.46	0.48

BOTTOM 5 DETRACTORS (%)

4Q23

Alibaba Group Holding Ltd	2.05	-0.37
Meituan	0.52	-0.30
Hong Kong Exchanges & Clearing Ltd	2.59	-0.26
Nexon Co Ltd	0.15	-0.11
Tencent Holdings Ltd	1.39	-0.07

Source: FactSet

Past performance does not guarantee future results. Please see the Composite Standardized Performance included herein.

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THORNBURG INTERNATIONAL EQUITY STRATEGY

Portfolio Manager Commentary | 31 December 2023

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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.

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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).

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.

The MSCI ACWI ex-U.S. Index (MSCI ACWI ex US NTR) 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 Index (MSCI EAFE NTR) 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 Index (S&P 500 TR) is an unmanaged broad measure of the U.S. stock market.

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**Includes assets under management (\$40.7B) and assets under advisement (\$1.0B).

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