

# Thornburg Better World International Fund

## Portfolio Manager Commentary

31 December 2023



### 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.

The MSCI ACWI ex-U.S. ESG Leaders Index, composed of companies in the MSCI ACWI ex-U.S. Index with favorable ESG characteristics, outperformed the broader index by 20 basis points in the 4th quarter but trailed by 70 basis points year to date.

We believe that material ESG factors which characterize ESG Leaders should outperform long term despite recent underperformance.

### Portfolio Managers

**Lei Wang, CFA**

Portfolio Manager

Supported by the entire Thornburg investment team

### AVERAGE ANNUAL TOTAL RETURNS (%)

AS OF 31 DECEMBER 2023

	QTR	YTD	1-YR	3-YR	5-YR	ITD
A Shares TBWAX (Incep: 30 Sep 15)						
Without sales charge	6.15	12.13	12.13	3.24	11.37	8.69
With sales charge	1.36	7.08	7.08	1.67	10.36	8.09
I Shares TBWIX (Incep: 30 Sep 15)	6.21	12.72	12.72	3.77	12.04	9.42
MSCI ACWI ex-U.S. Index	9.75	15.62	15.62	1.55	7.08	6.32

### EXPENSE RATIOS (%)

GROSS	NET
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1.58	1.58
1.25	0.90

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

Class I shares may not be available to all investors. Minimum investments for the I share class may be higher than those for other classes.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted. For performance current to the most recent month end, visit [thornburg.com](http://thornburg.com) or call 877-215-1330. The maximum sales charge for the Fund's A shares is 4.50%. There is no up-front sales charge for class I shares. Thornburg Investment Management and/or Thornburg Securities LLC have contractually agreed to waive fees and reimburse expenses through at least 1 February 2025, for some of the share classes; these are reflected in the net expense ratio. For more detailed information on fund expenses and waivers/reimbursements, please see the fund's prospectus.

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### Fourth Quarter 2023 Performance Highlights

- In 4Q23 the portfolio (I share class) returned 6.21%, -354 basis points behind the MSCI ACWI ex-U.S. Index. Year to date the portfolio (I share class) returned 12.72%, -290 basis points behind the MSCI ACWI ex-U.S. Index.
- Bottom-up stock selection was the biggest contributor to the portfolio's 4th quarter underperformance, with currency also a negative contributor driven mostly by U.S. Dollar and dollar-linked exposure. Negative stock selection came mostly from the growthier style baskets (Emerging Franchise and Consistent Earner), though Basic Value also lagged. Cash and an overweight and stock selection in China and Hong Kong were also negative contributors. Stock selection in Japan, Canada, and the U.S. were positives.
- For the year stock selection was also negative, mostly in the Emerging Franchise and Basic Value baskets as Consistent Earner companies were positive contributors. An underweight in Basic Value in a year where value outperformed growth was also negative. Cash and an overweight in Consumer Staples were negatives, an overweight in Industrials a positive. Stock selection in the U.S. and Canada was a positive, stock selection and an overweight in Hong Kong and China negatives. Currency impacts were neutral.

### Current Positioning and Outlook

We reduced exposure to Basic Value and added to Consistent Earner and Emerging Franchise. Our basket allocations are 55% Consistent Earner, 23% Basic Value, 11% Emerging Franchise, and 11% Cash. We trimmed Health Care and Consumer Discretionary and added to Communication Services and Information Technology. We added to Japan, moving to a small overweight, and reduced China, moving to a small underweight. The portfolio is overweight Industrials and Consumer Staples and underweight Financials, Materials, and Consumer Discretionary. We remain zero weight Energy. We are overweight Developed Markets at about 80% and underweight Emerging Markets at about 10%. Our largest country weights are in France, Japan, and Switzerland, our largest underweights in Taiwan, Korea, and India.

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, with all the portfolio's 2023 underperformance coming in November-December 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 rebalance their exposure. We believe that integrating material ESG factors into our investment strategy (factors which we believe are material to company financial performance) will lead to long-term outperformance, as it has since the portfolio's inception, and that the 3-year underperformance of ESG Leader companies provides a good entry point for investors as we believe those companies should outperform over the longer term.

#### TEN LARGEST HOLDINGS

AS OF 30 NOVEMBER 2023

	% FUND
SAP SE	3.4
L'Oreal S.A.	3.3
Nestle S.A.	3.1
BNP Paribas S.A.	3.1
Hitachi Ltd.	3.1
Hong Kong Exchanges & Clearing Ltd.	2.9
Canadian Pacific Kansas City Ltd.	2.8
Novo Nordisk A/S	2.7
Constellation Software, Inc./Canada	2.7
Roche Holding AG	2.6

#### TOP 5 CONTRIBUTORS (%)

4Q23	AVERAGE WEIGHT	CONTRIB. TO RETURN
L'Oreal SA	3.07	0.59
SAP SE	3.09	0.58
Constellation Software Inc/Canada	2.54	0.50
Hitachi Ltd	2.93	0.49
ARM Holdings PLC	1.06	0.49

#### BOTTOM 5 DETRACTORS (%)

4Q23	AVERAGE WEIGHT	CONTRIB. TO RETURN
Meituan	2.54	-0.86
Enphase Energy Inc	0.29	-0.37
Alibaba Group Holding Ltd	1.74	-0.32
OCI NV	0.97	-0.28
Hong Kong Exchanges & Clearing Ltd	2.48	-0.27

Source: FactSet

*Past performance does not guarantee future results.*

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### Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 December 2023.

Investments carry risks, including possible loss of principal. Additional risks may be associated with investments outside the United States, especially in emerging markets, including currency fluctuations, illiquidity, volatility, and political and economic risks. Investments in small- and mid-capitalization companies may increase the risk of greater price fluctuations. Investments in the Fund are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any other entity.

The Better World International Fund's adherence to its ESG ratings process may affect the Fund/Strategy's exposure to certain companies, sectors, regions, and countries and may affect the Fund's performance depending on whether such investments are in or out of favor. This process may result in the Fund foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, or selling securities for ESG reasons when it might be otherwise disadvantageous for it to do so. Additionally, the process may result in incorrectly evaluating a company's commitment to positive ESG practices and may result in investment in companies with practices that are not consistent with the Fund's aspirations.

Investing in an ESG-focused strategy does not assure or guarantee better performance and cannot eliminate the risk of investment losses.

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.

Funds invested in a limited number of holdings may expose an investor to greater volatility.

There is no guarantee that the Fund will meet its investment objectives.

The Fund may invest in shares of companies through initial public offerings (IPOs). IPOs have the potential to produce substantial gains and there is no assurance that the Fund will have continued access to profitable IPOs. As Fund assets grow, the impact of IPO investments on performance may decline.

Any securities, sectors, or countries mentioned are for illustration purposes only. Holdings are subject to change. Under no circumstances does the information contained within represent a recommendation to buy or sell any security.

Environmental, social and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

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.

The MSCI ACWI ex-U.S. 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 performance of any index is not indicative of the performance of any particular investment. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

### **Not FDIC Insured. May lose value. No bank guarantee.**

*Before investing, carefully consider the Fund's investment goals, risks, charges and expenses. For a prospectus or summary prospectus containing this and other information, contact your financial advisor or visit [thornburg.com](http://thornburg.com). Read them carefully before investing.*

Thornburg is a global investment firm delivering on strategy for institutions, financial professionals and investors worldwide. The privately held firm, founded in 1982, is an active, high-conviction manager of fixed income, equities, multi-asset solutions and sustainable investments with \$42.9\* billion in total assets across mutual funds, institutional accounts, separate accounts and UCITS.



\*Includes assets under management (\$41.8B) and assets under advisement (\$1.1B).