

Thornburg International Equity ESG Strategy

Portfolio Manager Commentary

31 March 2024



Market Review

International equity markets began the year in strong fashion with the MSCI ACWI ex-U.S. Index up 4.5% in the 1st quarter. Global economic activity remains firm with PMIs improving and U.S. economic activity the best, but the big market driver in the 1st quarter was the strength of growth stocks and continued optimism over the potential of AI-related stocks. Both International and U.S. growth stocks were up, with NVIDIA leading the pack at +82.5% on good 4th quarter results.

Global interest rates increased as inflation, which has come down a lot since its recent peak, has become stickier. The Federal Reserve and European Central Bank remained on hold and investors reduced their estimates of central bank easing this year. The exception was the Bank of Japan, which raised interest rates for the first time in 17 years in a move away from decades of massive monetary stimulus.

Within the MSCI ACWI ex-U.S. Index in the 1st quarter, Japan, the Eurozone, Taiwan and India outperformed while China, Hong Kong, Brazil and Switzerland underperformed. With strength in growth stocks and economic optimism, Information Technology and Consumer Discretionary outperformed while Consumer Staples and Utilities underperformed.

The S&P 500 Index rose 10.6%, outperforming international indices. The top 10 performing U.S. stocks provided more than 70% of the S&P 500 Index's performance although Apple and Tesla, members of the "Magnificent Seven", posted losses (11% and 29%) for the quarter. The MSCI ACWI ex-U.S. Index now trades at a 34% discount on forward P/E versus the U.S., near the widest levels of the S&P 500 Index's now 16-year outperformance. We believe international equities provide a wide variety of interesting bottom-up and thematic opportunities, witnessed by the portfolio's performance, driven mostly by bottom-up stock selection.

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 63 basis points in the 1st quarter.

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

Portfolio Managers

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Supported by the entire Thornburg investment team

ANNUALIZED RETURNS (%)

AS OF 31 MARCH 2024

	QTR	YTD	1-YR	3-YR	5-YR	ITD (1 OCT 15)
Composite (Gross)	5.00	5.00	10.54	3.35	12.04	10.84
Composite (Net)	4.75	4.75	9.48	2.37	10.98	9.90
MSCI ACWI ex-U.S. Index	4.69	4.69	13.26	1.94	5.97	6.70
MSCI EAFE Index	5.78	5.78	15.32	4.78	7.33	7.06

CALENDAR YEAR RETURNS (%)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	13.70	-17.22	22.22	28.11	25.96	-12.64	23.89	8.71	0.00
Composite (Net)	12.62	-17.98	21.05	26.90	24.79	-13.21	23.46	7.67	0.00
MSCI ACWI ex-U.S. Index	15.62	-15.99	7.82	10.65	21.51	-14.20	27.19	4.50	0.00
MSCI EAFE Index	18.24	-14.45	11.26	7.82	22.01	-13.79	25.03	1.00	-0.81

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 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%.

First Quarter 2024 Performance Highlights

- In 1Q24 the portfolio (net of fees) returned 4.75%, 6 basis points ahead of the MSCI ACWI ex-U.S. Index. Year to date the portfolio (net of fees) returned 4.75%, 6 basis points ahead of the MSCI ACWI ex-U.S. Index.
- Stock selection was strongest in Industrials and Information Technology, China and the UK, and weaker in Financials, the Eurozone, and Hong Kong. An overweight in Consumer Staples and an allocation to Cash were negatives, along with an overweight in Hong Kong and a zero weight in Taiwan. A positive currency effect was mostly due to an allocation to global companies domiciled in the U.S. and cash.
- By style basket, stock selection was best in Basic Value and weakest in Emerging Franchise. An underweight in Emerging Franchise was also a negative in a quarter where growth stocks outperformed.

Current Positioning and Outlook

During the 1st quarter we reduced cash and our allocation to Consistent Earners, adding to Emerging Franchise and Basic Value. We reduced our exposure to Financials and Consumer Staples and added to Industrials, Consumer Discretionary, and Utilities. We added to Japan, Korea, and China, ending the quarter with a 5% overweight there. The net result was to reduce our exposure to Developed Markets, where we are overweight, and increase our exposure to Emerging Markets, where we are still underweight. Our largest overweights are in Industrials, Consumer Staples and Health Care. We remain zero weight Energy and underweight Financials, Materials, and Information Technology. Our largest country weights are in Japan, France, and China, our largest underweights in the UK, Australia, and India.

We remain relatively conservatively positioned and focused on idiosyncratic bottom-up opportunities, many of which are in “boring but beautiful” companies with steadier, more positive cash flow which we think will do well in an uncertain economic and geopolitical environment. We are also focused on companies which we believe will do well due to their favorable exposure to E, S, or G factors or are in the process of improving their ESG performance in a way which we think will improve their financial performance or valuations. 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. The MSCI ACWI ex-U.S. ESG Leaders Index has now underperformed the broader index over 3 years and is about even with it over the longer term, which given what we think is the relatively higher quality and lower risk of ESG Leader companies provides a good entry point for investors as we believe those companies should outperform over the longer term.

TEN LARGEST EQUITY HOLDINGS (%)

AS OF 29 FEBRUARY 2024	PORTFOLIO
Hitachi Ltd.	3.2
SAP SE	3.1
Canadian Pacific Kansas City Ltd.	3.0
Constellation Software, Inc./Canada	3.0
L'Oreal S.A.	2.9
Tencent Holdings Ltd.	2.7
Hong Kong Exchanges & Clearing Ltd.	2.7
Schneider Electric SE	2.5
Seven & i Holdings Co. Ltd.	2.5
Roche Holding AG	2.5

TOP 5 CONTRIBUTORS (%)

1Q24	AVERAGE WEIGHT	CONTRIB. TO RETURN
ARM Holdings PLC	0.86	0.83
Hitachi Ltd	3.11	0.78
SAP SE	3.03	0.78
Novo Nordisk A/S	2.49	0.55
Disco Corp	1.02	0.44

BOTTOM 5 DETRACTORS (%)

1Q24	AVERAGE WEIGHT	CONTRIB. TO RETURN
AIA Group Ltd	2.12	-0.55
Hong Kong Exchanges & Clearing Ltd	2.57	-0.42
Roche Holding AG	2.56	-0.29
Nestle SA	2.15	-0.26
Sony Group Corp	2.30	-0.25

Source: FactSet

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

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BASKET ALLOCATION (%)

	PORTFOLIO
Consistent Earner	51.8
Basic Value	24.7
Emerging Franchise	15.6
Cash	7.9

THORNBURG INTERNATIONAL EQUITY ESG STRATEGY

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Important Information

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

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 March 2024

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.

A strategy's adherence to its ESG ratings process may affect its exposure to certain companies, sectors, regions, and countries and may affect its performance depending on whether such investments are in or out of favor. This process may result in the strategy 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 strategy's aspirations.

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

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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 representative account information is supplemental to the strategy's composite and GIPS compliant presentation.

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.

PMI (Purchasing Managers' Index) - An indicator of the economic health of the manufacturing sector and for the economy as a whole. The PMI Index is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment. A PMI of 50 or higher generally indicates that the industry is expanding.

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.

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. The index shown is unmanaged, reflect total returns and assume the reinvestment of all income in U.S. dollars. It does not reflect any management fees or brokerage expenses associated with a portfolio's returns. Returns for an actual portfolio may differ from those of an index due to (among other things) differences in timing and the amount invested and fees and expenses. Investors may not make direct investments into any index.

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**Includes assets under management (\$42.1B) and assets under advisement (\$1.1B).

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