Thornburg Small/Mid Cap Core Strategy

Portfolio Manager Commentary
31 March 2025

Thornburg

Market Review

Markets experienced substantial volatility during the quarter, largely driven by U.S. trade and economic policy uncertainty. Performance was challenging across U.S. equities as an unwind of the artificial intelligence and momentum trade stoked fears of peak spending within AI, following the arrival of DeepSeek, which showcased China's cost-efficient advancement within the technology. The Magnificent Seven stocks were hit especially hard (down 16%) and large cap growth underperformed value by more than 1,200 basis points. The risk-off environment was challenging for small and mid-cap segments of the market which reacted more sensitively to the prospect of a reduced level of rate cuts in 2025.

Additionally, there are growing concerns that the U.S. could lapse into a recession—or even worse, stagflation— given increasing macro headwinds related to tariff and heightened policy uncertainty; government layoffs and fiscal spending cuts; a sharp drop in consumer confidence, and signs that business momentum may be stalling (i.e., ISM new orders fell sharply to 45.2). Goldman Sachs recently increased its recession forecast to 35% and now expects three Fed cuts, while the Bloomberg 1-year Recession Probability Forecast increased from 20% at the start of the year to 30% at the end of March and will likely move higher given the Trump administration's aggressive stance on tariffs.

> Our approach remains consistent, we continue to target companies across a range of sectors that we believe can compound over time.

Portfolio Managers

Steven Klopukh, CFA
Portfolio Manager

Tim McCarthy, CFA
Portfolio Manager

Supported by the entire Thornburg investment team

ANNUALIZED RETURNS (%) AS OF 31 MARCH 2025	**QTR**	**YTD**	**1-YR**	**3-YR**	**ITD (1 JAN 21)**
Composite (Gross)	-11.16	-11.16	-2.86	1.28	3.50
Composite (Net)	-11.36	-11.36	-3.70	0.41	2.62
Russell 2500 Index	-7.50	-7.50	-3.11	1.78	3.84

CALENDAR YEAR RETURNS (%)	**2024**	**2023**	**2022**	**2021**
Composite (Gross)	21.04	14.68	-18.46	15.13
Composite (Net)	20.01	13.70	-19.17	14.18
Russell 2500 Index	12.00	17.42	-18.37	18.18

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 Small/Mid Cap Core Strategy is from the Small/Mid Cap Core Composite, inception date of 1 January 2021. The Small/Mid Cap Core Composite includes discretionary accounts invested in the Small/Mid Cap Core 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 2025 Performance Highlights

- In 1Q25 the portfolio (net of fees) returned -11.36%, -386 basis points behind the Russell 2500 Index. Year to date the portfolio (net of fees) returned -11.36%, -386 basis points behind the Russell 2500 Index.
- Stock selection in information technology and industrials detracted from relative performance. An overweight allocation to utilities, the best performing sector within the index, contributed positively. Stock selection from energy also contributed positively to relative results.
- The portfolio's stock selection in companies with market capitalizations over $12 billion, an overweight allocation compared to the index, detracted from relative results. An underweight allocation to the small cap segment of the market capitalization range elevated relative performance.

Current Positioning and Outlook

Following the election, we had boosted our exposure to market sensitive companies that we believed would benefit from easing regulations. While this positioning was a catalyst during the fourth quarter, it hampered relative results over the last three months, where heightened levels of macroeconomic and policy uncertainty have increased the risk to earnings. This is being reflected in equity risk premiums (earnings yield less 10-Year Treasury yield) which have fallen to two-decade lows, but starting points matter, and markets appear to have already discounted a more tenuous outlook for earnings. Today, the current macro appears to be set-up for a risk-off, more defensive environment—at least until tariffs are negotiated away or the Fed is ready to cut rates again.

Within our three-basket approach to portfolio construction, we did incrementally reduce some exposure to our Emerging Franchise positions, which are sustaining growth at higher rates but tend to carry a higher volatility profile than companies in our Consistent Earner or Basic Value baskets. With the probability of softer economic growth, or a recession, increasingly appearing to be a more likely outcome, we remain cautious around certain segments of the small and mid-cap universe where valuations appear to have become stretched. Our positioning within segments of the market with higher profitability reflects our concerns about an uncertain economic picture and the potential for sustained market volatility.

Our investment approach remains consistent, and we continue to target companies across a range of sectors which we believe can compound over time and across a variety of economic outcomes. In times like these, prices often do not tell you what fundamentals do, and we maintain a long-term perspective focusing on companies which possess earnings visibility and that are less likely to be victimized by macroeconomic factors outside of their control. We believe that combining a long-term view with our investments' healthy balance sheets and strong free cash flow should allow our holdings to survive and thrive in the current environment—even if equity markets remain volatile for longer than we would wish.

TEN LARGEST EQUITY HOLDINGS (%) AS OF 28 FEBRUARY 2025	REP. ACCT.
Casella Waste Systems, Inc.	3.9
LPL Financial Holdings, Inc.	3.6
Pinnacle Financial Partners, Inc.	3.1
TXNM Energy, Inc.	3.1
Applied Industrial Technologies, Inc.	2.9
Clean Harbors, Inc.	2.9
Western Alliance Bancorp	2.9
Nutanix, Inc.	2.7
Group 1 Automotive, Inc.	2.7
Vertiv Holdings Co.	2.6

BASKET ALLOCATION (%)	REP. ACCT.
Basic Value	37.1
Consistent Earner	34.5
Emerging Franchise	26.1
Cash	2.3

TOP 5 CONTRIBUTORS (%) REP. ACCT. (GROSS) | 1Q25	AVERAGE WEIGHT	CONTRIB. TO RETURN
BJ's Wholesale Club Holdings, Inc.	2.56	0.57
TXNM Energy, Inc.	2.89	0.27
TechnipFMC plc	2.47	0.26
Nutanix, Inc.	2.38	0.23
DT Midstream, Inc.	0.42	0.21

BOTTOM 5 DETRACTORS (%) REP. ACCT. (GROSS) | 1Q25	AVERAGE WEIGHT	CONTRIB. TO RETURN
Agilysys, Inc.	2.14	-1.14
Vertiv Holdings Co.	2.88	-1.06
SunOpta, Inc.	2.35	-0.97
Deckers Outdoor Corp.	1.87	-0.96
Coherent Corp.	2.56	-0.85

Source: FactSet

Past performance does not guarantee future performance. Performance characteristics are reported gross of fees and do not reflect the deduction of all fees and expenses that an investor has paid or would have paid. Gross data could appear better in comparison to net data. The net and gross performance of the total portfolio from which the data was calculated is included on page one.

The securities discussed are for illustrative purposes only and do not represent a recommendation to buy or sell any security. The analysis or data presented is not intended to represent performance of all securities within a portfolio, which can be lower than what is presented here or than what might be inferred given the analysis. It should not be assumed that the securities were or will be profitable, or that the investment decisions we make in the future will be profitable. Please see disclosure page for additional information.

Important Information

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Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 March 2025

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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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.

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).

The Bloomberg United States Recession Probability Forecast displays the median probability of recession based on forecasts derived from the latest monthly and quarterly surveys conducted by Bloomberg and from forecasts submitted by various banks

The Russell 2500 Index (Russell 2500 TR) measures the performance of the 2,500 smallest companies in the Russell 3000 Index, with a weighted average market capitalization of approximately $4.3 billion, median capitalization of $1.2 billion and market capitalization of the largest company of $18.7 billion.

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 ($45.5B) and assets under advisement ($1.2B).

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