Thornburg Small/Mid Cap Core Strategy

Portfolio Manager Commentary
30 June 2024

Thornburg

Market Review

After a pullback in April, U.S. equities began regaining momentum by the middle of May. While large caps ultimately registered another positive quarter, the increasing likelihood of a higher for longer rate environment adversely weighed on more rates sensitive small and mid-cap stocks. The U.S. economy showed some signs of slowing during the period, as first-quarter GDP came in at a weaker-than-expected 1.4%. Inflationary pressures also continued to moderate over the past few months, but May's Core CPI print of +3.4% remains well above the Fed's 2% target. Given the current setup, the Fed does not appear to be in a rush to lower rates with markets now forecasting only one rate cut for 2024, down from three projected rate cuts when the quarter began and from six cuts entering the year.

After signs that market participation looked to be broadening during the first three months of the year, wider breadth failed to materialize during the second quarter with select companies exposed to artificial intelligence dominating index performance. As a result, U.S. growth stocks were once again the top performing segment of the global equity market—with the 'Magnificent Seven' contributing more than 100% of returns for the MSCI ACWI Index. Within U.S. small and mid-cap segments of the market, style leadership was more balanced, with both value and growth indices down by similar levels. Performance was also significantly less concentrated, as more traditionally defensive sectors like utilities and consumer staples led returns.

> We continue to target durable companies across sectors we believe can compound over time in a variety of economic outcomes.

Portfolio Managers

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Portfolio Manager

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Supported by the entire Thornburg investment team

ANNUALIZED RETURNS (%) AS OF 30 JUNE 2024	**QTR**	**YTD**	**1-YR**	**3-YR**	**ITD (1 JAN 21)**
Composite (Gross)	-2.84	7.56	16.70	1.18	4.28
Composite (Net)	-3.05	7.10	15.70	0.32	3.39
Russell 2500 Index	-4.27	2.35	10.47	-0.29	4.32

CALENDAR YEAR RETURNS (%)	**2023**	**2022**	**2021**
Composite (Gross)	14.68	-18.46	15.13
Composite (Net)	13.70	-19.17	14.18
Russell 2500 Index	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%.

Second Quarter 2024 Performance Highlights

- In 2Q24 the portfolio (net of fees) returned -3.05%, 122 basis points ahead of the Russell 2500 Index. Year to date the portfolio (net of fees) returned 7.1%, 475 basis points ahead of the Russell 2500 Index.
- Top performing sectors for the portfolio were Information Technology, Consumer Discretionary, and Financials where bottom-up stock selection drove most of the outperformance. The largest detractor from a sector perspective was Real Estate, where stock selection contributed to underperformance.
- The portfolio's overweight allocation to companies with market capitalizations over $12 billion was a positive, as larger cap stocks within the universe outperformed smaller cap companies. Stock selection related to the mid-cap segment of the market capitalization range also contributed positively to relative performance.

Current Positioning and Outlook

Our continued positioning within segments of the market with higher profitability reflects our concerns about an uncertain economic picture and the potential for interest rate uncertainty to sustain market volatility. This positioning was a headwind to relative performance during the fourth quarter, where the market's rapid transition to a more optimistic outlook for a soft landing and easier monetary policy drove less profitable segments of the market but has been a catalyst for the portfolio's outperformance during the first half of the year. As markets have pushed out expectations for Fed rates cuts, in response to resilient economic data and stickier inflation, small and mid-cap equities have traded with more emphasis on company-level earnings than during the rally in late 2023. This shift in leadership has been beneficial for our higher quality, less cyclical positioning, with the portfolio adding 470 basis points of outperformance during the first half 2024.

The continued resilience of the U.S. economy has led us to reduce some of our defensive positions within our Consistent Earners basket and incrementally increase exposure to our higher growth-oriented Emerging Franchise basket. While we view the probability of a soft or no landing as an increasingly more likely outcome, we remain cautious that certain segments of the small and mid-cap universe have become stretched. With the increasing possibility of a higher-for-longer scenario, we expect some pressure on valuations until earnings prove to be supportive. We continue to remain vigilant on the potential challenges for the U.S. economy, especially if inflation remains stickier than the market expects, and rate cuts are delayed further. Our investment approach remains consistent, and we continue to target durable companies across a range of sectors which we believe can compound over time and across a variety of economic outcomes.

TEN LARGEST EQUITY HOLDINGS (%) AS OF 31 MAY 2024	REP. ACCT.
Casella Waste Systems, Inc.	3.6
Vertiv Holdings Co.	3.4
Clean Harbors, Inc.	3.0
LPL Financial Holdings, Inc.	2.7
TechnipFMC plc	2.6
PetIQ, Inc.	2.5
MYR Group, Inc.	2.4
BJ's Wholesale Club Holdings, Inc.	2.4
Agilysys, Inc.	2.4
Avantor, Inc.	2.4

TOP 5 CONTRIBUTORS (%) REP. ACCT. | 2Q24	AVERAGE WEIGHT	CONTRIB. TO RETURN
Agilysys Inc	2.31	0.50
PetIQ Inc	2.37	0.48
Coherent Corp	2.28	0.44
Pure Storage Inc	2.06	0.43
Clean Harbors Inc	2.98	0.37

BOTTOM 5 DETRACTORS (%) REP. ACCT. | 2Q24	AVERAGE WEIGHT	CONTRIB. TO RETURN
Builders FirstSource Inc	2.43	-0.99
DigitalBridge Group Inc	1.80	-0.69
MYR Group Inc	2.48	-0.67
SunOpta Inc	2.01	-0.50
Avantor Inc	2.41	-0.43

Source: FactSet

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

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BASKET ALLOCATION (%)	REP. ACCT.
Basic Value	34.9
Emerging Franchise	33.7
Consistent Earner	30.0
Cash	1.4

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 30 June 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.

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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).

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.

Core CPI - Consumer Price Index minus the energy and food components.

Gross Domestic Product (GDP) - A country's income minus foreign investments: the total value of all goods and services produced within a country in a year, minus net income from investments in other countries.

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.

The MSCI ACWI Index (MSCI ACWI NTR) is a market capitalization weighted index that is representative of the market structure of 47 developed and emerging market countries in North and South America, Europe, Africa, the Middle East, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

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 ($43.5B) and assets under advisement ($1.1B).

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