CNBC

This income-building fund stayed resilient this year by focusing on the 'power of dividends'

By Sarah Min
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Ben Kirby says his fund has stayed resilient this year by doing what it's always done: remembering the "power of dividends."

While the S&P 500 slid into a bear market this year, down more than 25%, the Thornburg Investment Income Builder (TIBIX) declined 18.5% over the same time period, according to data from Morningstar.

The co-head of investments and managing director at Thornburg said the fund, a global multi-asset portfolio focused on income, managed to protect against the worst of the downside because of its defensive tilt. While investors dumped shares of unprofitable companies this year, Kirby noted that every holding in his portfolio turns a profit, has positive cash flow, and pays a dividend.

"People forget about the power of dividends, and they forget how important it is to get that current income," Kirby said. "We have a portfolio yielding about 6% on an underlying basis. So if you're collecting that income every day, which we do, that tends to be very helpful for your quarter total return, especially in a market where prices are falling."

The process has also helped TIBIX, which has roughly $9.3 billion in assets, outperform over the long-term. The fund is ranked in the second quartile of funds over 1- and 3-year time frames, according to Morningstar, but climbs to the top quartile over 5- and 10-year periods.

Raising fixed income

Among the biggest changes that Kirby is making to his portfolio in a year marked with Federal Reserve interest rate increases and growing recession concerns, is raising the fund's fixed income allocation.

Today, TIBIX has a roughly 16% allocation to fixed income, compared with "closer to 10%" over the past decade, according to the fund manager. TIBIX has averaged a 20% allocation to fixed income over the very long term, and allocated as much 45% during the height of the financial crisis.

Kirby said he's comfortable raising the allocation to 20% or 25%, depending how markets move over the next several months. "We're not targeting a number exactly, but the direction is higher. And you know, I can see us going back above our long term average of 20%," Kirby said.

The portfolio is broadly invested in corporate credit, while also finding some opportunity in securitized investments.

"We're trying to find things that are additive to the yield of the portfolio. But at the same time, are not so far down the capital stack that there's any material chance of capital impairment in the case of a recession," he said.

Still, Kirby said he's taking his time allocating more to fixed income as he finds many equities very attractive. "We're seeing value on both sides," he said.

Preparing for a recession

The portfolio manager said he's focusing on stock picks that would still be cheap in a recession scenario, even if earnings estimates get cut by as much as 20%.

"There are pockets of the market where it seems like we're further along in pricing the earnings slowdown and we think that our portfolio has a lot of value," he added.

Among the stocks in the portfolio that Kirby is most bullish on is French telecommunications stock Orange, which has a nearly 7% dividend yield and a single-digit P/E ratio. The manager expects the stock, which is trading at a low multiple, can only get a higher price-to-earnings ratio over time.

Top 10 equity holdings as of August 2022

Name	% of Portfolio
TotalEnergies SE	4.41%
Orange SA	3.79%
Broadcom Inc	3.21%
Vodafone Group PLC	3.13%
CME Group Inc Class A	3.11%
Taiwan Semiconductor Manufacturing Co Ltd	3.08%
BNP Paribas Act. Cat. A	2.90%
Pfizer Inc	2.84%
Samsung Electronics Co Ltd	2.61%
Tesco PLC	2.54%

Table: CNBC Pro • Source: Morningstar • Created with Datawrapper

He also noted that a stronger dollar helped the fund snap up the stock at a discount. It's "an interesting thing to think about in terms of diversifying outside the U.S.," he said.

Kirby also expects that energy companies will continue to gain, helped by rising oil prices, as well as several years of underinvestment. The fund's single-largest position is in TotalEnergies, another French company.

Going forward, Kirby expects that investors seeking defensive companies will have to find ones that aren't overvalued after their run-up this year. The investor said he still favors health care, such as pharmaceutical stocks Merck, Pfizer and Roche, but believes consumer staples, utilities and beverage stocks are overvalued.

A focus on businesses with a competitive moat, strong cash generation and sustainable margins will help protect portfolios, he argues.

"In a year where risk aversion has been high, people have preferred to rotate into those more defensive, resilient businesses, which is what this portfolio is built on," he said.

Annualized Total Returns as of September 30, 2022	1-YR	3-YR	5-YR	10-YR	SINCE INCEP.
Thornburg Investment Income Builder Fund, Class I Shares	-11.61%	1.07%	2.72%	5.15%	8.15%
Investment Income Builder Blend	-18.22%	2.85%	4.14%	6.45%	6.78%

Class I shares date of inception: 11/3/03

Thornburg Investment Income Builder Fund's Blended Index is composed of 25% Bloomberg U.S. Aggregate Total Return Value USD and 75% MSCI World Net Total Return USD Index, rebalanced monthly.

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.

The total annual fund operating expenses are as follows: A shares, 1.18%, I shares, 0.94%. The maximum sales charge for the equity funds' A shares is 4.50%. There is no up-front sales charge for class I shares.

Top 10 holdings as of 8/31/22: TotalEnergies SE, 4.4%; Orange S.A., 3.8%; Broadcom, Inc., 3.2%; Vodafone Group plc, 3.1%; CME Group, Inc., 3.1%; Taiwan Semiconductor Manufacturing Co. Ltd., 3.1%; BNP Paribas S.A., 2.9%; Pfizer, Inc., 2.8%; Samsung Electronics Co. Ltd., 2.6%; Tesco plc, 2.5%.

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To determine a fund's Morningstar Rating™ , funds and other managed products with at least a three-year history are ranked in their categories by their Morningstar Risk-Adjusted Return scores. The top 10% receive 5 stars; the next 22.5%, 4 stars; the middle 35%, 3 stars; the next 22.5%, 2 stars; and the bottom 10% receive 1 star. The Risk-Adjusted Return accounts for variation in a managed product's monthly excess performance (excluding sales charges), placing more emphasis on downward variations and rewarding consistent performance. Other share classes may have different performance characteristics.

Morningstar quartile ranking for Global Allocation category is based on total returns before sales charges for 1-, 3-, 5- and 10-years, among 425, 405, 354 and 252 funds, respectively, as of 30 Sep 2022.

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. Portfolios investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise.

Investments in the Fund are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any entity.

Portfolio attributes and holdings can and do vary.

Neither the payment of, or increase in, dividends is guaranteed.

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. Class R shares are limited to retirement platforms only.

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Value USD is composed of approximately 8,000 publicly traded bonds. The index is weighted by the market value of the bonds included in the index. Indices do not take into account fees and expenses. Investors cannot make direct investments in an index.

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