

# Thornburg Small/Mid Cap Core Fund

## Portfolio Manager Commentary

31 December 2024



### Market Review

The U.S. Federal Reserve began its well-telegraphed monetary loosening in September with a hefty 50-basis point cut to its target range, following up with two more 25-basis point reductions in November and December. Yet monetary policymakers' rather hawkish rhetoric tempered expectations for faster easing, bolstering the U.S. dollar and weighing on non-U.S. equities.

Interestingly, yields on longer-term U.S. Treasuries rose around as much as the Fed cut its benchmark rate, as U.S. sovereign bond prices fell. The re-election of former president Donald Trump boosted U.S. equities amid expectations of a business-friendly administration taking over in Washington. A new de-regulation drive and potential tax cuts may help sustain U.S. economic resilience, but tariffs and a gaping fiscal deficit make fixed income markets nervous. Small and mid-cap segments of the market bounced especially hard on election sentiment, but the relative gains vs large cap peers were ultimately erased following the Fed's aforementioned hawkish tone later in the quarter.

The AI theme continued to buoy the tech sector not just in the U.S., but in Japan, the U.K., Switzerland, France, China, South Korea and Taiwan. Demand for AI infrastructure-related hardware and software continued to run strong as the hyperscalers devote massive capex for the buildout, which promises real productivity enhancements down the road. But it's not a smooth ride, as some semiconductor stocks showed toward the end of 2024. There is always turbulence within long-term structural tailwinds.

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

### Portfolio Managers

**Steven Klopukh, CFA**

Portfolio Manager

**Tim McCarthy, CFA**

Portfolio Manager

Supported by the entire Thornburg investment team

#### AVERAGE ANNUAL TOTAL RETURNS (%)

AS OF 31 DECEMBER 2024

|                                   | QTR   | YTD   | 1-YR  | 3-YR | 5-YR | 10-YR | ITD  |
|-----------------------------------|-------|-------|-------|------|------|-------|------|
| A Shares TVAFX (Incep: 2 Oct 95)  |       |       |       |      |      |       |      |
| Without sales charge              | 3.16  | 19.42 | 19.42 | 2.82 | 6.68 | 8.14  | 9.36 |
| With sales charge                 | -1.49 | 14.04 | 14.04 | 1.25 | 5.71 | 7.64  | 9.19 |
| I Shares TVIFX (Incep: 2 Nov 98)* | 3.26  | 19.92 | 19.92 | 3.26 | 7.10 | 8.55  | 9.78 |
| Russell 2500 Index                | 0.62  | 12.00 | 12.00 | 2.39 | 8.77 | 8.85  | 9.80 |

#### EXPENSE RATIOS (%)

|                                   | GROSS | NET  |
|-----------------------------------|-------|------|
| A Shares TVAFX (Incep: 2 Oct 95)  |       |      |
| Without sales charge              | --    | --   |
| With sales charge                 | 1.36  | 1.36 |
| I Shares TVIFX (Incep: 2 Nov 98)* | 1.08  | 0.95 |

\*Prior to inception of this share class, performance is hypothetical and was calculated from actual returns of the class A shares adjusted for the expenses of the newer share class.

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 2026, 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 2024 Performance Highlights

- In 4Q24 the portfolio (I share class) returned 3.26%, 264 basis points ahead of the Russell 2500 Index. Year to date the portfolio (I share class) returned 19.92%, 792 basis points ahead of the Russell 2500 Index.
- Stock selection in information technology drove relative performance for the top sector contributor. A zero-weight allocation to materials also contributed. The largest detractors from a sector perspective were industrials and consumer discretionary, where stock selection hampered performance.
- The portfolio's stock selection in companies with market capitalizations over \$12 billion, an overweight allocation compared to the index, detracted from relative results. Stock selection related to the mid-cap segment of the market capitalization range elevated relative performance.

### Current Positioning and Outlook

Our positioning within segments of the market with higher profitability reflects our concerns about heightened policy risks, particularly on tariffs, and the potential for interest rate uncertainty to sustain market volatility. This positioning was a catalyst for the portfolio's outperformance during the first half of the year, but hampered performance somewhat during the third quarter, where the market's rapid transition to a more optimistic outlook for a soft-landing drove less profitable segments of the market. As the Fed signaled a potential for a "higher-for-longer" rate environment, the portfolio was again aided from a bias to higher quality segments of the market. Our positioning during 2024 has been beneficial with the portfolio adding 792 basis points of outperformance during the calendar year.

While recession fears have eased, election uncertainty, and the Fed's more cautious pivot regarding further rate cuts led us to incrementally reduce exposure within our more cyclically sensitive Basic Value basket and modestly increase exposure to our more economically durable Consistent Earners 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. Despite initial rate cuts, rates may not fall as quickly as many expected, which could pressure 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. 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.

#### TEN LARGEST HOLDINGS

| AS OF 30 NOVEMBER 2024                | % FUND |
|---------------------------------------|--------|
| Casella Waste Systems, Inc.           | 3.5    |
| Vertiv Holdings Co.                   | 3.2    |
| Pinnacle Financial Partners, Inc.     | 3.1    |
| Clean Harbors, Inc.                   | 3.1    |
| Agilysys, Inc.                        | 2.9    |
| Applied Industrial Technologies, Inc. | 2.8    |
| Coherent Corp.                        | 2.7    |
| Western Alliance Bancorp              | 2.6    |
| LPL Financial Holdings, Inc.          | 2.6    |
| SunOpta, Inc.                         | 2.6    |

#### TOP 5 CONTRIBUTORS (%) 4Q24

|                              | AVERAGE WEIGHT | CONTRIB. TO RETURN |
|------------------------------|----------------|--------------------|
| LPL Financial Holdings Inc   | 2.61           | 0.83               |
| MYR Group Inc                | 2.05           | 0.70               |
| Wyndham Hotels & Resorts Inc | 2.04           | 0.51               |
| Agilysys Inc                 | 2.70           | 0.46               |
| SunOpta Inc                  | 2.37           | 0.45               |

#### BOTTOM 5 DETRACTORS (%) 4Q24

|                          | AVERAGE WEIGHT | CONTRIB. TO RETURN |
|--------------------------|----------------|--------------------|
| Builders FirstSource Inc | 2.28           | -0.64              |
| Smith Douglas Homes Corp | 1.41           | -0.51              |
| Avantor Inc              | 1.90           | -0.43              |
| Tenet Healthcare Corp    | 1.25           | -0.36              |
| Walker & Dunlop Inc      | 2.34           | -0.34              |

Source: FactSet

#### BASKET ALLOCATION

|                    | % FUND |
|--------------------|--------|
| Basic Value        | 34.8   |
| Consistent Earner  | 33.4   |
| Emerging Franchise | 29.7   |
| Cash               | 2.0    |

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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 2024.

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 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.

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.

**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 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 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 \$45.3\* billion in total assets across mutual funds, institutional accounts, separate accounts and UCITS.



\*Includes assets under management (\$44.1B) and assets under advisement (\$1.2B).