ticker

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Quality, Price and Path to Success

Businesses with a stable customer base and strong management are particularly attractive to investors when they are trading at a reasonable price. Vinson Walden, co-portfolio manager of the Thornburg Global Opportunities Fund, and his team follow a strict discipline in looking for these attractive stocks of superior businesses around the world.

Vinson Walden, CFA
Portfolio Manager and Managing Director

Vinson Walden is portfolio manager for Thornburg Investment Management. He joined the firm as associate portfolio manager in 2002 as a member of the investment team. He was promoted to portfolio manager in 2006.

Vinson holds a BS from Boston University and an MBA from Columbia University. He is a CFA charterholder. Prior to joining Thornburg, Vinson served as an associate for Lehman Brothers in New York City.

What is the history of the fund?

Along with our Chief Investment Officer, Brian McMahon, I am the co-founder and co-manager of the Thornburg Global Opportunities Fund, which was launched on July 28, 2006.

Our investment philosophy and tactics have remained the same since inception. Using the principles of classic value investing, we choose global stocks, diversify the portfolio across both geography and industry, and tend to hold investments for relatively longer periods.

When I joined Thornburg Investment Management in 2002, the firm had roughly $4 billion in assets under management (AUM). That figure has since grown to about $50 billion.

What core beliefs drive your investment philosophy?

Essentially, we believe good investments share three characteristics: they are high-quality, low-priced businesses that have what we call the "hypothesis of the future" – in other words, they can demonstrate a path to success. It's been a successful formula for our clients.

In forming our hypothesis, we try to understand how an investment could play out, looking for approaching milestones and whether changes are unfolding – whether in the industry, for the company, or to the regulatory landscape – that could affect a positive result. Putting this all together gives us an idea of how business conditions may change.

For us, timeframe is essential; we think of our investments on a three-year time horizon at the minimum. Overall, it's important not to have positive expectations for the fund every month or quarter. With at least a three-year timeframe, we have some confidence, but the longer we commit the better the outcome.

What is your definition of quality?

For us, quality boils down to competitive strength. We look for companies with a finite number of competitors in stable industries so they aren't vulnerable to new challengers sneaking up on them, or to technological obsolescence. To us, high quality isn't a company that just did well last year, but one which will remain strong for five or 10 years longer.

An example of "quality as competitive strength" is Aena SME SA, which operates airports in Spain. The company is currently one of the fund's largest holdings. From a competitive standpoint, Aena is in an extremely comfortable position and we are willing to bet its business model will last a long time. What's special about the company is it's state-owned – it's a monopoly that operates airports and heliports for the entire country of Spain.

"We are looking for three things, essentially, in a good investment. They are a high-quality business, a low price, and a path to success; a path to success is a hypothesis about the future."

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Elsewhere in Europe, airport operators typically manage one location or a regional collection of airports, and they compete against each other. For instance, in London there are three or four airports in competition. This gives Aena an extra advantage. It doesn't need to worry about an airport in Barcelona competing with one on the outskirts of the city, because it owns both of them.

In addition, through its subsidiary, Aena International, the company also participates in managing 16 airports abroad. But the vast majority of the profit comes from its home country, and Aena doesn't pursue expensive international expansion.

According to your research, why does Aena qualify as a high-quality business?

Aena's business is extremely profitable. Not only is its competition quite limited, the company benefits from steady demand because it participates in all the air traffic going into and out of Spain. For visitors from cold-weather countries, Spain is an attractive tourist destination because it is sunny, warm, and peaceful; recently it's become even more popular.

Further, the Spanish economy is recovering after a long recession and adjustment period. The country leads Europe in a number of macroeconomic trends and this is reflected in its air traffic, which has been growing in high single-digits for a long time – this year, it's growing at a rate of around 8%.

Another beneficial trend at play is the growth of low-cost airlines. As air travel gets cheaper, it stimulates the travel market, which is growing much more rapidly than the overall economy. We see this all over Europe: though GDP growth is 1% or 2%, the increase in air traffic is significantly higher.

Can you describe your research process?

Our approach to research is fairly holistic. To get a full understanding of companies and the ecosystems they operate in, we consider all the usual publicly-available information and sources, including financial statements, company websites, and transcripts of management interviews. Travel is routine, too, and we often engage with companies and meet management teams, as well as their competitors and suppliers.

To winnow the field of thousands of investable companies, we filter them through our three core beliefs – they must be high-quality businesses, trade at a low price, and have a path to success. This gives us a manageable but still appealing buffet of companies to choose from. With only 30 to 40 holdings in the portfolio, we don't have to follow every company or generate a lot of new ideas every year – just a handful is all we need.

Would you discuss more examples?

A longstanding investment that we believe is still a promising, high-quality business today is Galaxy Entertainment Group Limited, a casino and hotel operator located in Macau, which is a special region of China. The business has strong and steady demand, limited competition in an undersupplied market, and significant growth drivers.

Although it's not a monopoly, Galaxy is in a decidedly comfortable competitive situation. Macau, which is often referred to as "the Vegas of China," is the only legal gambling destination in that entire country – and it's our belief it will remain so. Because there are only six licensed casino operators in Macau, competition is limited and the market is undersupplied.

In China, the rising middle class has a lot more disposable income. Tourism and travel are growth drivers in China, with Macau being a big beneficiary. Like Vegas, people go to Macau not just for the gaming but also for shows, entertainment, and shopping. After a statistical analysis of the popularity of Las Vegas relative to the United States' economy, we concluded that Macau's economy is still in the earliest stages of development and see strong growth prospects for Galaxy over the next 10 years.

Another example is our recent purchase of the Indian petrochemical conglomerate, Reliance Industries Limited. Although its main business is in that space, the company has invested billions of dollars to build a state-of-the-art telecom network because the market is undersupplied in India. Existing telecom firms don't have modern assets or investment programs, giving Reliance Industries a chance to come in and lead by providing a newer and better network.

We purchased Reliance Industries around year end, and it's off to a good start – it's one reason we've had good results recently. In the longer term, our belief is the company's telecom investment will bear fruit.

How do you adhere to your sell discipline?

All sales stem from an effort to improve the portfolio, but they can be triggered by a number of things. In every case, though, having a focused portfolio like ours compels us to be quite discriminating and constantly compare companies from a risk-reward perspective.

Changes within a company or to its valuation can lead us to sell. For instance, with this year's strong run in the markets, we sold some things outright simply because their prices had become high relative to our internal appraisals. A sale could also be triggered when something isn't developing as we expected; we may decide to move on and continue running the portfolio from a future Internal Rate of Return (IRR) perspective.

The portfolio's turnover was approximately 30% last year, due in part to the Brexit anxiety which caused us to make a lot of changes – adjustments that have since proven beneficial. In 2016, we had to make room in the portfolio for seven new holdings. However, our target holding period is generally three to five years, so our pace is relatively slow and deliberate; there's no frantic activity or daily trading.

We generally stay with the stocks we own for many, many years, adjusting position sizes accordingly in times of relative strength or weakness; as shares appreciate, we tend to reduce position size. Google is a good example. We've owned it for about eight years but not at a constant position size, as

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we've been able to sell it on strength and buy more on weakness. This works out if a share price fluctuates over time, except in cases like the bank stocks recently, which haven't pulled back to provide the opportunity to buy on weakness.

How do you define and manage risk?

For us, risk boils down to the probability and severity of impairment to capital, with permanent loss being the ultimate risk. We recognize that mistakes happen, as do disappointments and surprises in the market, and can easily absorb a modest setback. Large losses, however, are a different matter because they can impair the compounding of the portfolio.

The key to compounding is to avoid big losses. To avoid them at the portfolio level, we must avoid them at the level of the individual stock, so we are extra careful with names that may have the potential for particularly unattractive downside risk. This involves hypothesizing about plausible downside scenarios – thinking about what could go wrong and how bad it could get.

In the market we encounter plenty of unattractive companies for which there's no lower limit should something go wrong—for instance a declining business that also has a tough balance sheet. Suffice to say that's something to avoid! In contrast, there's not nearly as much risk with companies that are competitively entrenched and have balance sheet strength. T

Thornburg Global Opportunities Fund

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Source: Company Documents

About Ticker Q&A

Our research staff analyzes and selects funds based on their consistency in performance and durability of investment style.

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Thornburg Global Opportunities Fund
Total Returns (as of 9/30/17)

	YTD	1-YR	3-YR	5-YR	10-YR	SINCE INCEP.
A Shares THOAX (Incep: 7/28/06)						
Without sales charge	18.27%	24.85%	9.60%	14.65%	6.04%	10.51%
With sales charge	12.93%	19.25%	7.93%	13.60%	5.55%	10.05%
I Shares THOIX (Incep: 7/28/06)	18.55%	25.31%	9.98%	15.10%	6.51%	11.01%
MSCI AC World Index (Since 7/28/06)	17.25%	18.65%	7.43%	10.20%	3.88%	5.82%

Returns are annualized for periods greater than one year.

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 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. The total annual fund operating expenses are as follows: A shares, 1.35%; I shares, 0.99%.

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.

As of 8/31/17 the top 10 positions of the fund were: Altice N.V., 5.8%; Aena S.A., 5.7%; Alphabet, Inc. Class A, 4.7%; Baidu, Inc. ADR, 4.6%; T-Mobile US, Inc., 4.1%; Citigroup, Inc., 4.0%; Ryanair Holdings plc ADR, 3.9%; Wynn Resorts, Ltd., 3.5%, Galaxy Entertainment Group Ltd., 3.4%; CF Industries Holdings, Inc., 3.4%.

Funds invested in a limited number of holdings may expose an investor to greater volatility.

Internal Rate of Return (IRR) – The interest rate at which the net present value of all the cash flows (both positive and negative) from a project or investment equal zero.

The MSCI All Country (AC) World Index is a market capitalization weighted index that is representative of the market structure of 46 developed and emerging market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

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.

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. Read them carefully before investing.

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