

Going Anywhere to Find Value

Wendy Trevisani, the co-manager of the Thornburg International Value Fund together with Bill Fries and Lei Wang, runs a focused and, yet, diversified portfolio. With no constraints on industries, capitalization sizes, or geographies, the fund looks anywhere to find value and growth potential, including the emerging markets. Its long-term bias and a global approach allow the fund to spot opportunities that others may neglect and play them in a variety of ways.

Q: What's your investment philosophy and why do you believe that this is the right way to manage money?

A: Our investment philosophy is based on the idea of finding promising companies at a discount. It is a "Go anywhere" strategy, and we look for value globally, regardless of the capitalization size or the geography. Growth is not a dirty word for us as we include companies that are growing and have a path to future success.

The common characteristic of the stocks we buy is that we buy them when they're trading at a discount to intrinsic value. We are long-term investors and we look forward at least 18 to 24 months. We don't place too much importance on quarterly results although we may be provided with opportunities to add to our names.

It is a focused although diversified portfolio. We take significant positions and every stock counts as we hold only 50 to 65 names with typical position sizes in the 1.5% to 3.5% range. Nevertheless, the portfolio represents nearly 20 different countries and 18 different sectors. It is a core portfolio that is built to participate in rising markets and to provide protection in down markets. We've done well both on absolute and relative basis in the bull markets, but our best relative performance was in the period 2000 through 2002 when the market rolled over. Because of our sell

discipline and value orientation, we moved out of appreciated stocks that had reached target prices in early 2000 to other areas where we found value.

We've been strictly adhering to our philosophy and process since we launched our equity funds in 1995. It is this long-term philosophy that initially attracted me to Thornburg. In 1996, I had the opportunity to intern here and to work with Bill Fries, who was managing about \$100 million in our newly launched Value Equity fund at the time. Since then equity assets under management have grown to about \$35 billion, but despite this growth, the process and the philosophy haven't changed.

Q: What type of companies do you look for?

A: We define value by three different metrics and all of our holdings fall under one of these three categories. The first category, which represents 30% to 50% of the portfolio, is basic value and includes stocks that are more mature and, perhaps, more cyclical in nature. These stocks are trading at low price-to-earnings and price-to-book ratios relative to history or to peers.

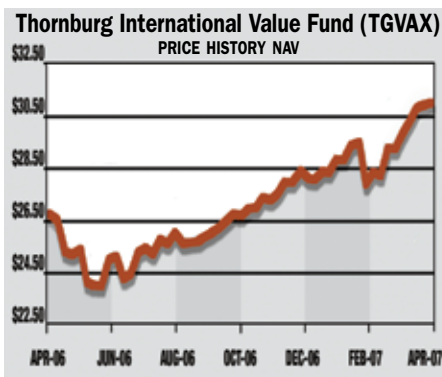
The next basket is classified as consistent earners. These tend to be blue-chip names; companies with steady top and bottom-line growth and higher returns on equity. We like to buy them when they're out of favor



WENDY TREVISANI joined Thornburg Investment Management as an Associate Portfolio Manager in 1999, and was elected Managing Director in 2003. Her responsibilities include portfolio management, research, and analysis of companies for consideration in the Thornburg International Value and Thornburg Value Funds, as well as all Thornburg equity funds. Trevisani is also responsible for evaluating existing positions and overall equity fund performance.

Prior to joining Thornburg, Trevisani served as an Institutional Sales Representative for Salomon Smith Barney in both New York City and London. Trevisani holds a Masters in Business Administration with a concentration in Finance from Columbia University, and a BA in International Relations from Bucknell University.

“It is a core portfolio that is built to participate in rising markets and to provide protection in down markets.”



and trading at a discount. Typical names in this category include pharmaceuticals, retailers, luxury and consumer goods companies. They represent 30% to 50% of the portfolio.

The third basket, which we limit to 25% of the portfolio, is emerging franchises, which are names that tend to be growing faster. They may be smaller but their position in the marketplace is improving, and we believe that they can be leaders in their space. This category may include the cellular companies in the emerging markets or companies in the biotechnology space. We don't require all of them to be profitable but we look for cash flow that is invested for growth.

Since we have a "Go anywhere" strategy, our universe also includes the emerging markets. We tend to invest in the more advanced emerging markets, not in the geo-politically volatile areas, and we tend to own the blue-chip premium franchises in that region. Some examples include Embraer, the Brazilian regional jet manufacturer, the mobile telecoms America Movil and China Mobile, as well as Sberbank in Russia.

But the core of our philosophy is that we don't *have* to be in emerging markets or anywhere for that matter. We are bottom up in our approach. We come up with an idea, we do our research, we buy the stock if we believe it is worth buying, and then we place it in the appropriate category. So we're relatively benchmark agnostic.

Q: What are the most important elements of your research process? How do you generate ideas?

A: We generate ideas in numerous ways. Often while we research an idea, something else in that industry comes up. We do thorough analysis, which includes evaluating global peers as well. Ideas may come up from management meetings or conferences that we attend. We also have a database of stocks that we have researched in the past and we monitor positions that we may have rejected. We revisit those stocks if they have intriguing valuation or a favorable change.

Another way we uncover ideas is running a variety of screens, including a value screen, which is based on multiples such as price-to-earnings, price-to-book, and price-to-cash flow. We run a fundamental improvement screen, which is oriented toward future growth. It includes earning surprises and earnings upgrades, and spots stocks that are likely to end up in the emerging franchise category. We also may include dividend yield because dividend payments can provide nice incremental return and show management's commitment to shareholder value.

We are task oriented. Each portfolio manager is also an analyst, and we start by getting as much basic information as we can via analyst reports, previous notes, the Internet, the company website, filings, etc. If the idea seems worth pursuing, we set up a call with the management. We compile a set of data that includes our investment thesis, the positives, the negatives, a sell thesis, and quantitative information.

We do comparative analysis between companies; we travel extensively; and we meet with management teams. We use the Internet and tele/video conferencing extensively, but meeting with the management, the qualitative elements of the business model, and our own financial modeling and assessment, are crucial for uncovering potential investments.

Q: How large is your investment team?

A: We have 12 equity professionals managing about \$35 billion, and there is continuous communication among our portfolio teams. We're all global generalists; no one is locked in a box as a sector analyst; and we are collectively responsible for the overall performance of the portfolios. A co-managed portfolio ensures that we are truly team oriented. At a minimum the three co-PM's - Lei Wang, Bill Fries, and I - have to agree on an investment and its size before buying a stock.

Q: Would you give us some examples of stock picks that illustrate your process?

A: One example would be Next, the U.K. retailer. I researched that company about two years ago, when the environment in the U.K. was still deteriorating and the valuation was compelling. However, not everyone on the team agreed at this point. Later, Lewis Kaufman, an associate portfolio manager on the International Value fund, came back from London very enthusiastic after meeting the company and visiting the stores. Meanwhile, the stock had retraced about 10% from my initial research. We revisited the idea and we got Bill Fries and Lei Wang on board.

It is a stock that was trading at about 10 times earnings with a compelling dividend yield. But what attracted us mostly was the management, whose philosophy doesn't fluctuate in different market environments. In fact, they increased the number of stores in a weak environment achieving attractive real estate deals. When the market rebounded, the stock reacted favorably and is probably up about 60% from our initial investment and still remains attractively valued.

Another name that we purchased early this year is Nokia. The company wasn't liked much at the time, but we do prefer to be contrarian. We have owned Nokia in the past when it was a growth company, and now it has become a value company trading at a forward-looking P/E ratio of 13.

Collectively, we had done a lot of work on cellular companies, and Nokia is a dominant handset provider to many of them. We concluded that even without major improvements, the stock was dramatically undervalued. Now they are improving the business and gaining market share, and everyone is upgrading the stock.

In the emerging franchise category, America Movil is a compelling investment with attractive valuation for the growth it provides. It is the leader in cellular communications based in Mexico, where there has been strong growth in wireless penetration. It is also expanding throughout Latin America.

A similar investment is China Mobile, where the growth of subscribers is amazing. They are more profitable than many of their developed market counterparts although they offer service at a very low cost to customers. Both of the companies are well positioned due to the growing popularity of cellular service, which is becoming more affordable as the GDP per capita is increasing.

The emerging markets represent an area of dramatic growth and there are interesting ways to explore that trend, not only directly, but also through developed market companies such as LVMH, Kingfisher, and SAB Miller, the dominant brewer in South Africa with significant exposure to Latin America.

Q: What is your buy and sell discipline?


A: Regarding purchases, it can take us two days or two months to buy a stock, depending on the case. We may decide to look for better entry points or for more information. We always try to know our companies as best as we can, and to develop a competitive advantage. Not only do we need to understand the financials, but we dig deep into the more qualitative elements, understanding the unit profitability, brand equity, the competitive landscape, the management team, and corporate governance issues. We try to attack each investment from many different angles.

We do establish price targets, and when a stock hits that target, we revisit our investment thesis. Usually, we sell a stock once it reaches our target. When prices fall, we are likely to add to an issue if our investment thesis is intact. Regardless of the stock performance, if we believe that our investment thesis is no longer valid and the fundamentals have deteriorated, we sell the stock. We do not ride the investment down because we own only 50 to 65 names. We also have limits on industry and emerging market exposure, so from time to time we will sell a stock to replace it with a better idea.

Q: How do you monitor and control risks?

A: Risk control is partially driven by our sell discipline and has everything to do with knowing our companies. Additionally, because we work together, we can look at the world from different angles. When we present a stock to our portfolio managers, any member of any equity portfolio can lend a unique perspective or ask tough questions, and that's a key way to get a better grasp on a company.

We also have limits on position sizes in the emerging franchises and emerging markets. In emerging franchises, we initially invest 2% or less and we limit all individual positions to 5%. Such cases are usually the result of rapid capital appreciation, and then we often trim the stock. Trimming is another way to manage risk, but a crucial part is having many eyeballs looking at the entire portfolio every day.

The stock selection process itself is important because knowing the names well and keeping up with them on a regular basis helps to mitigate risk. I would also mention the diversification by and within industries. We might have big exposure to the telecoms, but within that, we are exposed to emerging and developed markets, growing and mature telecoms, wireless and fixed line providers. Overall, we are bottom up stock pickers and every stock in our portfolio matters. 

Thornburg International Value Fund

Symbol	TGVAX
Website	www.thornburginvestments.com
Address	Thornburg Investment Management, Inc. 119 East Marcy Street, Suite 202 Santa Fe, NM 87501
Tel. No.	800-847-0200
Inception	05/28/1998

PORTFOLIO

Total Net Assets*	\$5,462
Avg Mkt Cap (\$ Weighted)*	\$61,452
Average Price/Earnings Ratio	18.95x
Average Price/Book Ratio	3.2x
Turnover Ratio	37%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$5,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$2,000

RISK (AGAINST EAFE INDEX NET - 3 YEARS)

Alpha	1.12
Beta	0.98
R-Squared	0.91
Ann. Std Deviation	9.51
Sharpe Ratio	2.1

RETURNS VS. MSCI EAFE ND INDEX

	TGVAX	Index
1 Year (Cum.)	19.02%	19.81%
3 Year (Ann.)	23.42%	22.51%
5 Year (Ann.)	16.69%	16.64%

RETURNS VS. MSCI WORLD GDP WT P INDEX

	TGVAX	Index
1 Year (Cum.)	19.02%	16.13%
3 Year (Ann.)	23.42%	17.22%
5 Year (Ann.)	16.69%	12.35%

FEES AND EXPENSES

Max Sales Charge - Front**	4.50%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee***	1.00%
Total Expense Ratio	1.33%

PORTFOLIO MANAGER

Bill Fries	05/28/1998
Lei Wang	02/01/2006
Wendy Trevisani	02/01/2006

*millions **for amount invested less than \$50,000

*** for first 30 days

Data through: 04/30/07

Source: Company Documents; Lipper

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