# From the Value Seat, the View Looks Good

JOSH LIPTON SEP 18, 2009

How one young fund manager survived the crash and lived to tell about it.

The market meltdown of 2008 had many consequences for Connor Browne, the 30-year-old co-manager of Thornburg Value (TVAFX), both professional and personal, but none more so than on his teeth.

After suffering through that brutal market downturn, Browne visited his local dentist, who was shocked by what he saw. The wear and tear on the investment pro’s choppers amazed him. In fact, he said he had never seen such wear on a person of Browne’s young age.

“He was flabbergasted,” Browne says. “I told him that, well, 2008 would do that to you.”

Fortunately for Browne, and his dental health, 2009 has so far proven a much better year. In fact, Morningstar just recently highlighted the Thornburg team as early contenders for domestic stock-managers of the year. The fund enjoyed a strong performance during the second-quarter, returning 30.04%, ahead of the S&P 500 Index return of 15.93%.

Browne, along with veteran stock pickers Bill Fries and Edward Maran, employs a distinctive strategy: Holdings are divided into three categories including basic value, consistent earners, and emerging franchises. The strategy works, as Thornburg boasts superior three-, five-, and ten-year returns.

Through September 16, the fund’s ten-year annualized return of 3.18% leads the S&P 500 by 3.5 percentage points, and bests 90% of its Morningstar peers.

Thornburg Value, which comes with a 4.5% front-end load, requires a minimum $5,000 investment.

Minyanville checked in with Browne recently at his office in Santa Fe, New Mexico to discuss the fund’s strategy and where he’s spotting opportunity right now.

**Minyanville:** Explain your investment strategy for us. What do you look for in a stock?

**Browne:** We are bottom up, fundamental stock-pickers. To us, if you are going to really know the name you’re investing in, then it makes sense to have a focused portfolio. Relative to many of our peers, we have a low number of holdings. Also, in each and every company, we look for promise and discount. So, even in very cheap, basic value stocks, it isn’t just discount we focus on. We need to see that path to success.

**Minyanville:** Have you adjusted your strategy at all in response to this wild market? Any tweaks to the process?

**Browne:** As we faced a real credit freeze, it became very important to figure out what sort of debt companies had due. Previously, we might have assumed it would be easy for a company that was reasonably well-capitalized to roll debt as it matures and comes due. But that was no longer a given. So there were adjustments in our individual company research and risk control across the portfolio that we had to make in response to the environment. But, by and large, we stuck to our discipline and investment approach. We made investments in tough times when no one was buying equities, much less the stuff we were buying at the time. And that worked out well for us.

**Minyanville:** In the second-quarter, there was a notable contribution from your technology exposure. The team is a fan of Ansys (ANSS), the simulation software company. What’s the thesis there?

**Browne:** Ansys is really exciting, in my view. I have been following the company for five or six years. I have always believed in the need for more simulation software, which allows manufacturing and design companies to improve their products faster than would be possible through building out actual models and testing them.

**Minyanville:** But the stock was too expensive?

**Browne:** Right, it took the global downturn to finally give us the opportunity to invest in this very high quality, emerging franchise at valuations that got us excited on the discount side.

**Minyanville:** How about Dell (DELL), which is the fund's third-biggest holding?

**Browne:** Dell has very strong customer relationships, particularly with corporate clients in the US and all over the world. Because of that, we think Dell has a very steady revenue and cash flow base to build on. Dell has taken some hits, but we think it's a really strong competitor in the space. Also, with its large net cash position, even when the multiple on cash flow or earnings got very low and the stock price got very low, Dell was never at risk of going bankrupt. You can't say that about some of the industrials out there that were losing money and had levered balance sheets.

**Minyanville:** Within financials, you've been trimming stocks on the back of gains or exiting positions, it looks like. But you did carve out a stake in Transatlantic Holdings (TRH). Why?

**Browne:** The company was the reinsurance arm of American International Group (AIG). It was never explicitly part of AIG. It was always a separate company but with a majority ownership position by AIG. But the stock and debt came under pressure as AIG underwent problems. The reinsurance business at Transatlantic remained strong, and its reputation remained strong. AIG decided to sell off a piece of its stake, and that created the liquidity event that got us excited about entering that position. It's worth pointing out that Transatlantic has never lost money in a year. So it's a strong, high quality reinsurer. It is trading at about book value. We expect to get 1.5 to 2 times book value at some point in our holding there.

**Minyanville:** You still like US Bancorp (USB)?

**Browne:** We like it very much. It is still only trading at about seven times normalized earnings. Overall, for the banking industry, we think we can start focusing on normalized earnings. The largest institutions have gone through the stress test, and raised the required capital. We think there is a nice capital buffer there even if we get bad news on commercial real estate. But, frankly, US Bancorp was never at risk of needing more capital.

**Minyanville:** How about Life Time Fitness (LTM), the fitness-club operator? The stock hurt you in 2008.

**Browne:** It did hurt us. We bought it well off its highs in 2008, but it went down a lot. I have followed the company for a long time. The business shows, at first, that it has significant debt relative to the retail industry. But the mistake made by investors is that they didn't realize that Life Time does little leasing. It owns the facilities. Even when the stock was down below $10, it still had a huge number of clubs that were unencumbered, where it could take out leasebacks or mortgages against the clubs to create liquidity if it needed it. The stock went from five times forward earnings to 16 times forward earnings.

**Minyanville:** And looking ahead?

**Browne:** We think earnings estimates have a good ways to come up as consumers feel better and spend more money in the clubs. That will be good for their margins. So we see some real nice rebound upside to their earnings. This is a high-quality franchise with a lot of room to grow over the next ten years.

**Minyanville:** You're headquartered in Santa Fe. What's the benefit of being located so far from Wall Street?

**Browne:** We do a good job of stepping back, taking deep breaths, and thinking about investing independent of what's going on in New York, Boston, and San Francisco. I have friends in all those cities working in investing. They go to these idea dinners or drinking with buddies in the business, and you can't help, in that context, to get sucked up in what everybody else is thinking. Here in Santa Fe, we have a greater opportunity to have some independence of thought and contrarian opinions that can make us a lot of money over time.

**Minyanville:** How do you manage your own money? Besides a diversified portfolio, what is your investment advice to others?

**Browne:** Personally, I have almost all of my liquid net worth tied up in Thornburg Value, a few of our other mutual fund holdings, and in my ownership stake in Thornburg Investment Management. The biggest mistake people make is getting out of equities at the wrong moments -- like March of this year -- and getting into equities at the wrong moments -- like March 2000.

**Minyanville:** What about if you're young, like yourself?

**Browne:** As a young investor, a heavy weight to equities makes sense with some diversification. Take a long-term view and stick with whatever asset allocation you choose. Don't sell when things are down. That is what might feel the best, but it's the tendency you have to fight hardest against.

**Minyanville:** You took it on the chin last year, with a 41% loss. What lessons did you learn from that experience?

**Browne:** We made mistakes. No question. But stocks just got cheaper than they should have. A company like Dell got down to something like four times forward earnings. I wish we hadn't had so much volatility, and that we didn't go down so much. However, I'm also glad we didn't fly to safety as fast as we could in response. If we had done that then we never would have provided the returns to investors we did this year.

**Minyanville:** Thanks for your time.

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**Thornburg Value Fund Total Return Rank**
**Morningstar Large Blend Category**
*(A Shares through 8/31/09)*

| | 1 Yr | 3 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|
| Rank | 3% | 10% | 4% | 10% |
| No. Funds | 2025 | 1729 | 1364 | 688 |

**Thornburg Value Fund Average Annual Total Returns**
*(A Shares through 6/30/09; Inception: 10/2/95)*

| | 1 Yr. | 3 Yrs. | 5 Yrs. | 10 Yrs. | Since Incep. |
|---|---|---|---|---|---|
| Without sales charge | -18.94% | -5.09% | 1.21% | 1.67% | 8.73% |
| With sales charge | -22.59% | -6.53% | 0.28% | 1.20% | 8.37% |
| S&P 500 Index | -26.21% | -8.22% | -2.24% | -2.22% | 5.23% |

**Top Ten Equity Positions**
*(as of 6/30/09)*

| | |
|---|---|
| Microsoft Corp. | 3.8% |
| Eli Lilly & Co. | 3.2% |
| Dell, Inc. | 3.0% |
| Ace Ltd. | 2.9% |
| Entergy Corp. | 2.9% |
| Comcast Corp. | 2.9% |
| Swiss Re | 2.7% |
| Gilead Sciences, Inc. | 2.6% |
| Marathon Oil Corp. | 2.6% |
| Thermo Fisher Scientific, Inc. | 2.5% |

*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. A shares have a maximum sales charge of 4.50% and a 30-day redemption fee of 1%. The total annual fund operating expense of the Fund's class A shares is 1.37%.*

Investments in the Fund carry risks, including possible loss of principal. Special risks may be associated with investments outside the United States, especially in emerging markets, including currency fluctuations, illiquidity and volatility. Investments in small capitalization companies may increase the risk of greater price fluctuations. Investments in the Fund are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity.

*Before investing, carefully consider the Fund's investment goals, risks, charges, and expenses. For a prospectus containing this and other information, contact your financial advisor or visit thornburg.com. Read it carefully before investing.*

The views expressed by Connor Browne reflect his professional opinions and are subject to change. Securities mentioned are presented to illustrate companies in which the Fund has invested. Portfolio holdings are subject to change daily. Under no circumstances does the information contained within represent a recommendation to buy or sell securities.

The S&P 500 Index is an unmanaged broad measure of the U.S. stock market.

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.

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