

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

International Value Investing in China & Japan



LEI WANG is a managing director and co-portfolio manager of the Thornburg International Value Fund. His primary responsibilities include portfolio management and analyzing companies. He is also responsible for evaluating existing positions and overall portfolio performance. He joined Thornburg Investment Management in 2004 as an associate portfolio manager and in 2006 was promoted to co-portfolio manager for the International Value Fund and was also named managing director. Prior to joining Thornburg, Lei served as an associate for Deutsche Bank as well as Enso Capital Management. He has also worked as a bank supervision manager at China's central bank. Lei holds a BA degree and an MA degree from East China Normal University and an MBA degree from New York University. He is a CFA charterholder.

SECTOR – GENERAL INVESTING

TWST: Please start with an overview of your fund, the Thornburg International Value Fund. And if you would, please describe your investment philosophy.

Mr. Wang: Thornburg International Value Fund (TGVAX) has \$17 billion in assets. Our investment philosophy is to buy promising companies with sound business fundamentals at a discount to their intrinsic value. The portfolio is diversified into three baskets: basic value, consistent earners and emerging franchises. The typical mix of three baskets is 40-40-20. Under basic value, we own companies which are financially sound with well-established businesses whose stock is selling at low valuations relative to the companies' net assets or potential earning power. They could be very cyclical stocks, sometimes trading at a very low multiple in terms of p/e or p/b.

TWST: What would be a representative basic value stock for you?

Mr. Wang: Financials, particularly the banks in Europe when they were trading below book values or even below tangible book values during the early period of 2009, such as **National Bank of Greece**, **Deutsche Bank** and **AXA**; mining companies such as **BHP Billiton**, which when too much pessimism is priced in, could also be trading at a very low valuation metric, thus a candidate for us to consider for the basic value basket. A more recent addition for this basic value category is **Lafarge**, which is the largest cement company in the world, based in France. It was trading below 10x p/e, and that looked very attractive in my eyes because if I buy a similar cement company in emerging countries, such as in Asia, I would have to pay over 20x. Approximately over 60%

of **Lafarge** cement volume actually comes from developing countries, particularly in Asia and the Middle East, where you can have upside momentum in both volume and pricing as those nations are building up massive infrastructures. On the other hand, in developed countries cement volume continues to be depressed but price has been surprisingly resilient, mostly attributable to the unique nature of the cement industry — highly consolidated markets where cement prices are protected by the barriers to entry posed by considerable fixed asset investment, the physical constraints presented by vertical control of aggregates reserves and economic limitations on cement transportation. So these are the basic value propositions for Lafarge to be added into our portfolio.

The second basket, consistent earners, includes companies which are basically selling at valuations below historical norms, and sometimes the stock is selling at a premium or discounted valuation. Generally, they have very steady earnings growth and dividend growth or both, and have good cash generation characteristics. Typical example is **Teva**, an Israeli company which also is the world's largest manufacturer of generic drugs. The company has a good balance sheet, share buyback program, and has been able to grow both its revenue and earnings consistently. Another example would be **SAP**, which is a leading software company in the world based in Germany. **SAP's** application franchise is widely recognized as one of the strongest globally and is often cited by corporations as evidence of sound business processes and strong financial controls. Over time U.S. public companies will be required by the SEC to convert their accounting standards from U.S. GAAP to IFRS, and that will boost demand for **SAP** software and services.

The third basket we call emerging franchise, and that includes the companies which, in our opinion, are in the process of establishing a leading position in a product, service or market, and will grow at an above-average rate. A typical example is **Baidu**, which is the dominant Internet search engine in China. Everyone knows and uses **Google** in the U.S. or in the English-speaking world, but in China, **Baidu** is the **Google** equivalent. As you may know, Chinese characters are very different from Western languages, and that helps create a niche and a very big market for **Baidu**, which has figured out a very powerful and effective technology to serve Chinese searches on the Internet. China has 300 million-plus Internet users out of 1.3 billion people. The penetration rate remains low in that regard. Online search marketing is considered one of the best ways for small to mid-sized businesses to connect with millions of consumers while using a limited marketing budget. Currently, **Baidu** has nearly 70% of market share in China and has been growing at 30% to 40% per year. **Google China** has approximately 20% market share and had experienced several execution setbacks in the past few years.

Basically we have three diversified baskets which we discussed above. We don't really believe that only one pure style will work well to weather all seasons. So we have this comprehensive value approach diversified by three baskets to allow the portfolio to participate in different market situations. For example, in 2009 our basic value basket participated in the market rally starting in the second quarter, attributable to financials and industrial cyclical stock holdings. Likewise, our emerging franchise basket also participated in the rally, as most of the stocks in that basket are either straight emerging-country companies or developed-country companies which have significant exposure to EM growth.

two hats — portfolio manager and analyst. Risk management is an integral part of our investments. I believe that as a portfolio manager, “know what you own and why” is the best way of managing risks. So being a fundamental research analyst helps me to focus on the building blocks of the portfolio.

TWST: Do you cover particular sectors or geographical areas?

Mr. Wang: Here at Thornburg, we believe in global research; we identify and research companies on a global basis and everyone is a global generalist. I am covering companies from a very diversified range of industries, including financials, telecoms, chemicals, industrials, Internet, etc. Geographically, I cover stocks from Asia and Europe. My prior experience includes several years working at People's Bank of China, China's central bank, and at a leading European investment bank as well.

TWST: How much of your fund represents Chinese or Japanese investments? If an investor is interested in getting some exposure to the Far East, why should they consider your fund?

Mr. Wang: Our International Value Fund has nearly 20% direct exposure to China and Japan combined. The investments in China are Hong Kong shares (H-share) and Chinese ADR shares, which are traded on the U.S. stock exchange. At this stage, we don't have direct investments in Chinese local shares (A-share), which are traded in Shanghai or Shenzhen

Exchange. Our current Chinese holdings are **ICBC** (1398 HK), **China Merchants Bank** (3968 HK), **HK Exchange** (388 HK), **CNOOC** (883 HK), **Sinopharm** (1099 HK) and **Baidu** (BIDU). Our Japanese holdings are **MUFG** (8306 JP), **Komatsu** (6301 JP), **Nintendo** (7974 JP), **Fanuc** (6954 JP) and **Toyota** (7203 JP).

Highlights

*Lei Wang buys promising international equities with sound business fundamentals at a discount to intrinsic value. The portfolio is divided into three baskets: basic value, consistent earners and emerging franchises. In basic value, he looks for businesses which are financially sound, whose stock is selling at low valuations relative to the companies' net assets or potential earnings power. In the consistent earners basket, he identifies companies which are basically selling at valuations below historical norms, and sometimes when the stock is selling at a premium or discounted valuations. Generally, they have steady earnings growth and dividend growth or both, and they have good cash flow characteristics. The emerging franchise basket includes companies that are in the process of establishing a leading position in a product, service or market, and which is expected to grow at an above-average rate. The International Value Fund has nearly 20% direct exposure to China and Japan combined and the Chinese investments are Hong Kong shares and Chinese ADRs. Companies include: **Baidu** (BIDU); **ICBC**; **Komatsu**; **Nintendo**; **MUFG**; **Standard Chartered**.*

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TWST: What is your particular role within the fund?

Mr. Wang: I am the Co-Portfolio Manager of Thornburg International Value Fund, working with two other Co-PMs, Bill Fries and Wendy Trevisani. One thing interesting about Thornburg Investment is that portfolio managers are also stock analysts. So I wear

TWST: Why should investors consider Thornburg International Value Fund?

Mr. Wang: First, we are using a bottom-up research approach and focus on company fundamental research. In the middle of this year, emerging market ETFs accounted for over 25% of daily trading volume on the New York Stock Exchange. Basically a lot of retail investors were just pouring money into EM ETFs without really knowing what they bought. At Thornburg we're focusing on specific stock selections.

For example, we discussed **Baidu**, which we bought in January when everyone panicked on fears that China would fall off a cliff and that **Baidu's** business would be destroyed by governmental intervention, etc. Since then this stock has appreciated by over 300%, well above average index return. We believe in stock selection, which is very relevant when investing in emerging markets where accounting rules, business practices and corporate governance can be significantly different from those in developed markets. Unless one day we all convert to IFRS (International

1-Year Daily Chart of Baidu



Chart provided by www.BigCharts.com

Financial Reporting Standards), we have to decipher different accounting rules in different countries. For example, equipment depreciation, cost expense capitalized can have very varied interpretations under different accountings. And that will have huge impact on financial valuation analysis of specific companies. At Thornburg, portfolio managers and analysts spend a lot of time on the road visiting countries and interviewing companies. Early this year, I flew to Hong Kong to interview a Chinese company which was in the food catering business. I asked them to update their recent business developments. They claimed that they just signed a landmark contract with a big university in a city which happened to be my hometown. I said, "Wow, that's a breakthrough contract with such a big university. How many delivery orders under the contract?" They backed off somewhat, saying, "Actually it's not the whole university,

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it's one of the departments of the university." Some departments in a Chinese university could be even a pretty decent size. "So exactly how many orders?" I persisted. And they said, "Actually, it's not the supply to the students of the department, it's the faculty supply." Nine months later, this company started the process of being liquidated. Due diligence interviews as part of our fundamental research process help us avoid mistakes or traps.

Secondly, we have a diversified approach to investing in emerging markets, and we try to deliver risk-adjusted returns in those markets which have a historical record of being volatile. The risks include

regulatory, currencies or even politics. Local expertise coupled with our disciplined valuation approach, I believe, over time shall help us render better-than-average returns for our clients.

TWST: So your bottom-up approach allows you to be much more selective?

Mr. Wang: Yes, that's correct.

TWST: You've done very well with financials, the banks. Would you tell us why the banks you invested in were attractive to the portfolio, highlighting any Japanese or Chinese banks?

Mr. Wang: Last year we all saw debacle dynamics among financials with over-levered balance sheets, lack of transparency on those structured products, no visibility of earning recovery, etc. But if we identify some banks which have already priced in the worst scenario, we are not afraid of buying, esp the banks, some of which we think have made deep enough provision or recognized losses, but earning power will be reassured when the situation becomes more normalized. Furthermore, under the financial category, there are differentiations in terms of business models. Differentiations could lay in the different economies — developing versus developed — the banks served or investment banking versus commercial banking, and so on. Banks in developed markets usually have leverage; loan-to-deposit ratios usually are higher than 100%, meaning they heavily depend on wholesale funding. When wholesale funding channels close, they suffer. But in some developing countries where the saving rate is higher, banks with a strong franchise in collecting deposits usually have a strong balance sheet with abundant liquidity. For example, **ICBC**, which is the largest bank in China, shows 57% in loan/deposit ratio. **MUFG**, which is the largest bank in Japan, shows 75% in that ratio.

TWST: So it's more the traditional retail bank model?

Mr. Wang: Exactly. Secondly, here we're talking about financials. It sounds like we are focused on the banks, but don't forget there are other business models within the financial sector. Take stock exchanges. A stock exchange itself as a business has no leverage; it generates its earning from matching, settling and clearing transactions, and it's an all-cash business; versus the commercial bank business model, which depends on spread. The stock exchange business model doesn't need a spread to make a profit. And this business has fantastic operational leverage, given most of its costs are fixed. The key of the business model is dependent on trading turnover, which leads to the next question we

always ask ourselves: "Which stock exchange has the most potential to grow trading volume over time?" I believe that Far East Asia is the source of wealth creation; people over there still save a lot. And over time with increasing income, they will invest more in risks — stocks, futures, currencies and commodities. The Hong Kong Exchange should be a beneficiary of that secular phenomenon along with Chinese mainland exchanges Shanghai and Shenzhen, which are not publicly traded though. Thornburg has been the single largest shareholder of HK Exchange since 2005, only after the Hong Kong Government. And I bought more during the correction early this year.

TWST: Will you be getting out of any of those financials soon? Would you describe your sell discipline, the process of getting out of a stock?

Mr. Wang: The answer is yes. Most of our financial additions are under the basic value basket. We bought them below book value. Now valuations of most of them have seen very nice recovery, some even start pricing close to 2x p/b or higher. We have a sell discipline on valuation for stocks in our basic value bucket. But again, the sell process will be company specific with thorough considerations of business model and business services domiciles (developed market versus emerging market), which could have implications on valuation as well under the context of new dynamics of world economy.

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TWST: That raises an interesting aspect about your fund, which is that much of your exposure to emerging markets is via stocks that are based in the developed world. Would you talk about that?

Mr. Wang: Some of our developed market holdings have strong links to emerging markets. **Standard Chartered** is a typical example; it is a U.K.-domiciled bank, yet receives over 70% of revenues and 78% of pretax profits from Asia, taking advantage of the region's economic growth to triple its revenue from 2003-2008. In Hong Kong, the bank is one of three institutions, along with **HSBC** and **Bank of China**, to issue HK dollar notes on behalf of the central bank. The bank is also the largest foreign bank in India and one of the largest in China. Despite its perception

"Despite its perception as a U.K. bank, Standard Chartered receives less than 10% of revenue from Europe and the U.S. combined, with little exposure to the toxic assets which have been plaguing most Western banks. In addition to revenue growth of 26% in 2008, a year most of its peers saw plunging results, Standard Chartered has announced the achievement of another record for revenue and profit during the first five months of 2009."

as a U.K. bank, **Standard Chartered** receives less than 10% of revenue from Europe and the U.S. combined, with little exposure to the toxic assets which have been plaguing most Western banks. In addition to revenue growth of 26% in 2008, a year most of its peers saw plunging results, **Standard Chartered** has announced the achievement of another record for revenue and profit during the first five months of 2009. We categorize **Standard Chartered** as a basic value developed market (DM) holding; in reality, the bank is more of an emerging market (EM) bank with developed market corporate governance and risk control. Given the pace of global economic integration and increasing cross-border activity, the delineation between DM and EM companies is not as clear-cut as in the past.

TWST: A similar situation prevails when it comes to Japan: You buy stocks based in Japan, but which have exposure to the rest of Asia. Would you talk about some of your Japanese favorites?

Mr. Wang: I like **Komatsu**, which is the world's second largest manufacturer of construction and mining machinery. Its products include hydraulic excavators, bulldozers and forklift trucks. It's a Japanese company, but its business is more global. We believe that population growth and urbanization will continue to drive demand for construction and mining equipment. **Komatsu** is positioned as having number one market share in the Greater Asia region, which extends from Russia, covers the whole of Asia, and includes Turkey and the Middle East. This region is rich in natural resources and has a population of about

3.8 billion, with China and India alone accounting for one-third of the global population. **Komatsu** should benefit from the expected massive infrastructure building among the emerging economies. The most recent case is China's 4 trillion yuan stimulus program. One advantage of **Komatsu** versus Caterpillar is that the Japanese have a very good track record in terms of applying electronics technology into their machinery. We had a meeting with the **Komatsu** CEO a couple of months ago, and I was told that **Komatsu** installs a satellite tracking system on its large-sized equipment, which allows the company to track its outstanding equipments' operating utilization hours. Then the company can leverage that information to adjust its production and inventory levels at the factory. More interestingly, we learned that **Komatsu** can remotely

terminate the use of their rental equipment if the rental client is behind his installment repayment. **Komatsu** almost has zero NPL (non-performing loan) in China. I wish that banks could have the same creativity to control their risk in mortgage lending — if the borrowers were in default of their monthly payments, banks could remotely shut the house door.

Another interesting Japanese stock is **Nintendo**, which has one of the world's largest game console installation bases along with Play Station and MS Xbox. I think **Nintendo**, as a company, probably is at a hibernation period due to lack of any exciting game titles in the past 12 months, which hurt its hardware sales. But I think the problem **Nintendo** is facing can be fixable over time, as the company has shown a track of

record of inventing new games and consoles. Its Wii and DS still have a lot of markets untapped, particularly in emerging markets where it has the concern of intellectual right protection. But that will change over time. **Nintendo** has a strong balance sheet with a net cash position accounting for approximately 30% of its market capitalization.

TWST: Regarding the change in the Japanese government, do you have any views on how the change in power may affect your investment thesis in Japan?

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Mr. Wang: I think Japan has some long-term fundamental issues. Everyone knows about the aging demographic situation there. What concerns me most is its exploding public debt amid falling domestic saving. Japanese government debt to GDP rose from 63% in 1990 to 170% in 2008 and is set to move up even more rapidly in the coming years. A deep recession could push that ratio to beyond the 200% level in 2010. I don't think the Japanese government could have the same privilege or luxury as the American government as to which debts can be financed by other nations, such as China, for structural and legacy reasons. Most of Japanese government debts (JGB) are held within Japan due to high levels of domestic savings and a strong home investment bias. However, Japanese demographics suggest that low-financing costs are not sustainable, as domestic household saving rates should fall to zero within this decade or even faster. In order to stabilize the debt/GDP ratio, the Japanese government needs to do several things: raise taxes, cut

to avoid those issues, including debt/GDP ratio, shrinking saving and under-par productivity. I believe that opening the economy through FTA (Free Trade Agreement) or this EAC is the key to raising productivity and hence Japan's underlying growth rate. The fundamental case for Japan to integrate more with Asia and away from the U.S. is growing stronger. Despite its income per capita of U.S. \$40,000 — versus China, U.S. \$2,000 — Japan remains an export-oriented economy. For certain reasons, Japan just has failed to become a consumption-centric economy. Under

this potential EAC framework, Japan and China have complementarities in demographics, capital and technologies. Japan has declining labor forces, while China has millions of youth migrating from the countryside into urban; Japan still has capital, which needs to generate higher return from high-growth oversea economies; Japan has developed the cutting-edge environmental technologies, which China desperately needs as its own economy will inevitably be transforming to an environmental-friendly one from resource intensive. Trade and technology will further improve, and enhance the growth and prosperity for member countries under EAC. And I believe a lot of Japanese companies will be beneficiaries. In contrast, the U.S. market doesn't seem to be able to continue supporting the Japanese export machine as, one, U.S. consumers will take time to recover and, two, a weak U.S. dollar policy dampens any hope that the Japanese would be able to recover its exports, and thus its economy, through a weak yen policy.

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spending and boost its GDP growth, all of which will be very challenging.

Back to your question regarding this DPJ administration, I think the new government made several rookie mistakes in the early days, as it has not been in power for decades. Some senior officials made comments to support a strong Japanese yen and asked mega banks to support small to medium-sized companies under a loan moratorium arrangement. Usually politicians should be very careful in making comments on sensitive financial variables such as exchange rate level and restrain from micromanaging business decisions.

On the positive side, the new Japanese Prime Minister, Yukio Hatoyama, seems more visionary than his LDP predecessors. At a recent ASEAN Summit at Huahin, he proposed a concept of East Asia Community, or EAC, which could be an early-stage EU in certain familiarity but may grow in substance over time. This is something really new and interesting. As we discussed, Japan needs to boost its growth

TWST: Do you see a common currency coming out of Southeast Asian countries?

Mr. Wang: A common currency is the ultimate form of an economic and financial integration, but also impacted by historical, cultural and religious elements, in my view. Most of Southeast Asian countries embrace Islam, Hinayana Buddhism and other religions as well. A full integration might be challenging, given cultural diversities.

TWST: But do you see a possibility of China, Korea and Japan proposing a unified currency?

Mr. Wang: I think it's possible, but probably late in my life or in my kid's life. China, Japan and Korea share Confucian and Mahayana Buddhism, and share a lot of cultural and historical similarities as well. But to achieve an economic union with a single currency, there are a lot of barriers needed to be overcome, such as the bad memory of the China-Japan War during World War II. But France and Germany have overcome

that and formed the EU. I think an FTA among the three Asian countries should be the first step to consider, then probably over time will evolve into a so-called “common market,” the predecessor of the European Union, which was established in 1993 under the Treaty of Maastricht.

TWST: Let’s turn to something a little bit more short term, which is the concern that many investors have regarding currency when it comes to China. Do you think the Chinese government will continue to resist pressure to strengthen its currency, and does this affect your investment outlook?

“We have to recognize that the RMB exchange rate, particularly against the U.S. dollar, is a macro-policy tool rather than a price level determined by market demand and supply. Until capital control is removed, RMB will continue to serve as one of the macro-economy tools employed by Chinese technocrats to achieve the nation’s best economic interest.”

Mr. Wang: I think that the Chinese currency, or RMB, is such a media-hyped topic. And expectation on RMB quick appreciation in any near term will be disappointing. We have to recognize that the RMB exchange rate, particularly against the U.S. dollar, is a macro-policy tool rather than a price level determined by market demand and supply. Until capital control is removed, RMB will continue to serve as one of the macro-economy tools employed by Chinese technocrats to achieve the nation’s best economic interest. You have to put yourself in the shoes of Chinese policymakers and ask yourself, “What’s your top priority for the country?” Is it the exchange rate of your currency versus the U.S. dollar? The answer is no. The top priority is how to grow the economy, particularly with such a big population of 1.3 billion, 50% of which are living on the countryside, where agricultural production has hit its limit. Those peasants need to be urbanized so as to release the pressure on farming land, which could be better managed in a more modern U.S.-type way. Twenty million Chinese peasants are migrating to cities each year; that’s almost the same size of Canada’s total population, or one third of the U.K. population. And the Chinese government needs it every year, and needs to create 20 million new jobs for those migrating every year. The manufacturing industry is the largest employer, and most of Chinese manufacturing capacity is export driven; thus Chinese need the RMB exchange rate to support export.

TWST: So a weak yuan protects the Chinese export industry?

Mr. Wang: It also protects and creates jobs for the populous China. But the question is: Is this model sustainable in the long run? Probably not. Number one, demand for Chinese export goods might decline given the deleveraging among Western consumers. Number two, China’s policy will definitely invite protectionism from other countries. Trading partners would complain that China’s RMB policy is “gain on your neighbor’s pains,” especially during a global economic downturn. I think Chinese policymakers have realized the issue here, that’s why they spare no efforts trying to stimulate Chinese domestic consumption to make up the loss of weak external demand.

When I research Chinese companies, I try to avoid business models which are vulnerable to export weakness, exchange rate volatility, which is a typical EM phenomenon, and trade protectionism. I try to identify those which could benefit from rising

consumerism within China. I recently purchased Sinopharm, which is the largest pharmaceutical distributor in China. This company is a beneficiary of the Chinese government’s initiatives to roll out affordable universal health care infrastructure to its people, who then would feel protected and become more willing to open up their wallets to spend rather than save. I believe pharmaceutical sales in China will grow at 20% for the next five years, and Sinopharm has a track of record of growing faster than industry average by gaining market shares.

TWST: So you are sticking to the basics — basic needs in some of the Chinese markets. How do you explain LVMH in your holdings?

Mr. Wang: People are puzzled about this phenomenon of such an amazing demand for luxury goods by the Chinese. I heard that these days, for Chinese tourists who visit Paris, the number one attraction is of course the Eiffel Tower; then number two will be Louis Vuitton’s flagship store there. According to a 2008 World Wealth Report put together by **Merrill Lynch** and Capgemini, with a total of 414,900 people worth more than \$1 million USD, excluding their principal residence, China now boasts more millionaires than France, only behind the U.S., Japan, Germany and the U.K. in terms of high-net-worth individuals. Is China still a developing country? The answer is yes, but China also has a population base of 1.3 billion. It’s such a big number, meaning that 0.1% of the population — 1.3 million people — could become the ideally targeted market for luxury goods, such as **LVMH’s**. It’s estimated that by 2015, China will be the largest luxury market in the world, growing from an estimated 12% of luxury sector sales today to over 30%, and contributing 75% of sector growth over this period. However, only a handful of brands will take the lion’s share of these gains, and I believe **LVMH** should be one of the few.

TWST: So LVMH is a developed-economy name with great exposure to emerging markets?

Mr. Wang: Yes.

TWST: Thank you. (SGD)

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The views expressed by Lei Wang reflect his professional opinions and are subject to change. Securities, industries, and countries mentioned are presented to illustrate the types of investments held by the fund. Portfolio holdings are subject to change daily. Under no circumstances does the information contained within represent a recommendation to buy or sell securities.

Thornburg International Value Fund:

Ten Largest Holdings as of 10/31/09: 1. Teva Pharmaceutical Industries, 3.0%; 2. Industrial & Commercial Bank of China Ltd., 2.7%; 3. Komatsu Ltd., 2.5%; 4. Novo Nordisk A/S, 2.3%; 5. LVMH Moët Hennessy Louis Vuitton SA, 2.3%; 6. National Bank of Greece SA, 2.2%; 7. Hong Kong Exchanges & Clearing Ltd., 2.2%; 8. Nestlé SA, 2.2%; 9. China Merchants Bank Co. Ltd., 2.2%; 10. Petróleo Brasileiro SA, 2.2%

Ten Largest Countries as of 10/31/09: 1. U.K., 16.6%; 2. France, 9.8%; 3. Japan, 8.9%; 4. China, 8.7%; 5. Switzerland, 8.2%; 6. Germany, 7.4%; 7. Canada, 6.9%; 8. Brazil, 4.9%; 9. Mexico, 4.1%; 10. Denmark, 3.8%

As of 11/31/09, the International Value Fund had \$17.5 B in assets.

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. There is no guarantee that the Fund will meet its investment objectives.

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.

Basis Point – A unit equal to 1/100th of 1%. 1% = 100 basis points (bps)

Book value – the accounting value of a firm.

U.S. GAAP – General Accepted Accounting Principles (GAAP) are the common set of accounting principles, standard, and procedures that U.S. companies use to compile their financial statements.

IFRS – International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board.

Price/Book ratio (P/B ratio) – a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

Price/Earnings ratio (P/E ratio) – a valuation ratio of a company's current share price compared to its per-share earnings. P/E equals a company's market value per share divided by earnings per share.

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