



Investment Management®

Strategies for Building Real Wealth

Cultivating the growth of  
**the Dividend**



**Thornburg Investment  
Income Builder Fund**

# The Dividend Rediscovered

For most of the past two decades, investors have sought growth in their investment portfolios. This desire for capital appreciation shifted investors' focus away from dividends, and many corporate managers chose to reinvest profits back into their firms or buy back stock. As a result, the percentage of profits paid out to investors fell dramatically.

Today we live in a more sober investment environment. After the boom of the late 1990s and subsequent bear market, many investors are returning to traditional financial values and reexamining the role of dividends in their portfolio. Several factors are converging to make dividends more important than ever:

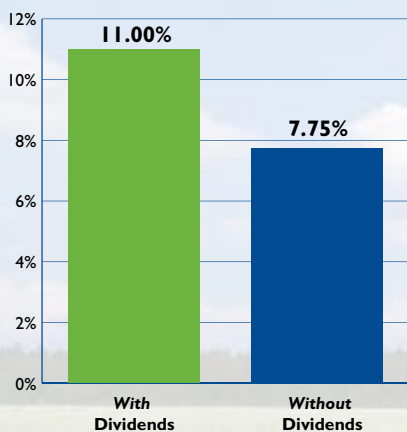
- Dividends provide a source of income that can grow over time. Increasing life spans and more active retirements are lengthening investment horizons. As such, identifying sources of income that can keep pace with inflation is becoming critical.
- Very few professional investors are predicting that we will see a repeat of the phenomenal gains of the late 1990s. Even in periods where the market was rising substantially, dividends were a major source of return. This relationship is even stronger when the market is posting more modest gains.
- Investors are recognizing that profits can be manipulated by aggressive accounting practices. Dividends, on the other hand, are paid in hard currency and are not subject to these vagaries.

“The prime purpose of a business corporation is to pay dividends to its owners.”

—Benjamin Graham and David Dodd  
*Security Analysis, 1940*

## Contribution of Dividends to Total Return

S&P 500 Index Average Annual Return from December 1978 to December 2008



Source: Bloomberg. Return with dividends includes the reinvestment of dividends. Return without dividends is price appreciation only. Past performance does not guarantee future results. The performance of any index is not indicative of the performance of any particular investment. Investors cannot invest directly in an index.

- Tax legislation signed into law in 2003 leveled the playing field for dividend income. In the past, capital gains were taxed at a more favorable rate while dividends were treated as ordinary income and taxed at the investor's prevailing rate. This new legislation now equalizes the tax rate for qualifying dividend income and capital gains.
- A growing body of evidence is showing that companies with higher dividend payout ratios have generated higher subsequent growth rates. Dividends and growth are not mutually exclusive.
- As the economy becomes more global in nature and U.S. investors place more of their money overseas, they are realizing that international companies have cultures oriented more towards paying out profits in the form of dividends than domestic companies.

# Growing Dividend Payments Over Time

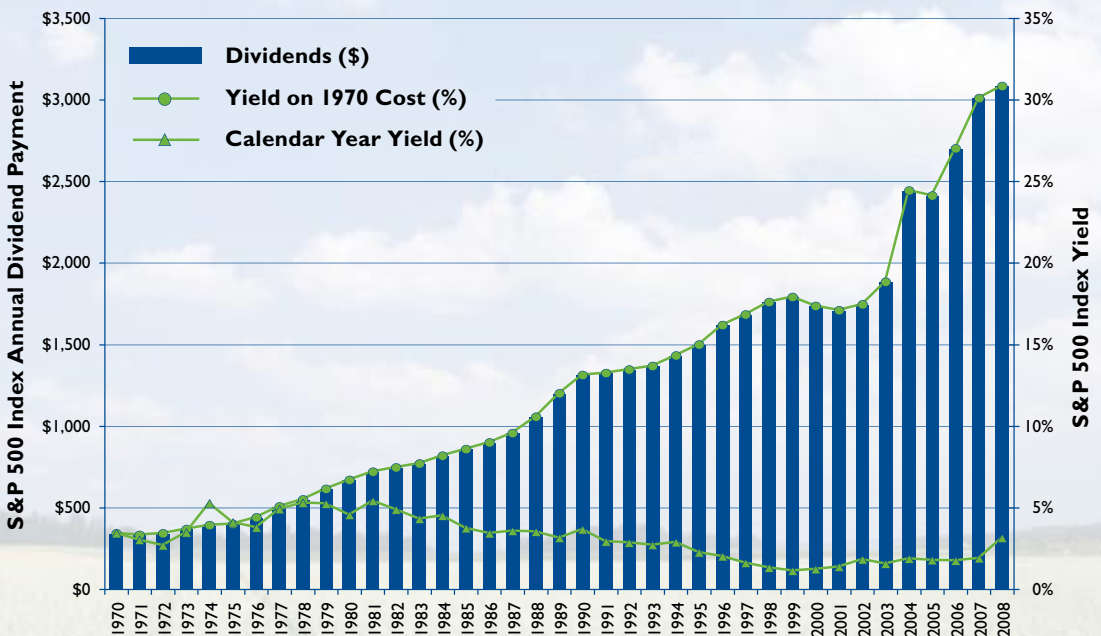
As investors move from accumulating financial assets to using them as a source of income, they are beginning to realize that they may need that income to last 20, 30, or even 40 years. They are challenged to develop sources of income that will last over time, as well as keep pace with inflation.

This focus on preserving purchasing power has led many back to the dividend. While much has been made of the fact that companies are paying out smaller percentages of profits in the form of dividends, a few truths stand out:

- The actual *dollar amount* of dividends has increased dramatically.
- Utilizing the performance of the S&P 500 Index, a hypothetical investment of \$10,000 in 1970 would have paid dividends of \$341. In 2008, even if all dividends had been spent along the way, that hypothetical investment would receive \$3,084 in dividends.
- Based on that growth in the dollar amount of dividends, the yield on that hypothetical investment made in 1970 (the investor’s yield on their original cost) would have grown to 30.84%.

“The common stock investor should ordinarily require both an adequate earning power and an adequate dividend.”  
 —Benjamin Graham and David Dodd  
*Security Analysis, 1940*

**Annual Dividend Growth on a One-time Hypothetical \$10,000 Investment vs. Yield**  
 Based on the S&P 500 Index; Dividends not reinvested



Source: Bloomberg & FactSet. Dividends are not reinvested. The performance of any index is not indicative of the performance of any particular investment. Investors cannot invest directly in an index.

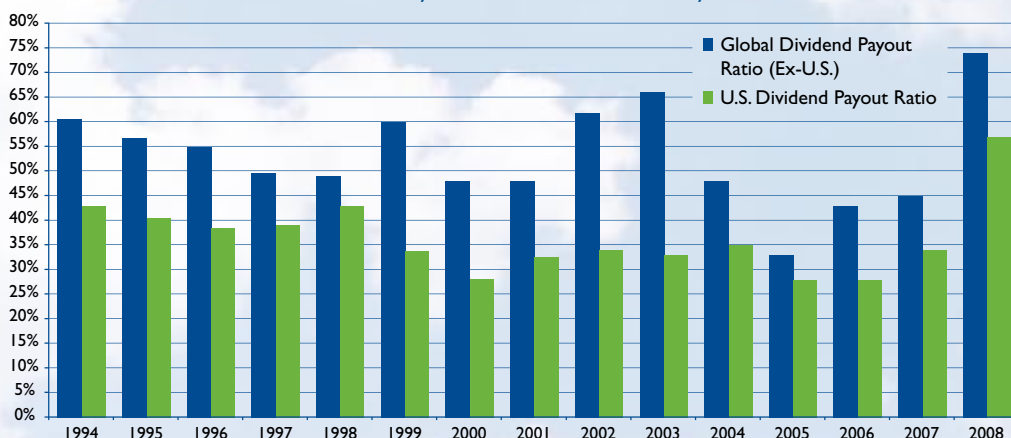
# Going Where the Dividends Are

As the world becomes smaller and the economy more global in nature, investors are placing more of their money into foreign funds and investments. As this occurs, many are discovering that international companies have been more focused than domestic companies in paying out profits in the form of dividends.

The chart below shows that at times, dividend payout ratios for international companies have approached twice that of U.S. companies.

## International Firms Typically are More Willing to Pay Dividends

Global Dividend Payout Ratio vs. United States Payout Ratio



Source through 2005: UBS. Source through 2008: MSCI, FactSet and S&P. EPS payout ratio – The latest indicated annual dividend rate divided by the latest 12 months' operating EPS. Basically, this tells us how much of earnings are paid out in dividends.

## Dividend-Paying Companies as an Investment

With the recent focus on capital appreciation, investors have viewed dividend-paying companies as antiquated, or even stodgy. However, a recent body of evidence is showing that companies that pay dividends often experience higher growth rates than those that keep excess cash on their balance sheet. This payment of a dividend causes firms to be more disciplined with their remaining cash, often resulting in more thorough evaluation of projects for investment.

In fact, a recent study showed that companies with higher payout ratios actually generated higher, not lower, subsequent growth rates.

### Average Subsequent 10-Yr Earnings per Share Growth

Starting Payout Quartile	Worst	Average	Best
One (Lowest Payout)	(3.4)%	(0.7)%	2.6%
Two	(2.7)%	1.3%	4.7%
Three	(1.6)%	2.1%	6.3%
Four (Highest Payout)	(0.1)%	3.2%	7.0%

Source: Arnott and Asness, Does Dividend Policy Foretell Earnings Growth?

## Investment Income Builder Fund

It was against this backdrop that Thornburg Investment Management launched the Investment Income Builder Fund in 2002. The Fund was created with the goal of providing an attractive dividend today that can grow over time.

# Thornburg Investment Income Builder Fund

Thornburg Investment Income Builder Fund was conceived to enhance all phases of an investor's life – whether it be accumulating and growing capital or generating income. The fund focuses on high-quality, dividend-paying companies and is designed to generate a growing dividend that can be reinvested or paid out quarterly. A side benefit may be capital appreciation.

## Designed for investors seeking . . .

- Exposure to the stock market in the form of dividend-paying equities
- A diversified portfolio consisting of domestic and foreign equities with a fixed income component constructed to ease volatility
- Investment in international equities in the form of established, dividend-paying companies
- An income-oriented portfolio built on the bottom-up, fundamental research for which Thornburg Investment Management is known
- Capital appreciation potential

## Co-Portfolio Managers

### **Brian McMahon**

*CEO and Chief Investment Officer  
Responsible for equity component*

### **Jason Brady, CFA**

*Managing Director  
Responsible for bond component*

**For additional information  
regarding the fund, please  
visit [www.thornburg.com/iib](http://www.thornburg.com/iib)**

*Carefully consider the Fund's investment objectives, risks, sales charges, and expenses; these are found in the prospectus, which is available from your financial advisor or [www.thornburg.com](http://www.thornburg.com). Read it carefully before you invest or send money.*



Investments in the Fund carry risks including possible loss of principal. Investing outside the United States involves additional risks, such as currency fluctuations. Additionally, the Fund invests a portion of the assets in small capitalization companies, which may increase the risk of greater price fluctuations.

As with direct bond ownership, Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk, and inflation risk. The value of a bond will fluctuate relative to changes in interest rates; as interest rates rise, the overall price of bonds fall. 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.

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Standard & Poor's 500 Stock Index (S&P 500) is an index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe.

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.

Dividend yield is ratio that shows how much a company pays out in dividends each year relative to its share price.

The dividend payout ratio is a fraction that expresses dividend payments as a percentage of per-share earnings.

Thornburg Funds are distributed by Thornburg Securities Corporation.®