

# Thornburg Small/Mid Cap Core Strategy

Portfolio Manager Commentary

30 September 2025



## Market Review

Markets delivered solid gains in the third quarter, extending the recovery that began in late spring, buoyed by renewed optimism over easing monetary policy, solid corporate earnings, and resilient investor sentiment. The Federal Reserve delivered its long-anticipated rate cut in September, lowering rates by 25 basis points in response to signs of a cooling labor market and broader economic moderation. While uncertainty surrounding the U.S. election cycle and the Trump administration's ongoing trade negotiations remained an overhang, the broad economic backdrop proved supportive for risk assets.

Small and mid-cap equities outperformed large caps during the quarter, benefiting from expectations of lower rates and increased investor appetite for domestic cyclicality. At the sector level, information technology delivered another strong quarter, with semiconductor and software companies supported by increased spending on data centers and power infrastructure tied to AI adoption. Industrials also outperformed as companies with exposure to transportation, aerospace supply chains, and specialized manufacturing reported improving order trends. The consumer staples sector, with a bias towards companies with more defensive characteristics, lagged during the risk on rally.

We see a constructive outlook but expect near-term sentiment swings to persist.

## Portfolio Managers

**Steven Klopukh, CFA**

Portfolio Manager

**Tim McCarthy, CFA**

Portfolio Manager

Supported by the entire Thornburg investment team

### ANNUALIZED RETURNS (%)

AS OF 30 SEPTEMBER 2025

	QTR	YTD	1-YR	3-YR	ITD (1 JAN 21)
Composite (Gross)	2.77	1.16	4.71	14.47	5.99
Composite (Net)	2.55	0.51	3.81	13.50	5.09
Russell 2500 Index	9.00	9.48	10.16	15.65	7.16

### CALENDAR YEAR RETURNS (%)

	2024	2023	2022	2021
Composite (Gross)	21.04	14.68	-18.46	15.13
Composite (Net)	20.01	13.70	-19.17	14.18
Russell 2500 Index	12.00	17.42	-18.37	18.18

Source: CAPS

In US\$ terms. **Returns may increase or decrease as a result of currency fluctuations.**

Periods less than one year are not annualized. ITD is inception to date.

Performance data for the Small/Mid Cap Core Strategy is from the Small/Mid Cap Core Composite, inception date of 1 January 2021. The Small/Mid Cap Core Composite includes discretionary accounts invested in the Small/Mid Cap Core Strategy. Returns are calculated using a time-weighted and asset-weighted calculation including reinvestment of dividends and income. Periods less than one year are not annualized. Individual account performance will vary. The performance data quoted represents past performance; it does not guarantee future results. Gross of fee returns are net of transaction costs. Net of fee returns are net of transaction costs and investment advisory fees. Thornburg Investment Management Inc.'s fee schedule is detailed in Part 2A of its ADV brochure. Performance results of the firm's clients will be reduced by the firm's management fees. For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual management fee of 0.75%, this increase would be 142%.

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### Third Quarter 2025 Performance Highlights

- In 3Q25 the portfolio (net of fees) returned 2.55%, -645 basis points behind the Russell 2500 Index. Year to date the portfolio (net of fees) returned 0.51%, -897 basis points behind the Russell 2500 Index.
- Stock selection within industrials and information technology hampered relative performance. Stock selection within utilities contributed positively to relative results.
- The portfolio's stock selection in companies within the larger cap segment of the universe (greater than 12B market cap) detracted from relative results. However, an overweight to the large cap segment of the universe contributed positively to relative results.

### Current Positioning and Outlook

We continue to maintain a bias toward the larger end of the small- and mid-cap universe, with an emphasis on higher-quality companies that exhibit durable growth characteristics, strong balance sheets, and more resilient business models. Over a market cycle, we believe this quality and defensive orientation will contribute to attractive risk-adjusted returns, but these factor exposures have faced stiff headwinds in more recent periods.

As equity markets have become more macro driven, we expect to see shorter-term periods where equities vacillate between “risk-on” and “risk-off” sentiment. To help hedge this volatility, we are managing more of a barbell portfolio—balancing higher beta exposure with more defensive, consistent earners. Across the barbell, we're maintaining a long-term perspective focusing on companies which possess earnings visibility and are less likely to be victimized by macroeconomic factors outside of their control. We continue to maintain a large overweight to industrial, and a large underweight to health care, primarily driven by a lack of compelling bottom-up opportunities.

Looking ahead, we remain constructive on the outlook for small and mid-cap equities, even as the macro backdrop continues to evolve. The relative valuation discount versus large caps remains historically wide, and we believe improving market breadth and clearer visibility into Federal Reserve policy are supportive of a continued normalization in performance across market capitalizations. Importantly, many companies in the SMID universe continue to display resilient demand trends and are less dependent on complex global supply chains, which may help buffer them from potential trade-related volatility.

At the same time, we recognize that the near-term environment is likely to remain choppy. Shifts in expectations around interest rates, fiscal policy, and the post-election regulatory landscape have contributed to episodic swings in investor sentiment. In this context, we believe focusing on quality remains essential. Businesses with durable competitive advantages, strong balance sheets, and the ability to fund growth internally are, in our view, better positioned to navigate uncertainty and sustain earnings power across market conditions.

#### TEN LARGEST EQUITY HOLDINGS (%)

AS OF 31 AUGUST 2025	REP. ACCT.
Vertiv Holdings Co.	3.3
Casella Waste Systems, Inc.	3.3
Sensient Technologies Corp.	3.1
Clean Harbors, Inc.	3.1
Applied Industrial Technologies, Inc.	2.9
TXNM Energy, Inc.	2.8
Western Alliance Bancorp	2.8
Talen Energy Corp.	2.8
MYR Group, Inc.	2.7
LPL Financial Holdings, Inc.	2.7

#### BASKET ALLOCATION (%)

	REP. ACCT.
Consistent Earner	37.8
Emerging Franchise	30.4
Basic Value	28.8
Cash	3.0

#### TOP 5 CONTRIBUTORS (%)

REP. ACCT. (GROSS)   3Q25	AVERAGE WEIGHT	CONTRIB. TO RETURN
Talen Energy Corp.	2.66	0.97
Pure Storage, Inc.	1.96	0.75
Adtalem Global Education, Inc.	1.92	0.58
Coherent Corp.	2.77	0.46
Vertiv Holdings Co.	3.15	0.37

#### BOTTOM 5 DETRACTORS (%)

REP. ACCT. (GROSS)   3Q25	AVERAGE WEIGHT	CONTRIB. TO RETURN
Casella Waste Systems, Inc.	3.36	-0.69
Pinnacle Financial Partners, Inc.	2.59	-0.41
Marex Group plc	2.32	-0.38
The Simply Good Foods Co.	1.42	-0.36
BJ's Wholesale Club Holdings, Inc.	2.46	-0.35

Source: FactSet

*Past performance does not guarantee future performance. Performance characteristics are reported gross of fees and do not reflect the deduction of all fees and expenses that an investor has paid or would have paid. Gross data could appear better in comparison to net data. The net and gross performance of the total portfolio from which the data was calculated is included on page one.*

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## Portfolio Manager Commentary | 30 September 2025

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Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 30 September 2025

Investments in the Strategy carry risks, including possible loss of principal. Carefully consider the Strategy's investment objectives, risks, and expenses before investing. There is no guarantee that the portfolio will meet its investment objectives.

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Basic Value: Companies generally operating in mature industries and which generally exhibit more economic sensitivity and/or higher volatility in earnings and cash flow.

Consistent Earners: Companies which generally exhibit predictable growth, profitability, cash flow and/or dividends.

Emerging Franchises: Companies with the potential to grow at an above average rate because of a product or service that is establishing a new market and/or taking share from existing participants.

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

The Russell 2500 Index (Russell 2500 TR) measures the performance of the 2,500 smallest companies in the Russell 3000 Index, with a weighted average market capitalization of approximately \$4.3 billion, median capitalization of \$1.2 billion and market capitalization of the largest company of \$18.7 billion.

Portfolio construction will have significant differences from that of a benchmark index in terms of security holdings, industry weightings, asset allocations and number of positions held, all of which may contribute to performance, characteristics and volatility differences. The index shown is unmanaged, reflect total returns and assume the reinvestment of all income in U.S. dollars. It does not reflect any management fees or brokerage expenses associated with a portfolio's returns. Returns for an actual portfolio may differ from those of an index due to (among other things) differences in timing and the amount invested and fees and expenses. Investors may not make direct investments into any index.

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