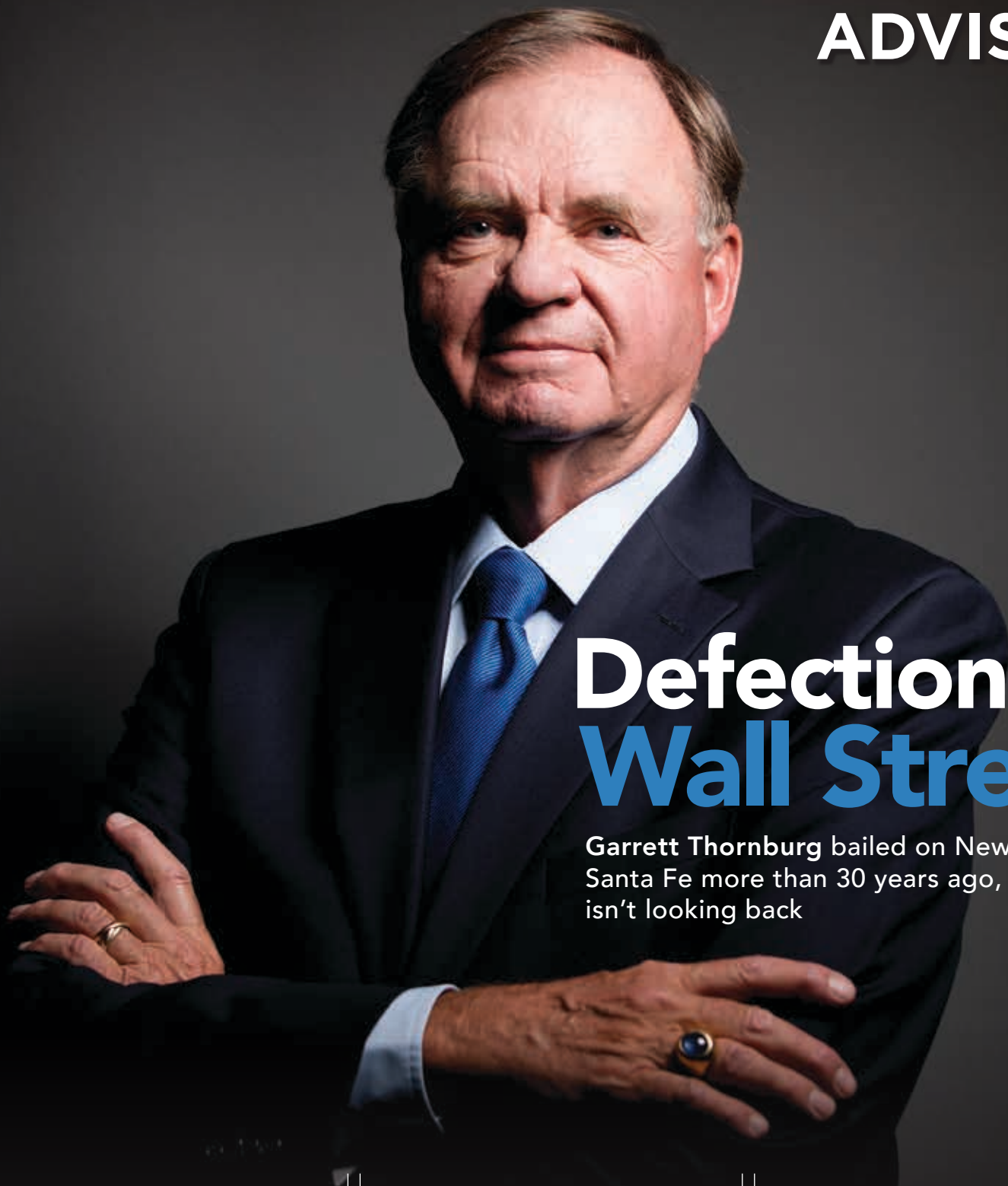


REALASSETS

ADVISER



Defection from Wall Street

Garrett Thornburg bailed on New York for Santa Fe more than 30 years ago, and he isn't looking back

Difference Makers

Impact investing has eclipsed \$100 billion worldwide and is growing fast

No Silver Lining for Gold

Global demand for gold has been slumping, and its long-term record shows no Midas touch

Port of Interest

Infrastructure investors are finding ports have much to offer as maritime trade keeps growing

Defection

FROM


Wall Street

Garrett Thornburg bailed on New York for Santa Fe more than 30 years ago, and he isn't looking back.

The very first deal closed by Garrett Thornburg and his new firm was with Norwest Bank the day after Thanksgiving 1982. On Thanksgiving Day a five-alarm blaze burned Norwest Bank's 16-story headquarters building in Minneapolis to the ground.

Thornburg Investment Management has been playing a hot hand ever since.

Thornburg had just left a career on Wall Street to start his new firm in, of all places, Santa Fe, N.M. It was the early 1980s and there was no Internet, word processors were just coming to market, people were still using teletype because there were only about 300,000 fax machines in the country, and FedEx was only a couple of years old. The notion of a virtual organization or workforce had not even begun to form in people's minds. What's more, Thorn-

A photograph of a man in a dark suit and blue tie standing in an office, holding a book. He is looking at a woman with her back to the camera, who is wearing a black dress with a white floral pattern. The office has red walls, large windows, and several computer workstations in the background.

“This is not a marketing shop. We don’t do the flavor of the month.”

“We always had this international outlook, even though we are in Santa Fe.”

burg did not consider the difficulty of trying to attract financial talent to Santa Fe, which — though one of America’s great hotbeds for artists and travelers — was far off the beaten path of financial industry professionals.

“It was really probably one of these bad decisions that worked out well,” Thornburg says.

Indeed. Since that fateful move, the firm has accumulated \$60 billion in assets under management and is doing business with 90,000 financial advisers on behalf of

2.5 million shareholders invested in its 19 mutual funds.

Having grown up in a southern Minnesota farming town that was home to just 1,700 people, Thornburg was not exactly a Wall Streeter by nature. But you would not have known that based on the success of his time there, which included a stint at Bear Stearns, working his way up to limited partner and finding himself under the informal mentorship of firm chairman Alan “Ace” Greenberg. Thornburg eventually had his first child and that changed

his view of his surroundings. He was not keen on raising a child in the Big Apple, and his then-wife was an artist who had a great affection for Santa Fe. Off they went.

The lessons of Wall Street went with him, including a pivotal lecture Greenberg gave to his leadership team about how fortunate they all were to be making very good incomes. His stated expectation was that all of them would give back to society by committing 4 percent of their incomes to good causes. Greenberg personally always committed at least 10

percent of his salary to needy or righteous causes.

"That impressed me and I have been doing that ever since," Thornburg says, "and I have also been making that same speech every year to my managing directors."

One of the people on the receiving end of that annual entreaty is Brian McMahon, the firm's CEO and chief investment officer, who also happens to be the guy with whom Thornburg closed the Norwest deal. McMahon was working with Norwest at the time. Impressed with McMahon's deal-making ability, Thornburg brought him aboard and they have been growing the organization together for the past 30-plus years.

It all started with industrial revenue bonds, a product Thornburg started working with at Bear Stearns, having devised a way to streamline the five-inch-thick stack of legal documents to a single slip of paper. Bear Stearns was not interested in the product, and rightly so according to Thornburg, because it was making far more money with credit balances. But the firm gave Thornburg the green light to pursue his newfangled industrial revenue bond product on his own. That eventually led to a joint venture with the New York investment house Reich & Tang, as well as Thornburg's decision to start a new firm and different lifestyle in Santa Fe. Since then, much bigger investment instruments have been brought to market.

Thornburg Investment Management now has 19 mutual funds (eight equity funds and 11 bond funds) and 16 of those are rated by Morningstar — 12 of which are rated either four- or five-star funds. Impressively, seven equity funds have beaten their indices since their inception.

"That is a pretty amazing track record," he says.

The organization started as a bond house, and in 1995 Thornburg hired Bill Fries to create its first value equity fund. Fries, who was named Morningstar's 2003 International Fund Manager of the Year, is a portfolio manager and a managing director at the firm.

"We always had this international outlook, even though we are in Santa Fe,"

Thornburg says. "One of our typical funds might have 60-some securities in it, so we are very focused, but that is enough to be diversified."

Focus is also the characteristic Thornburg cites when talking about his firm's competitive advantage over its rivals.

"We are focused on our clients and investing first, second and third," he says. "This is not a marketing shop. We don't do the flavor of the month. Yes, we have a sales department and we would love to have more money to manage, but until in fact we have that money, we are going to worry about the money we already have. And that includes my money and most of the managing directors'. We are investing right alongside our clients."

For example, the firm's international value fund came about because portfolio managers kept finding promising international equities they wanted to add to the value fund. When the fund's composition was more than 20 percent international equities, the firm's leadership realized the fund was veering away from its prospectus. Its focus was sharpened by spinning off those shares into a new fund dedicated to international equities.

The firm's core growth fund was launched in similar fashion. Portfolio managers kept finding promising growth stocks that were ending up in the value fund, until it became apparent the latter fund's focus was at risk of being blurred — and they had the makings of a new growth fund. Hence, a new fund was born.

Thornburg also sketches a distinction between how his organization's funds are actively managed compared with most investment houses. His portfolio managers are based in Santa Fe but sent to Europe, South America, China and other parts of Asia. Rather than having a single researcher or analyst in, say, Hong Kong through which all information about China or Asia is channeled, Thornburg sends various emissaries abroad to get the benefit of multiple perspectives. The analysts also get the benefit of cross-pollination of each other's findings. That manifold approach is by industry as well as region.

GETTING PERSONAL Garrett Thornburg

What is the most influential book you have read?

Emotional Intelligence by Daniel Goleman
Thinking, Fast and Slow by Daniel Kahneman
Republic, Lost: The Corruption of Equality and the Steps to End It by Lawrence Lessig

What is your favorite quotation?

"There are more things in heaven and earth, Horatio, than are dreamt of in your philosophy."
— Hamlet

Who was your mentor?

Alan "Ace" Greenberg, former CEO of Bear Stearns

Tell us something people would be surprised to know about you.

I grew up in a small farm town in rural Minnesota.

What is your idea of perfect happiness?

The moment in fly fishing when a fish is just about to take your fly that you have cast precisely to it.

What is your most pronounced characteristic?

Do the right thing.

"We don't have an analyst that does just utilities; we have global generalists," Thornburg says. "We didn't realize how different this is until we talk to people coming from some other shops and they go, 'Nobody works like that.' What we are really looking for is promising companies at a discount, is the phrase that Bill Fries uses, and I like that."

The firm's existing lineup of funds and operating model is capable of boosting its \$60 billion in AUM to three or four times its current size, according to Thornburg. That said, the firm is still expanding its

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lineup. A new fund launched in September called Thornburg Better World International Fund, a so-called ESG fund (environmental, social and governance). Most investment houses lack ESG experience, Thornburg says, but his firm is well schooled in the subject, in part because Thornburg is an enthusiastic conservationist and philanthropist with his own foundation. The firm also designed and constructed its own LEED Gold certified campus headquarters years ago.

Already, he says, there has been much interest expressed for the new fund from

foundations and endowments. The fund will concentrate on taking positions in companies with a strong record for manufacturing ecologically sound products, as well as treating their workers as valued assets.

Thornburg’s enthusiasm for philanthropy and his windfall of professional earnings convinced him to start the Thornburg Foundation (valued at \$110 million in 2014), which has earned him many accolades and awards for its contribution to causes benefitting the people and institutions of New Mexico.

“We couldn’t solve all the world’s problems from Santa Fe, but New Mexico is the sec-

ond poorest state in the union and there are plenty of problems here,” Thornburg says.

He targets the foundation’s philanthropic dollars to three areas of interest and concern: improving the state’s early childhood education system, boosting agricultural resilience, and promoting good governance.

Thornburg considers the third of those target areas the most difficult, noting that New Mexico is one of only eight states without an ethics commission. (The need for an ethics commission was recently underscored when New Mexico secretary

THORNBURG BY THE NUMBERS

Year founded
1982

AUM
\$57.7 billion

Number and types of mutual funds
8 equity, 11 fixed income

Number and types of institutional strategies
13 equity, 9 fixed income

Financial advisers doing business with the firm
90,000

Shareholders invested in firm's mutual funds
2.5 million

of state Dianna Duran, was indicted in August on allegations of fraud, embezzlement and money laundering. She is facing 65 counts and is accused of using her election fund as a personal piggy bank at casinos.)

Thornburg credits George Cowan, the founder of the famous think tank The Santa Fe Institute, with getting him involved in early childhood education. The foundation's involvement has helped put in place a program that works to boost early education funding, as well as an apprenticeship program to create "master teachers" at New Mexico State University. The idea is to increase the ranks of teachers with a genuine expertise in childhood education.

The agricultural efforts by the Thornburg Foundation fall into two areas, restoring the state's native grasslands, and training farmers how to cultivate the land successfully enough to turn a profit. Regarding the first of those two endeavors, Thornburg says the prevalence of juniper and piñon pine trees in New Mexico is the result of poor management practices, such as overgrazing. Much of New Mexico's lands used to be covered by grass as high as a horse's belly. As the grassland disappeared, the piñon trees proliferated. The restoration project will require removing many trees, then bringing grazing animals back to the land and managing them in ways to restore that grassland. There is a ranch in Corona where it has been accomplished for 15 years. The grass is 18 inches high, and its soil retains water and carbon.

"Everybody thinks cattle are evil," he says. "It is not true. There is a way, by using cattle, that you can in fact seriously improve the grasslands."

At the same time, good management practices can strengthen the health of the landscape. Thornburg points out that although cattle produce methane, the grass under the proper management can sequester four times the amount of greenhouse gases.

The farming effort supported by the foundation is demonstrating that a person can make a living farming just four to 10 acres of land.

It might come as little surprise that Thornburg is also chairman and CEO of a startup named Chamisa Energy, named after the chamisa plant, which grows in the high desert and blooms the color of gold from October to November. The company will use compressed air technology to generate power. In brief, air is compressed and stored in underground salt caverns, similar to how natural gas is stored. The compressed air is released as needed and used to fire a turbine that generates electricity. Phase one of its project will be a 270-megawatt plant, which will soon be under construction in Tulia, Texas. Subsequent phases will be capable of generating 810 megawatts, the equivalent of a nuclear power plant.

Thornburg also speaks excitedly about the 6,000 megawatts of wind-power facilities under construction in the Texas Panhandle.

"You ain't seen nothing yet," he says. "It is coming, coming, coming ..."

Thornburg's aforementioned effort to improve the governance of New Mexico begs the question of his political persuasion. As one listens to Thornburg address his interests, strains of liberalism, conservatism and libertarianism can be detected. When asked, he acknowledges the presence of all three, but assertively notes that he always has been a registered independent. Although he makes campaign contributions to candidates whose positions he supports, Thornburg makes apparent his disenchantment with the current political environment.

Asked who he is supporting for President, he replies: "As of the moment, nobody. In the end it will probably come down to the lesser of two evils."

In his own way, Thornburg acknowledges there is much at stake in the nation's leadership because his investment firm's fortunes, to some degree, rise and fall in concert with the health of the economy. But, for now, Garrett Thornburg is still playing a hot hand. ■

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Five- and Four-Star Rated Funds

(Overall Morningstar Ratings for I Shares as of 9/30/15)

- ★★★★★ **Thornburg International Value Fund**
Among 301 Foreign Large Growth Funds
3-yr: 3 among 301; 5-yr: 3 among 277; 10-yr: 5 among 183
- ★★★★★ **Thornburg International Growth Fund**
Among 131 Foreign Small/Mid Growth Funds
3-yr: 3 among 131; 5-yr: 5 among 115
- ★★★★★★ **Thornburg Developing World Fund**
Among 561 Diversified Emerging Markets Funds
3-yr: 4 among 561; 5-yr: 5 among 376
- ★★★★★★ **Thornburg Investment Income Builder Fund**
Among 465 World Allocation Funds
3-yr: 4 among 465; 5-yr: 5 among 346; 10-yr: 5 among 178
- ★★★★★★ **Thornburg Global Opportunities Fund**
Among 1001 World Stock Funds
3-yr: 5 among 1001; 5-yr: 5 among 758
- ★★★★★★ **Thornburg Limited Term Income Fund**
Among 475 Short-Term Bond Funds
3-yr: 5 among 475; 5-yr: 5 among 401; 10-yr: 5 among 276
- ★★★★★★ **Thornburg Limited Term U.S. Government Fund**
Among 113 Short Government Funds
3-yr: 5 among 113; 5-yr: 5 among 107; 10-yr: 5 among 92
- ★★★★★★ **Thornburg Strategic Income Fund**
Among 225 Multisector Bond Funds
3-yr: 4 among 225; 5-yr: 5 among 169
- ★★★★★★ **Thornburg Limited Term Municipal Fund**
Among 187 Municipal National Short Funds
3-yr: 5 among 187; 5-yr: 5 among 172; 10-yr: 5 among 120
- ★★★★★ **Thornburg Intermediate Municipal Fund**
Among 277 Municipal National Intermediate Funds
3-yr: 4 among 277; 5-yr: 4 among 233; 10-yr: 4 among 162
- ★★★★★★ **Thornburg California Limited Term Municipal Fund**
Among 46 Muni Single State Short Funds
3-yr: 5 among 46; 5-yr: 5 among 44; 10-yr: 5 among 35
- ★★★★★ **Thornburg New York Intermediate Municipal Fund**
Among 49 Muni New York Intermediate Funds
3-yr: 3 among 49; 5-yr: 4 among 49; 10-yr: 4 among 40

To determine a fund's Morningstar Rating™, funds with at least a three-year history are ranked in their categories by their Morningstar Risk-Adjusted Return scores. The top 10% receive 5 stars; the next 22.5%, 4 stars; the middle 35%, 3 stars; the next 22.5%, 2 stars; and the bottom 10% receive 1 star. The Risk-Adjusted Return accounts for variation in a fund's performance (including the effects of all sales charges), placing more emphasis on downward variations and rewarding consistent performance. Other share classes may have different performance characteristics.

Past performance does not guarantee future results. For performance current to the most recent month end, visit thornburg.com or call 877-215-1330.

Investments carry risks, including possible loss of principal. Additional risks may be associated with investments outside the United States, especially in emerging markets, including currency fluctuations, illiquidity, volatility, and political and economic risks. Investments in small- and mid-capitalization companies may increase the risk of greater price fluctuations. Portfolios investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise. This effect is more pronounced for longer-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Investments in mortgage backed securities (MBS) may bear additional risk. Investments in lower rated and unrated bonds may be more sensitive to default, downgrades, and market volatility; these investments may also be less liquid than higher rated bonds. Investments in derivatives are subject to the risks associated with the securities or other assets underlying the pool of securities, including illiquidity and difficulty in valuation. Investments in the Funds are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any other entity.

Established in 1988, the Morningstar Fund Manager of the Year Award recognizes portfolio managers who demonstrate excellent investment skill and the courage to differ from the consensus. To qualify for the award, managers must have not only a great year, but also must have a record of delivering outstanding long-term performance and of aligning their interests with shareholders'. The Fund Manager of the Year Award winners are chosen based upon Morningstar's proprietary research and in-depth evaluation by its senior analysts. Thornburg has not won the Fund Manager of the Year award in subsequent years.

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

The views expressed by Mr. Thornburg reflects his professional opinion and are subject to change.

Class I shares may not be available to all investors. Minimum investments for the I share class may be higher than those for other classes.

As of October 31, 2015, Thornburg Investment Management managed \$58 billion in assets.

