

Thornburg Multisector Opportunistic Fund

Portfolio Manager Commentary
31 March 2022



Market Review

- Globally, fixed income markets finished one of the most difficult quarters in recent memory as rates soared. The upward trend for global developed market rates that began in September 2021 and was initially driven by inflation and the Fed's hawkish pivot accelerated following the Russian invasion of Ukraine. U.S. inflation measures reached a 40-year high at the end of 2021 with the November CPI print of 6.8%, as global economies continued to adjust to supply chain issues and shifts in consumer spending. Any hopes that inflationary pressures would ease were quickly dashed as inflation readings came in higher to start the year, with the most recent reading of 7.9% in February. High levels of inflation can pose serious challenges for the U.S. economy because of the negative impact it can have on consumer sentiment and consumer spending, which accounts for nearly two-thirds of GDP. Evidence of its impact was found in February retail sales figures that came in below expectations as consumers wrangled with higher prices and the Fed lowered its GDP growth expectations at their March meeting.
- Along with lowered GDP expectations at the March meeting, the Fed also increased interest rates for the first time in over 3 years with a 25-basis point (bps) hike that left some market participants wanting more. At the start of the quarter, markets were anticipating three 25 bps hikes in 2022. Expectations changed dramatically by quarter-end, as the market is now anticipating eight or nine rate hikes, which implies the Fed Funds Rate will finish the year near 2.5%. The rapid change in expectations led the bond market to flash signals that a hard landing may be impossible to avoid, as the 2-year and 10-year Treasury yield inverted for the first time since 2019. An inversion of the yield curve, which is one of many predictors of a possible recession, occurs when yields on short-term bonds are higher than the yields on longer-term bonds.
- The inversion of the yield curve capped off one of the wildest quarters for bond yield movements in recent memory. The Treasury curve flattened throughout the quarter, as yields were up substantially across all maturities. The 2-year U.S. Treasury yield lead the way as it rose 162

We are taking advantage of volatility to pursue attractive opportunities within fixed income.

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Supported by the entire Thornburg investment team

Average Annual Returns (% , as of 31 Mar 2022)

	QTD	YTD	1-YR	ITD
Thornburg Multisector Opportunistic Fund Incep: 3 August 2020	-4.53	-4.53	-1.91	-0.11
Blended Index*	-6.48	-6.48	-3.61	-1.57
BBG U.S. Universal Index (AUD Hedged)	-6.12	-6.12	-4.36	-3.28

ITD - Inception to Date. Periods less than one year are not annualized.

*Thornburg Multisector Opportunistic Fund's Blended Index is composed of 50% Bloomberg Barclays U.S. Corporate Bond Index and 50% Bloomberg Barclays Global High Yield Index, rebalanced monthly (AUD hedged).

The performance data quoted represents past performance; it does not guarantee future results.

bps, finishing the quarter at 2.34%. Of the 162 bps move in the 2-year Treasury, 90 bps came in the month of March alone which was only the tenth move of that magnitude since 1980 but in all nine instances previously, the yield on the 2-year was above 11%. The flattening of the Treasury curve and rapid rise in yields led spreads on investment-grade and high-yield corporates, as well as taxable municipals, to show signs of weakness. Spreads widened through much of the quarter, and peaked in mid-March, as the Russian/Ukraine conflict caused market jitters. However, spreads retraced half of the move from their peaks, as the risk tone improved somewhat as the quarter came to an end.

First-Quarter 2022 Performance Highlights

- The Thornburg Multisector Opportunistic Fund achieved a negative return for the first quarter, returning -4.53% gross (AUD), outperforming the 50% Bloomberg Barclays U.S. Corporate Bond Index / 50% Bloomberg Barclays Global High Yield Index (AUD Hedged), which returned -6.48%.
- The strategy's structural short duration position versus the index was a large contributor to relative performance. The 5-year U.S. Treasury yield moved higher by 120 bps to end the quarter at 2.46%, while the 10-year Treasury yield ended the period 83 bps higher at 2.34%.
- The strategy's broadly defensive posture, particularly in investment-grade and high yield corporates, was beneficial given the backdrop of widening sector spreads. Our small exposure to Russia detracted as bonds were significantly impacted by the events surrounding the Russia/Ukraine conflict.

Current Positioning and Outlook

With inflation measures now uncomfortably high, central banks are shifting to inflation fighting mode. Indeed, the market has moved from underestimating the Fed's willingness to address inflationary pressures to now fully pricing in an aggressive hiking path. Though policymakers remain reasonably confident that they will get some help in the form of easing goods inflation in the second half of the year, rate hikes and future rate guidance suggest they are not relying on this assistance to occur. We have been modestly short duration versus the strategy's historical levels as rates have risen; however, we will selectively and opportunistically add duration relative to the current stance. We continue to believe the economy is unable to support substantially higher rates given the contribution of interest rate sensitive sectors, such as housing, to overall economic growth.

Our biggest conviction in the portfolio is within spread sectors in the securitized space. The U.S consumer balance sheet continues to be strong, supported by robust savings rates and low unemployment. We express this view by owning consumer focused ABS, including autos, consumer loans, and solar. However, we have a more cautious outlook on the subprime consumer. Risks to the subprime consumer are observed in delinquency and default trends reverting to pre-COVID levels. Additionally, we believe this consumer cohort will be more challenged should an adverse economic scenario occur as a result of Fed tightening. Meanwhile, we find the residential mortgage credit space to be fundamentally attractive. Rising mortgage rates present a headwind to housing, though supply/demand dynamics are favorable, and homeowners have built good home equity protection. We believe there is relative value in select bonds backed by non-qualified mortgage ("Non-QM") loans, whose borrowers have above average FICO scores and who can put down a sizeable down payment.

Within U.S. corporates, default rates remain muted, and valuations improved somewhat in the first quarter, though not materially enough to alter our defensive stance. Volatility remains elevated, but rising rates have improved the risk/reward on some longer duration bonds, providing for select opportunities. We look to add corporate names with less cyclicality and more attractive valuations versus recent history. We are cautious on bank loans both on relative value versus high yield as well as a broadly asymmetric risk/return tradeoff. Within the emerging market debt space, the Russia/Ukraine conflict and the Fed tightening cycle has changed the risk profile to the sector globally, providing us the ability to take advantage of mispriced opportunities. From a security selection standpoint, we continue to prefer defensive, export-oriented EM corporates with dollar revenue streams.

Important Information

The performance data quoted represents past performance; it does not guarantee future results.

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 March 2022.

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The PDS and target market determination can be obtained by calling (800) 276-3930 or visiting our website <https://www.thornburg.com/products-performance/australia/bond-funds/fmso/>.

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A bond credit rating assesses the financial ability of a debt issuer to make timely payments of principal and interest. Ratings of AAA (the highest), AA, A, and BBB are investment-grade quality. Ratings of BB, B, CCC, CC, C and D (the lowest) are considered below investment grade, speculative grade, or junk bonds. Investments in mortgage-backed securities (MBS) may bear additional risk.

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Asset-backed Security (ABS) – A security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets.

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

Credit Spread/Quality Spread – The difference between the yields of securities with different credit qualities.

Duration – A bond's sensitivity to interest rates. Bonds with longer durations experience greater price volatility than bonds with shorter durations.

Fair Isaac Corporation Score (FICO) - A type of credit score created by the Fair Isaac Corporation. Lenders use borrowers' FICO scores, along with other details on borrowers' credit reports, to assess credit risk and determine whether to extend credit.

Federal Open Market Committee (FOMC) - The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

Yield Curve - A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.

Yield Spread - The difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another.

Consumer Price Index (CPI) - Index that measures prices of a fixed basket of goods bought by a typical consumer, including food, transportation, shelter, utilities, clothing, medical care, entertainment and other items. The CPI, published by the Bureau of Labor Statistics in the Department of Labor, is based at 100 in 1982 and is released monthly. It is widely used as a cost-of-living benchmark to adjust Social Security payments and other payment schedules, union contracts and tax brackets. Also known as the cost-of-living index.

The Bloomberg U.S. Universal Index measures the performance of U.S. dollar-denominated taxable bonds that are rated either investment-grade or high yield. The index includes U.S. Treasury bonds, investment-grade and high yield U.S. corporate bonds, mortgage-backed securities, and Eurodollar bonds.

The Blended Index is composed of 80% Bloomberg Barclays U.S. Aggregate Bond Index and 20% MSCI World Index.

U.S. Treasury securities, such as bills, notes and bonds, are negotiable debt obligations of the U.S. government. These debt obligations are backed by the "full faith and credit" of the government and issued at various schedules and maturities. Income from Treasury securities is exempt from state and local, but not federal, taxes.

The Bloomberg Global High Yield Total Return USD Index is a multi-currency measure of the global high yield debt market. The index represents the union of the U.S. High Yield, the Pan-European High Yield, and Emerging Markets Hard Currency High Yield Indices.

The Bloomberg U.S. Corporate Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.



The Bloomberg U.S. Universal Total Return Index Value Unhedged represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD denominated, taxable bonds that are rated either investment-grade or below investment-grade.

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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. Investors may not make direct investments into any index.