Thornburg Income & U.S. Government Bonds

Portfolio Manager Commentary
31 March 2022

Thornburg

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 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.

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

Portfolio Managers

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Supported by the entire Thornburg investment team

Performance Summary

- The Thornburg Limited Term Income Fund (I shares) returned -3.76% during the first quarter, outperforming its benchmark, the Bloomberg Intermediate U.S. Government/Credit Index, which returned -4.51%
- The fund's structural short duration position versus the index was a contributor to relative performance. The 5-year U.S. Treasury yield moved higher by a whopping 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 fund's broadly defensive posture, particularly in investment-grade 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.

Limited Term Income Fund Average Annual Returns (%, as of 31 Mar 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares THIFX (Incep: 1 Oct 1992)							
Without Sales Charge	-3.89	-3.89	-3.46	1.79	1.97	2.25	4.50
With Sales Charge	-6.08	-6.08	-5.65	1.28	1.67	2.10	4.44
I Shares* THIIX (Incep: 5 Jul 1996)	-3.76	-3.76	-3.19	2.09	2.29	2.59	4.83
BBG Int US Govt/Credit TR Value Index	-4.51	-4.51	-4.10	1.50	1.81	1.85	4.44

Limited Term US Government Fund Average Annual Returns (%, as of 31 Mar 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares LTUSX (Incep: 16 Nov 1987)							
Without Sales Charge	-3.63	-3.63	-3.78	0.14	0.59	0.64	4.24
With Sales Charge	-5.81	-5.81	-5.93	-0.37	0.28	0.49	4.19
I Shares* LTUIX (Incep: 5 Jul 1996)	-3.56	-3.56	-3.52	0.41	0.87	0.95	4.59
BBG US Govt Int TR Value Index	-4.19	-4.19	-4.16	1.03	1.34	1.28	4.94

Ultra Short Income Fund Average Annual Returns (%, as of 31 Mar 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares TLDAX (Incep: 30 Dec 2013)							
Without Sales Charge	-1.00	-1.00	-0.92	1.48	1.59	–	1.44
With Sales Charge	-3.27	-3.27	-3.16	0.97	1.28	–	1.25
I Shares TLDIX (Incep: 30 Dec 2013)	-0.96	-0.96	-0.72	1.68	1.79	–	1.63
ICE BofA US Treasury Bill Index	-0.03	-0.03	0.00	0.82	1.14	–	0.76

ITD–Inception to Date

*Prior to inception of class I shares, performance is calculated from actual returns of the class A shares adjusted for the lower Institutional expenses.

Periods less than one year are not annualized.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted. For performance current to the most recent month end, visit thornburg.com or call 877-215-1330. For all funds listed, the maximum sales charge for A shares is 1.50%. There is no up-front sales charge for class I shares. The total annual operating expenses are as follows: Limited Term Income Fund: A shares, 0.77% and I shares 0.50%; Limited Term US Government Fund: A shares, 0.87% and I shares, 0.61%; Ultra Short Income: A shares, 1.38% and I shares, 0.76%; Thornburg Investment Management and/or Thornburg Securities Corporation have contractually agreed to waive fees and reimburse expenses through at least February 1, 2023, for some share classes, resulting in a net expense ratio of the following: Limited Term Income, I shares, 0.49%; Ultra Short Income, A shares, 0.50% and I shares, 0.30%. For more detailed information on fund expenses and waivers/reimbursements, please see the fund's prospectus.

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 fund'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, 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. 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.

Thanks for your continued support and investing alongside us in Thornburg's fixed income funds.

Important Information

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

Investments carry risks, including possible loss of principal. 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. Unlike bonds, bond funds have ongoing fees and expenses. Investments in mortgage-backed securities (MBS) may bear additional risk. Investments in the Fund are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any other entity.

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.

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.

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.

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.

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.

OAS (Option Adjusted Spread) - The flat spread over the treasury yield curve required to discount a security payment to match its market price.

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.

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.

The Bloomberg Intermediate US Government/Credit Total Return Index Value Unhedged is an unmanaged, market-weighted index generally representative of intermediate government and investment-grade corporate debt securities having maturities from one up to ten years.

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.

The views expressed are subject to change and do not necessarily reflect the views of Thornburg Investment Management, Inc. This information should not be relied upon as a recommendation or investment advice and is not intended to predict the performance of any investment or market.

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 or summary prospectus containing this and other information, contact your financial advisor or visit thornburg.com. Read them carefully before investing.