Thornburg Municipal Bond Funds

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, marked by the November CPI print of 6.8%, as global economies continued to adjust to supply chain issues and shifts in consumer spending. Any hopes 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

> A challenging quarter for municipal bond performance has created an incredible buying opportunity for municipal bond investors.

Short Duration Municipal Fund Average Annual Returns (%, as of 31 Mar 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares TLMAX (Incep: 30 Dec 2013)							
Without Sales Charge	-2.50	-2.50	-2.74	-0.25	0.26	–	0.27
With Sales Charge	-4.67	-4.67	-4.89	-0.76	-0.05	–	0.08
I Shares TLMIX (Incep: 30 Dec 2013)	-2.37	-2.37	-2.46	-0.02	0.46	–	0.47

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

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares LTMFX (Incep: 28 Sep 1984)							
Without Sales Charge	-4.32	-4.32	-4.22	0.18	0.83	1.11	4.32
With Sales Charge	-6.45	-6.45	-6.41	-0.33	0.52	0.96	4.28
I Shares LTMIX (Incep: 5 Jul 1996)	-4.26	-4.26	-4.01	0.41	1.08	1.40	3.33

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

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares THIMX (Incep: 22 Jul 1991)							
Without Sales Charge	-5.27	-5.27	-4.23	0.90	1.62	2.00	4.22
With Sales Charge	-7.16	-7.16	-6.12	0.21	1.21	1.79	4.15
I Shares THMIX (Incep: 5 Jul 1996)	-5.16	-5.16	-3.94	1.14	1.89	2.29	3.93

ITD - Inception to Date. 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. Short Duration Municipal and Limited Term Municipal funds, A shares, have a maximum sales charge of 1.50%. Intermediate Term Municipal Fund, A shares, has a maximum sales charge of 2.00%. There is no up-front sales charge for class I shares. The total annual operating expenses are as follows: Short Duration Municipal: A shares 0.98%, I shares 0.65%; Limited Term Municipal: A shares 0.69%, I shares 0.46%; Intermediate Municipal: A shares 0.91%, I shares 0.67%. 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: Short Duration Municipal: A shares 0.70%, I shares 0.50%; Intermediate Term Municipal: A shares 0.77%, I shares 0.53%. For more detailed information on fund expenses and waivers/reimbursements, please see the fund's prospectus.

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

Strategic Municipal Income Fund Average Annual Returns (%, as of 31 Mar 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares TSSAX (Incep: 1 Apr 2009)							
Without Sales Charge	-5.52	-5.52	-4.36	0.88	1.73	2.40	4.58
With Sales Charge	-7.39	-7.39	-6.24	0.20	1.33	2.19	4.42
I Shares TSSIX (Incep: 1 Apr 2009)	-5.53	-5.53	-4.21	1.10	1.96	2.67	4.86

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

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares LTCAX (Incep: 19 Feb 1987)							
Without Sales Charge	-3.99	-3.99	-4.02	-0.24	0.42	1.03	3.70
With Sales Charge	-6.12	-6.12	-6.21	-0.75	0.12	0.88	3.66
I Shares LTCIX (Incep: 1 Apr 1997)	-3.92	-3.92	-3.85	0.01	0.68	1.32	3.10

New Mexico Intermediate Municipal Fund Average Annual Returns (%, as of 31 Mar 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares THNMX (Incep: 18 Jun 1991)							
Without Sales Charge	-4.97	-4.97	-4.22	0.38	1.11	1.48	3.79
With Sales Charge	-6.85	-6.85	-6.11	-0.30	0.70	1.28	3.73
I Shares THNIX (Incep: 1 Feb 2007)	-4.82	-4.82	-3.85	0.71	1.42	1.81	2.83

New York Intermediate Municipal Fund Average Annual Returns (%, as of 31 Mar 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares THNYX (Incep: 5 Sep 1997)							
Without Sales Charge	-4.83	-4.83	-4.02	0.30	0.94	1.52	3.23
With Sales Charge	-6.71	-6.71	-5.92	-0.37	0.54	1.31	3.15
I Shares TNYIX (Incep: 1 Feb 2010)	-4.67	-4.67	-3.64	0.65	1.28	1.85	2.58

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

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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.

First Quarter 2022 Performance Highlights

- The Thornburg Municipal Strategies posted negative total returns during one of the municipal bond market's worst quarters on record. Interest rates rose dramatically across the entire muni market as inflation readings came in at the highest levels in 40 years which stoked concerns of aggressive Fed action. Despite the difficult quarter, the Thornburg Municipal Strategies all outperformed their respective indexes on a relative basis.
- Municipal yields staged one of the most dramatic quarters in recent memory with increases of more than 150bps for certain maturities. As to be expected in a rising rate environment, shorter maturities outperformed longer maturities by a wide margin. The spike in yields lead duration to be the single largest driver of performance across all strategies as shorter duration strategies outperformed longer strategies on an absolute basis.
- One silver lining during the quarter was the continued strong performance of municipal credit. States posted huge year-over-year revenue gains early in the quarter and defaults have been almost non-existent. The strength of the overall market was a contributor to positive performance and helped mitigate some of the losses incurred due to interest rate movements.

Current Positioning and Outlook

The Bloomberg Municipal Bond Index experienced one of its worst quarters on record by delivering a total return of -6.23% as yields spiked across domestic fixed income markets. Municipal yields rose significantly across all maturities which lead short bonds to outperform long bonds by a significant margin. The Bloomberg 1-year Municipal Bond Index returned -1.61% for the quarter while the Bloomberg Long Bond (22+) Index returned an abysmal -8.65%. The upward trend of yields began in September 2021 as inflation prints came in at uncomfortably high levels, spurring movements in yields which now in hindsight look tame in comparison to the magnitude of the moves that occurred during the first quarter of 2022.

The driving force behind the negative performance for the indexes and the Thornburg strategies was the rise in interest rates. The 2-year AAA Muni yield jumped from 0.24% to where it finished the quarter at 1.78% while the 30-year AAA muni yield rose from 2.05% to 2.60%. Absent during that time was any significant impact on performance from a movement in credit spreads. The market did experience brief moments of credit spread widening, but the strength of municipal credit quality is undeniably strong and continues to surprise to the upside. In January, states reported 17% year-over-year revenue growth which is astounding when you take into consideration 2021 was better than the pre-COVID highs of 2019. The strength is not just limited to the states as evidenced by the very low default rates that have occurred in the high yield municipal space last year and again this year.

As has been the case over the last several years, the demand side of the market (mutual fund flows) has been the driving force behind prices and yields. In many ways, the supply side of the market (new issuance) has taken a back-seat to the insatiable demand from retail investors. However, the supply side has shown glimpses of its former power like in 2021 when taxable muni issuance swelled to nearly a third of total new issuance. Municipal market performance during the quarter created, and was exacerbated by, a vicious bout of outflows that began the third week of January and remained negative for the rest of the quarter. According to ICI, the municipal market experienced $84B of inflows in 2021 as investors tripped over themselves chasing yields to near record low levels. During the first quarter, ICI reported $28B of outflows as negative returns sparked an exodus in the best yield environment in several years. Given the inverse relationship between yields and bond prices this means that some investors may have bought high and sold low as they chased price returns instead of focusing on the tax-exempt income munis provide.

The poor market timing of muni inflows and outflows underscores a change in market composition that exacerbates both positive and negative performance. As we have mentioned in previous commentaries, mutual fund assets have doubled in the last 7 years and now account for 25% of the market. The mutual fund structure brings about an inherent liquidity mismatch between the daily liquidity offered by the fund and the semi-illiquid assets (municipal bonds) that it owns. As we saw in March 2020 and again in March 2022, large outflows create forced selling which puts pressure on prices and strains market liquidity, which in turn leads to further price pressure and the cycle repeats.

We favor periods with pressure on market prices and view any associated outflows as an opportunity to add yield to our portfolios. During the quarter, this allowed us to purchase bonds at yields that haven't been seen in several years that were funded by high cash levels coming into 2022. The pressure from constant outflows revived secondary market trading. The market came alive as managers looked to it for liquidity to meet redemptions for shareholders. We capitalized on the opportunity by conducting bond swaps across our portfolios which increases the yield on the bonds we own and allows us to book a tax loss that can used to offset future gains.

As we look forward, we have a close eye on areas that we believe may be large drivers of total return for the remainder of the year. In previous rate rising cycles the market followed rate hikes from the Fed but this time the market has pre-empted any Fed action. As a result, the short end of the muni market looks very attractive from an absolute and relative yield basis and leads us to believe the market may have overdone it on its expectations for rate increases from the Fed. At the same time, it seems as though the market has not moved enough on the long end with yields remaining subdued despite inflation over 8%. This may be an area of volatility as the inflation picture becomes clearer and the Fed has more time to end its asset purchase program and hike rates at future meetings. Lastly, all signs point to municipal credit remaining strong over the near term, but we have a close eye on factors that could chip away at it. Inflation readings are at levels that will have an impact on consumer behavior if sustained which could have broader implications for the municipal market.

In a market that seems to be exceedingly less certain, credit research is paramount. We are committing to being diligent in our research efforts to preserve shareholder capital and hyper-focused in times of volatility to reward shareholders for their commitment to the Thornburg strategies.

Thank you for your continued trust and support investing alongside of us in the Thornburg municipal strategies.

Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31/3/22.

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. This effect is more pronounced for longer-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. 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.

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.

Diversification does not assure or guarantee better performance and cannot eliminate the risk of investment losses.

The laddering strategy does not assure or guarantee better performance than a non-laddered portfolio and cannot eliminate the risk of investment losses.

There is no guarantee that the Fund will meet its investment objectives.

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.

Income earned from municipal bonds is exempt from regular federal and in some cases, state and local income tax. Income may be subject to the alternative minimum tax (AMT).

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.

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.

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.

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.