Thornburg Municipal Bond Funds

Portfolio Manager Commentary
30 June 2022

Thornburg

Market Review

Weighed down by a litany of concerns, the fixed income markets experienced one of the worst quarters on record. The list of investor worries going into the second half of the year is lengthy: rampant inflation, hawkish global central bank policy, rate hikes, quantitative tightening, the war in Ukraine, energy costs, slowing economic growth and a potentially looming recession. Yields across nearly every fixed income asset class were up substantially during the quarter as the U.S. Federal Reserve set the pace for other global central banks by hiking the Fed Funds rate in increasing increments in March (+25bps), May (+50bps) and June (+75bps). Spurred by monthly CPI data in May that was worse than expected, June marked the first 75bps hike since 1994 and served as a confirmation that inflation has become entrenched in the U.S. The same week in June the Swiss National Bank hiked rates (+50bps) for the first time in 15 years, as did Brazil's central

Muni bond yields are quickly approaching pre-GFC levels as the penalty on savers has finally been lifted.

Short Duration Municipal Fund Average Annual Returns (%, as of 30 Jun 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares TLMAX (Incep: 30 Dec 2013)							
Without Sales Charge	-0.04	-2.54	-2.76	-0.46	0.19	–	0.26
With Sales Charge	-2.33	-4.71	-4.91	-0.96	-0.11	–	0.08
I Shares TLMIX (Incep: 30 Dec 2013)	-0.08	-2.45	-2.57	-0.26	0.37	–	0.44

Limited Term Municipal Fund Average Annual Returns (%, as of 30 Jun 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares LTMFX (Incep: 28 Sep 1984)							
Without Sales Charge	-1.04	-5.31	-5.51	-0.55	0.38	0.91	4.26
With Sales Charge	-3.28	-7.42	-7.66	-1.05	0.08	0.76	4.22
I Shares LTMIX (Incep: 5 Jul 1996)	-0.98	-5.20	-5.30	-0.32	0.63	1.20	3.26

Intermediate Municipal Fund Average Annual Returns (%, as of 30 Jun 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares THIMX (Incep: 22 Jul 1991)							
Without Sales Charge	-1.68	-6.86	-6.82	-0.27	0.95	1.66	4.13
With Sales Charge	-3.68	-8.71	-8.72	-0.94	0.54	1.45	4.06
I Shares THMIX (Incep: 5 Jul 1996)	-1.70	-6.76	-6.61	-0.03	1.20	1.94	3.83

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.

bank (+50bps), and the Bank of England (+50bps). The data dependent decision-making process at global central banks, akin to driving by looking in the rearview mirror, has left many behind the curve on interest rate policy which has contributed to inflation rising to 40-year highs. As central banks now play catch-up, investors are faced with the likelihood of a not-so-soft landing, and the realization has set in that the recession many feared at the end of 2019 was not avoided by massive fiscal and monetary stimulus, but instead was only delayed.

Global rate hikes left fixed income investors with no place to hide as bonds sold off along with what felt like every

Strategic Municipal Income Fund Average Annual Returns (%, as of 30 Jun 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares TSSAX (Incep: 1 Apr 2009)							
Without Sales Charge	-2.95	-8.31	-8.26	-0.71	0.80	1.84	4.26
With Sales Charge	-4.92	-10.12	-10.11	-1.37	0.39	1.64	4.10
I Shares TSSIX (Incep: 1 Apr 2009)	-2.82	-8.20	-8.04	-0.47	1.02	2.11	4.54

California Limited Term Municipal Fund Average Annual Returns (%, as of 30 Jun 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares LTCAX (Incep: 19 Feb 1987)							
Without Sales Charge	-0.79	-4.75	-4.92	-0.83	0.03	0.85	3.65
With Sales Charge	-3.02	-6.87	-7.09	-1.33	-0.27	0.70	3.61
I Shares LTCIX (Incep: 1 Apr 1997)	-0.73	-4.62	-4.68	-0.59	0.29	1.13	3.04

New Mexico Intermediate Municipal Fund Average Annual Returns (%, as of 30 Jun 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares THNMX (Incep: 18 Jun 1991)							
Without Sales Charge	-1.59	-6.47	-6.50	-0.58	0.54	1.19	3.71
With Sales Charge	-3.56	-8.32	-8.40	-1.24	0.14	0.98	3.64
I Shares THNIX (Incep: 1 Feb 2007)	-1.51	-6.25	-6.13	-0.24	0.87	1.51	2.68

New York Intermediate Municipal Fund Average Annual Returns (%, as of 30 Jun 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares THNYX (Incep: 5 Sep 1997)							
Without Sales Charge	-1.44	-6.20	-6.26	-0.66	0.41	1.20	3.14
With Sales Charge	-3.42	-8.06	-8.10	-1.32	0.00	0.99	3.05
I Shares TNYIX (Incep: 1 Feb 2010)	-1.44	-6.05	-5.95	-0.34	0.74	1.52	2.40

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. Strategic Municipal Income 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: Strategic Municipal Income: A shares 1.26%, I shares 0.97%; California Limited Term Municipal: A shares 0.92%, I shares 0.70%; New Mexico Intermediate Municipal, A shares 0.98%, I shares 0.71%; New York Intermediate Municipal: 1.14%, I shares 0.93%. 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: Strategic Municipal Income: A shares 0.81%, I shares 0.59%; California Limited Term Municipal: A shares 0.74%, I shares 0.49%; New Mexico Intermediate Municipal, I shares 0.67%; New York Intermediate Municipal, A shares 0.99%, I shares 0.67%. For more detailed information on fund expenses and waivers/reimbursements, please see the fund's prospectus.

other financial asset during the quarter. Longer duration bonds bore the brunt of the selloff with some debt markets down double digits on the quarter and many down over 20% on a year-to-date basis. The yield on the 10-year U.S. Treasury, which began the quarter at 2.35%, rose to 3.48%, which marked the highest level since February 2011, but managed to pare its losses in the final weeks of June to finish at 3.02%. Global sovereign debt broadly experienced a similar fate as yields on 10-year debt government rose by as much as 120bps in Brazil or as modestly as 7bps in Japan. Rates hikes also took their toll on investment-grade corporates, investment grade municipals, and securitized debt which was all down substantially for the quarter and for the year. Credit sectors such as global high yield, U.S. high yield corporates and high yield municipals also had to contend with recession concerns igniting a flight to quality that led credit spreads to widen by a couple of hundred basis points during the quarter thus further compounding losses created by rate movements. The waning weeks of the quarter were surprisingly unlike the previous two months as yields fell following the Fed's June rate hike. Restored credibility in the Fed's willingness and ability to fight inflation, coupled with a looming economic slowdown, led investors to reignite a bid for Treasuries given the ability to purchase bonds at multi-year high yield levels.

Second Quarter 2022 Performance Highlights

- The Thornburg Municipal Strategies posted negative total returns during a quarter in which the ICE BofA Tax-Exempt Municipal Master Index posted a total return of -3.295%. Despite the negative total returns for the funds, all but the Limited Term and Short Duration Muni funds outperformed their respective benchmarks.
- Yields rose across the municipal market as the 10-year AAA yield began the quarter at 2.33% and set an 8-year high of 2.97% before finishing at 2.75%. With the upward movement in yields, duration was the largest driver of total return during the quarter. The defensive positioning of the Thornburg funds from a duration standpoint was a strong contributor to relative performance during the quarter for all.
- The second quarter brought about performance differentiations that did not occur earlier in the year. Performance across individual bonds differed significantly based on a bond's characteristics such as sector, credit quality, coupon, and call protection. The wide dispersion that occurred led security selection to be a large contributor to relative performance during the quarter for all funds.

Current Positioning and Outlook

Municipal bond investors endured another painful quarter of performance as rising rates have taken hold of the fixed income markets. The Bloomberg Municipal Securities Index was down -2.9% during the quarter following a challenging first quarter and total return of -6.0%. The broad market index was down as much as -11.9% on the year had it not been for a late quarter rally that allowed it to pare its losses and finish at -8.98% on the year. Policy action on the part of the Federal Reserve and rate hikes in March, April, and May totaling 150bps were the driving force behind yields moving higher across the municipal yield curve. The 10-year AAA Muni yield began the quarter at 2.24% and touched an 8-year high of 2.97% on May 18th until the Fed's 75bps rate hike in May tipped the scales of investor concerns from inflation to recession and restored the luster of fixed income.

Higher yields meant shorter maturities outperformed longer maturities as the Bloomberg 1-year Municipal Index eked out a gain of 0.38% while the Bloomberg Long Bond (22+) Municipal Index was down -6.59%. The Thornburg municipal funds have been defensively positioned from a duration perspective, relative to their historical ranges, as market opportunities dried up and yields bottomed during the summer of 2021. Our process helped us arrive at the conclusion the market was overvalued, and municipal bond prices had risen to unsustainable levels. Our assessment has come to serve our shareholders well this year and nowhere is this more evident than in our Intermediate suite of funds. After lagging competitors in the late innings of the rally, the national, New York and New Mexico Intermediate fund I-shares have all been catapulted into the top decile of performance in their respective Morningstar categories on a year-to-date basis.

The second quarter also saw a credit sell-off which was absent in the first quarter as the Bloomberg AAA Municipal Index returned -2.52% on the quarter while the Bloomberg High Yield Municipal Bond index returned -5.61%. Mutual fund outflows surpassed $88B at the end of June, according to Lipper/Refinit data, which put pressure on high yield Muni managers and forced the sale of lower quality, less liquid names furthering the credit performance divide. The Thornburg funds have also been defensively positioned from a credit perspective as the yield pick-up available by going down in credit quality was vaporized by massive inflows into high yield Muni funds. We fought the urge to purchase lower quality and longer duration paper offering incremental yield for considerable amounts of risk despite the performance give-up at the time. The decision has since served our shareholders well as the bonds we avoided have been some of the poorest performers this year as the simultaneous rise of interest rates and widening of spreads compounded losses.

While we do feel some sense of vindication for our adherence to the process that has guided us over the last 40-years, returns in the municipal market means there can be no victory laps in such an abysmal year. Instead, we have focused our efforts on improving our funds by selling bonds purchased at low yields, booking tax losses which can be used to offset future gains, and reinvesting the proceeds into bonds that can be purchased at 3, 4, or even 5% tax-exempt yields.

It's impossible to know exactly where interest rates go from here and a strong argument could be made for them going either up or down. What we do know is the yield that has been absent from the municipal market for the last several years has reappeared in an instant. The penalty placed on savers by the Fed's Zero Interest Rate Policy (ZIRP) has been lifted. The total return of municipal bonds over the long term has been dominated by income with price returns making up as little as 10% of the total over the last 40-years. With municipal bond yields quickly approaching pre-GFC levels investors should recalibrate their expectations and refocus on the income component. We continue to work feverously to increase the yield on our funds to both build a larger cushion against interest rates should they move higher, but also to improve upside potential of our funds should interest rates move lower.

Thank you again for your continued support and investing alongside of us in the Thornburg Municipal Bond Funds.

Important Information

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

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.