Thornburg Strategic Income Fund

Portfolio Manager Commentary
31 December 2022

Market Review

Fixed income markets ended 2022 on a decidedly negative note, as fourth quarter losses ensured that 2022 was the worst year for bonds in decades. Bond performance, which was driven by decades-high inflation, aggressive global central bank rate hikes and geopolitical concerns throughout the year, continued to feel the same effects in the fourth quarter. Early in the quarter, bonds rallied following promising declines in consumer price data and statements from Fed Chair Powell that suggested interest rates would only need to rise “somewhat” higher than previous projections. However, optimism faded in December as global central banks signaled they were still committed to aggressively hiking rates, economic data showed signs of slowing growth, and negative corporate earnings announcements raised concerns of a recession in 2023.

Fourth-Quarter 2022 Performance Highlights

- The Thornburg Strategic Income Fund (I shares) returned 2.07% during the fourth quarter, slightly underperforming its benchmark, the BBG US Universal TR Value Index, which returned 2.24%. For the calendar year 2022, the Fund significantly outperformed, returning -6.12%, versus the Index which returned -12.99%.
- The Fund’s duration and yield curve positioning together were a net positive to relative performance. The Fund’s shorter duration focus versus the Index across the curve benefited in a modestly rising rate environment.
- Our allocation to high yield corporates proved to be beneficial, as range-bound spreads and continued low defaults across the space helped the sector post positive excess return versus Treasuries for the quarter.
- The Fund’s securitized exposure modestly detracted from relative performance. Weaker technicals impacted both the asset-backed securities

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 Dec 2022)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD
A Shares TSIAX (Incep: 19 Dec 2007)							
Without Sales Charge	1.88	-6.62	-6.62	1.04	2.16	3.09	4.89
With Sales Charge	-2.73	-10.83	-10.83	-0.49	1.22	2.62	4.57
I Shares TSIIX (Incep: 19 Dec 2007)	2.07	-6.13	-6.13	1.46	2.56	3.47	5.25
BBG US Universal TR Value Index	2.24	-12.99	-12.99	-2.54	0.18	1.33	2.95
Strategic Income Blend Index*	3.48	-13.87	-13.87	-0.96	1.45	2.73	3.48

ITD = Inception to Date

Periods less than one year are not annualized.

* 80% BBG U.S. Aggregate TR Value Index and 20% MSCI World Net TR Index

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. The maximum sales charge for the Fund's A shares is 4.50%.There is no up-front sales charge for class I shares. The total annual fund operating expenses are as follows: A shares, 1.05%; I shares, 0.81%. 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 of the share classes, resulting in net expense ratios of the following: I shares, 0.60%. For more detailed information on fund expenses and waivers/reimbursements please see the fund’s prospectus.

(ABS) and residential mortgage-backed securities (RMBS) space, and although fundamentals did not show material deterioration, investors continue to be mindful of the headwinds for consumers and the housing market as the cost of capital broadly rises.

- Exposure to investment grade corporates space neither a material contributor nor detractor to relative performance, though the sector held steady in the face of macro risks and continued new issue supply. The BBG US Corporate Index spread tightened 2 basis points to end the quarter at 130 basis points.

Current Positioning and Outlook

Over the course of 2022, in response to the drastic move higher in rates, the Fund's duration was increased to approximately 3.5 years, which represents an overweight versus our historical duration range. We have since reduced duration modestly, expressing a view that Treasury yields are near if not slightly below fair value. Of course, there continues to be heightened risk on both sides around this base case scenario. With inflation still elevated well beyond what global central banks are comfortable tolerating, persistent hawkishness may push rates to new levels in 2023. On the other hand, central bank hawkishness itself can force a hard landing, which we believe would re-ignite the bid for rates across yield curves. We are not and will not be overly tactical in our rate positioning, choosing to add or subtract duration incrementally in response to rate shifts and near-term mispricing.

Across fixed income markets, valuations have improved but the degree varies by sector – more so in securitized, less so in high yield corporates. That said, spreads generally have risen to levels either near or modestly wider than their 10-year historic averages, and at or near the top of 12-month ranges. Given that the last 10 years has been one of broad central bank support, it doesn't mean valuations are screamingly cheap – but they have become more compelling. Nonetheless, the portfolio's volatility profile remains underweight the index, which allows us to retain the ability to pivot into more risk should spreads resume widening and/or become dislocated.

We continue to like the prime consumer (consumers viewed by lenders as more likely to pay back their loans and less likely to default), who has remained vigilant through financial market volatility and rising inflation. However, excess savings are coming down and at some point, consumption will have to soften, perhaps notably. While the overall consumer is strong, we are avoiding the subprime or lower credit score bands because we realize that these consumers are under the most pressure in terms of their ability to service their debt. We will continue to monitor the labor market as any decrease in employment tends to disproportionately hit lower quality borrowers. But we very much like the top of the stack prime consumers who are less vulnerable to default.

This carries over into our outlook for securitized credit. We favor prime consumer asset-backed securities and areas within non-agency mortgage credit. Within the former, we are seeing interesting opportunities in consumer lending (i.e. "Marketplace lending") as well as in the prime auto sector. Our non-agency mortgage exposure is focused on non-qualified (non-QM) loans, for which the underlying borrowers have robust credit profiles and put large down payments on the residential properties. Within Agency mortgage-backed securities, rising rates and a risk-off tone has made valuations on certain 30-year pass-throughs attractive. In fact, our modest Agency mortgage allocation provides good diversification to our consumer credit exposure, as these positions tend to do well in a stressed environment. Overall, we continue to believe there will be plenty of opportunity in securitized credit. A unique aspect of the securitized market is that, unlike high yield corporates, issuance must still come to market despite volatility, which is advantageous because it allows us to provide liquidity into the market and buy bonds at very attractive yields.

In the corporate bond space, yields are looking interesting again, and in some pockets are beginning to compensate investors for the risks in the market. On a relative basis, the investment grade market looks more appealing than the high yield space. Although spreads are notably wider in high yield versus 12 months ago, the lack of supply has kept a lid on valuations becoming even cheaper. New issuance in high yield has been extremely muted, with even high-quality issuers avoiding coming to market as they anticipate that funding costs will be unfavorable. However, investment grade issuance continues, which will create good security selection opportunities. In credit overall, we will continue to be selective both in investment grade and high yield,

preferring to take more risk only when the risk/reward tradeoff is more apparent. Our focus is on names with less cyclicality, such as utilities, select technology issuers, high-quality financials, as well as bonds that exhibit lower spread volatility in a risk-off environment.

Within emerging markets, we are taking a cautious tone in the face of continued global risks. In many ways, emerging market economies face the same inflation and growth headwinds as their developed market counterparts. The exception are countries that are commodity exporters, in particular ones that have benefited from the rise in oil prices. Given present macro risks, issuance has been relatively muted, and we expect that to continue headed into 2023. We will of course focus on issuers with strong balance sheets and attractive relative value, but we are prepared to be more tactical in this environment. With uncertainty continuing, we expect mispricing to occur, both within competing emerging markets debt issuers but also in comparison to developed market corporates, which we will continue to exploit.

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 Dec 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. 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 equity securities are subject to additional risks, such as greater market fluctuations. 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 the Fund 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.

The BBG U.S. Aggregate TR Value Index is composed of approximately 8,000 publicly traded bonds including U.S. government, mortgage-backed, corporate and Yankee bonds. The index is weighted by the market value of the bonds included in the index.

The BBG US Universal TR Value Index 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.

The BBG 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 MSCI World Net TR Index is an unmanaged market-weighted index that consists of securities traded in 23 of the world's most developed countries. Securities are listed on exchanges in the U.S., Europe, Canada, Australia, New Zealand, and the Far East. The index is calculated with net dividends reinvested in U.S. dollars.

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.

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Important Information (continued)

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.

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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.

Non-Qualified Mortgage (Non-QM) is a loan that doesn't meet the standards of a qualified mortgage and uses non-traditional methods of income verification to help a borrower get approved for a home loan.

RMBS (Residential Mortgage Backed Securities) - A type of mortgage-backed debt securities where the cash flows are derived from residential mortgages.

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.

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.