UCITS

Thornburg Limited Term 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.

Performance Summary

- The Thornburg Limited Term Income UCITS Fund (I shares accumulating) returned 1.63% during the fourth quarter, outperforming its benchmark, the BBG Int US Govt/Credit TR Value, which returned 1.54%. For the calendar year 2022, the Fund returned -6.87%, outpacing the Index, which returned -8.23%.
- With interest rates modestly higher but ultimately rangebound for the quarter, the Fund's structural short duration position versus the index was neither a material contributor nor detractor. The Fund's duration averaged between 3.3 and 3.4 years for the period.

> Volatility is presenting new and evolving opportunities across the fixed income space.

Portfolio Managers

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Co-Head of Investments
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Supported by the entire Thornburg investment team.

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

(In US$ terms. **Returns may increase or decrease as a result of currency fluctuations.** Not annualized for periods less than one year.)

	QTR	YTD	1-YR	3-YR	5-YR	ITD
Net of Fees						
Class A ACC Shares (Incep: 3 May 2017)	1.40	-7.64	-7.64	-1.19	0.22	0.28
Class I ACC Shares (Incep: 3 May 2017)	1.63	-6.87	-6.87	-0.47	0.93	0.98
BBG Int US Govt/Credit TR Value	1.54	-8.23	-8.23	-1.26	0.73	0.79

ITD = Inception to Date

Source: Confluence

All share classes are accumulating and denominated in USD. See prospectus for additional share class listing.

Annual Return Performance Summary (%)

	2018	2019	2020	2021	2022
Class A ACC Shares	0.40	4.36	6.36	-1.79	-7.64
Class I ACC Shares	1.09	5.10	7.09	-1.13	-6.87
BBG Barclays Int US Govt/Credit TR Value	0.88	6.80	6.43	-1.44	-8.23

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 www.thornburg.com/ucits.*

- Issue selection in the investment grade corporates space was positive, as the sector broadly held firm in the face of macro risks and continued new issue supply. Over the period, the BBG Int US Govt/Credit TR Value spread tightened two basis points to end the quarter at 130 basis points.
- The Fund's securitized exposure modestly detracted from relative performance, particularly in RMBS (CMO) space. 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.

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 mis-pricing.

Across fixed income markets, valuations have improved but the degree varies by sector. That said, spreads generally have risen to levels either near or modestly wider than their ten-year historic averages, and at or near the top of 12-month ranges. Given that the last ten 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.

In the corporate bond space, yields are looking interesting again, and in some pockets are beginning to compensate investors for market risks. Investment grade issuers continue to come to the primary market, which will create good security selection opportunities. We will continue to be selective across the investment grade landscape, preferring to take more risk only when the risk/reward tradeoff is 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 U.S. dollar denominated emerging markets corporate debt, 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.

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 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.

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. Factset, State Street, Confluence, Bloomberg, as of 31 Dec 2022.

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