UCITS

Thornburg Strategic Income Fund

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 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 other financial asset during the quarter. Longer

> 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 at 30 June 2022)

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

UCITS FUND (NET OF FEES)	QTR	YTD	1-YR	3-YR	ITD
Class A ACC Shares* **(Incep: 28 Dec 2018)**	-5.34	-9.45	-9.37	-0.03	1.26
Class I ACC Shares* **(Incep: 28 Dec 2018)**	-5.12	-9.06	-8.60	0.76	2.06
BBG US Universal TR Value Index (Since 28 Dec 2018)	-5.13	-10.93	-10.89	-0.94	1.07
Strategic Income Blend Index**	-7.05	-12.39	-10.98	0.85	3.15

Annual Return Performance Summary (%)

UCITS FUND (NET OF FEES)	2019	2020	2021
Class A ACC Shares	6.60	6.85	1.32
Class I ACC Shares	7.40	7.64	2.16
BBG US Universal TR Value Index	9.29	7.58	-1.10
Strategic Income Blend**	12.45	9.68	2.85

ITD = Inception to Date. Source: Confluence

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

** 80% Bloomberg U.S. Aggregate Bond Index and 20% MSCI World 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 http://www.thornburgglobal.com. Returns may increase or decrease as a result of currency fluctuations.

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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 3.01%. Global sovereign debt broadly experienced a similar fate as yields on 10-year government debt 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 and securitized debt, which were both down substantially for the quarter and for the year. Credit sectors such as U.S. and global high yield corporates 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 Strategic Income UCITS Fund (I shares accumulating) returned -5.12% during the second quarter, slightly outperforming its benchmark, the Bloomberg U.S. Universal Index, which returned -5.13%.
- The fund's structural short duration position versus the index was a large contributor to relative performance. The 5-year U.S. Treasury yield moved higher by 58 bps to end the quarter at 3.04%, while the 10-year Treasury yield ended the period 68 bps higher at 3.01%.
- The fund's allocation to high yield detracted given the sector's material spread widening; however, the selection effect due to our high quality bias was broadly beneficial. Meanwhile, the fund's allocation to both asset-backed securities and collateralized mortgage obligations were modestly negative for the quarter.

Current Positioning and Outlook

With central banks in full inflation fighting mode, the chances of a recession have risen rapidly, with the question becoming not if a recession will occur, but potentially how deep it might be. Central banks have a mixed record at best with soft landings, and the Fed is reluctant to admit that some sort of demand contraction is needed to soften inflation. Given this backdrop, portfolio risk continues to be defensively positioned. We incrementally added duration as rates have risen, believing Treasury yields have reached a level somewhat close to fair value, though tail risks remain elevated on both sides. A Fed unable to control inflation and inflation expectations is a recipe for rapidly rising rates. On the flip side, recession fears may well reignite an interest rate rally as investors once again look to Treasuries as a safe haven in times of stress.

Securitized fixed income remains the best relative value proposition in the portfolio. We are constructive on spread levels and favor a bias toward prime consumer issuance. That said, we believe the portfolio has an appropriate level of securitized risk, mindful that spreads could widen further in a risk-off environment. Though recession and inflation fears will remain an overhang, the consumer is broadly coming into the second half of the year in a position of strength. Delinquencies across prime consumer sectors are modestly higher than in 2020-2021, but remain low overall, and in many cases, still below pre-COVID levels. We continue to be cautious on the subprime consumer, given the challenges this cohort could experience should the economy drastically weaken. Within the residential mortgage space, the headwind of rising mortgage rates is being offset by still favorable supply/demand dynamics. While we expect housing market strength to wane, bondholders have plenty of built in protection from lower LTVs and existing loans underwritten with strong lending standards.

Within U.S. corporates, valuations have improved to a point that, as of quarter-end, spreads are clearly above long-term historical averages. While this makes the opportunity set within corporates more interesting, we remain fairly cautious given the weakening macro backdrop and input cost inflation. We have a bias toward names with less cyclicality and more attractive valuations versus recent history. We are cautious on bank loans both on relative value versus high yield as well as a broadly asymmetric risk/return tradeoff. In emerging markets, weakness persists in sympathy with broader risky assets and the weak growth/high inflation narrative. We believe this environment has created security-level mispricing for which we will look to exploit. The timing, however, will be based on evolving domestic and global trends. We continue to look for opportunities in areas with high real rates, advanced policy cycles, and improving domestic demand.

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

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THORNBURG STRATEGIC INCOME FUND

Portfolio Manager Commentary
30 June 2022

Thornburg

Important Information

Source of data: Factset, State Street Fund Services (Ireland) Ltd., Confluence, Bloomberg—unless otherwise stated

Date of data: 30 June 2022—unless otherwise stated

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