Thornburg Multisector Opportunistic Strategy

Portfolio Manager Commentary
30 September 2022

Thornburg

Investment Strategy

Designed to be a flexible, alpha-seeking fixed income strategy with the goal to provide investors with attractive risk-adjusted returns by investing in fixed income securities across sector, credit quality, and geography. Over time, we aim to generate returns above that of core fixed income strategies with incrementally higher risk.

Market Overview

The quarter was dominated once again by active global central bank policy in the broader fight to reclaim price stability. Record high inflation prints in the U.S. brought about two more aggressive rate hikes, as the Fed raised the Federal Funds target rate to 3.00%-3.25%, its highest level since 2008. Additionally, the European Central Bank (ECB) raised rates 0.75% in a unanimous vote in early September, followed by the Bank of England's 0.50% hike later in the month. The unprecedented policy rate increases resulted in bond yields soaring meaningfully higher. Yields on the two-year U.S. Treasury finished the quarter at 4.22%, up from 2.88% at the beginning of the quarter, and the 10-year U.S. Treasury yield finished at 3.83%, up from 2.84%. With 2-year yields finishing higher than 10-year yields, the U.S. yield curve has inverted which is seen as a precursor to a recession. Against this backdrop, nearly every fixed income asset class has posted steep losses on the year. Many areas are positing the largest losses on record with some areas such as Treasuries and U.S. corporate indexes down nearly 20% on a total return basis. The massive decline in prices across the market has brought with it a huge increase in bond yields, making valuations increasingly attractive, and offering a silver lining as the 11-year penalty placed on savers thanks to Zero Interest Rate Policy (ZIRP) has been lifted in just 11-months.

Portfolio Managers

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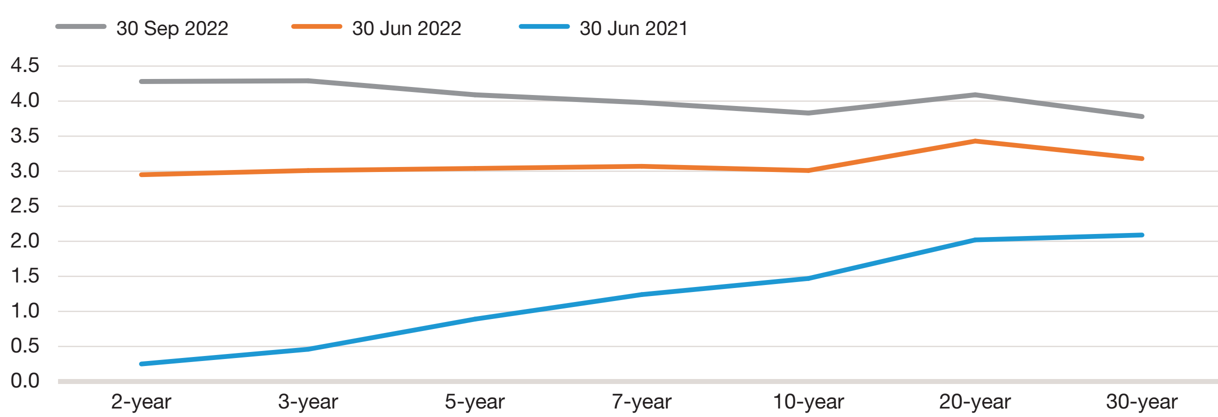
Supported by the entire Thornburg investment team

Figure 1: There is No Additional Yield Out the Curve Today

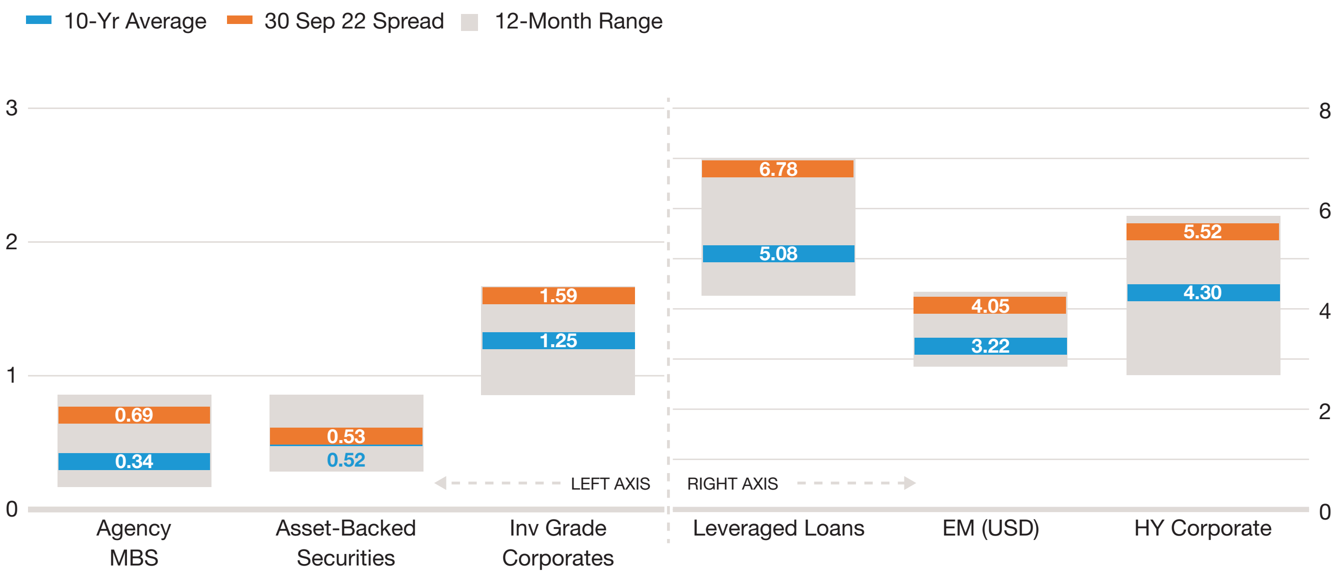
U.S. Treasury yield curve (%)



Source: Bloomberg, as of 30 Sep 2022

Figure 2: Fixed Income Spreads Trading above 10-year Historical Averages

Option adjusted spreads for sub-indexes (%)



Source: Bloomberg, JP Morgan, as of 30 Sep 2022

Strategy Overview

Average Annual Returns (%)

	QTR	YTD	1-YR	3-YR	5-YR	10-YR
Multisector Opportunistic Composite (Gross)	-1.07	-7.65	-7.54	1.72	2.90	4.22
Multisector Opportunistic Composite (Net)	-1.21	-8.05	-8.08	1.12	2.30	3.56
BBG US Universal TR Value	-4.45	-14.90	-14.92	-3.11	-0.18	1.17

Annual Return Performance Summary

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Multisector Opportunistic Composite (Gross)	13.88	7.28	4.34	-1.15	8.94	7.27	1.38	8.56	8.90	3.39
Multisector Opportunistic Composite (Net)	13.04	6.49	3.66	-1.77	8.25	6.60	0.77	7.92	8.25	2.77
BBG US Universal TR Value Index	5.54	-1.35	5.56	0.43	3.91	4.09	-0.25	9.29	7.58	-1.10

Periods less than one year are not annualized. **In US$ terms. Returns may increase or decrease as a result of currency fluctuations.**

Performance data for the Multisector Opportunistic Strategy is from the Multisector Opportunistic Composite, inception date of 1 January 2008. The Multisector Opportunistic Composite includes all discretionary accounts invested in the Multisector Opportunistic Strategy. Returns are calculated using a time-weighted and asset-weighted calculation. Returns reflect the reinvestment of income and capital gains. Periods less than one year are not annualized. Individual account performance will vary. The performance data quoted represents past performance; it does not guarantee future results. Gross of fee returns are net of transaction costs. Net of fee returns are net of transaction costs and investment advisory fees. For periods prior to 2011, net returns for some accounts in the composite also reflect the deduction of administrative expenses. Thornburg Investment Management Inc.'s fee schedule is detailed in Part 2A of its ADV brochure. Performance results of the firm's clients will be reduced by the firm's management fees. For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual management fee of 0.75%, this increase would be 142%.

THORNBURG MULTISECTOR OPPORTUNISTIC STRATEGY

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Performance Highlights

- The Thornburg Multisector Opportunistic Strategy composite achieved a return of -1.07% gross (-1.21% net) during the third quarter, outperforming the Bloomberg U.S. Universal Index, which returned -4.45%.
- The portfolio's structural short duration position versus the index was a large contributor to relative performance given the significant move up in rates during the third quarter. The portfolio's duration averaged slightly over 3 years during the period.
- Our allocation to high yield corporates proved to be beneficial, as the sector overcame macro and volatility concerns to post positive excess return versus Treasuries for the quarter.
- ABS security selection was additive, as we continue to see strong fundamental cash flow from our holdings in consumer ABS and non-QM bonds within RMBS.
- Issue selection in the investment grade corporates space was positive, as our defensive posture benefited during a period where the investment grade sector modestly underperformed Treasuries.
- There were no significant relative detractors over the quarter.

Portfolio Characteristics

PORTFOLIO STATISTICS	REP. ACCT.
Weighted Avg. Coupon	3.5%
Weighted Avg. Price	$91.23
Average Effective Maturity	4.8 Yrs
Effective Duration	3.2 Yrs
Average Credit Quality	BBB

ASSET CLASS	REP. ACCT.
Domestic Corporate Bonds	49.4%
Asset-backed Securities	20.4%
Collateralized Mortgage Obligation	11.2%
Treasury	3.6%
Bank Loans	1.9%
Comm. Mortgage-backed Securities	1.4%
Mortgage Pass Through	0.9%
Foreign Treasury	0.6%
Preferred Stock	0.6%
Municipal Bonds	0.3%
Cash & Cash Equivalents	9.6%

TOP TEN COUNTRIES	REP. ACCT.
United States	75.9%
Canada	2.1%
Mexico	1.1%
United Kingdom	1.0%
China	0.9%
Japan	0.8%
Cayman Islands	0.7%
United Arab Emirates	0.6%
Belgium	0.5%
France	0.5%

Holdings are classified by country of risk as determined by MSCI and Bloomberg.

CREDIT QUALITY RATINGS	REP. ACCT.
U.S. Government	5.0%
AAA	10.7%
AA	3.0%
A	14.8%
BBB	22.0%
BB	19.5%
B	8.6%
C	0.2%
D	0.0%
Not Rated	6.3%
Cash and Cash Equivalents	9.7%

May not add up to 100% due to rounding.
Unless otherwise stated, all data is as of 30 Sep 2022

Current Positioning and Outlook

The top focus for investors continues to be central bank actions around the world and their impact on combatting inflation. On one hand, the Federal Reserve is aggressively raising rates and continuing the paradigm shift from a free cost of money at the start of 2022, to a very significant and real cost of money as the year draws to a close and likely into 2023. On the other, we have witnessed scores of interest rate increases around the globe, notably from the European Central Bank, which exited its negative interest rate policy, as well as multiple policy rate increases from the Bank of England. The story will continue to be about inflation, and around market expectations as to when central banks can ultimately pivot. For the Fed specifically, we believe it's a question about how they react to the sources of inflation. That is, 'good' inflation may be seen as broad based wage growth, which the Fed might tolerate more, versus 'bad' inflation in the form of increasing goods prices.

Although our interest rate view does not meaningfully determine the success of the portfolio's outcome, we still have and need a view on rates, and we believe that Treasuries on the intermediate part of the curve are near fair value, though tail risks on both sides are apparent. While global central bank policy remains highly uncertain given present inflation risks, we believe that economies will have difficulty broadly dealing with a higher cost of capital. A near term observation can be seen in the U.S. housing market, as consumer demand for housing markedly decreased when the mortgage rate hit 6%. Further, intermediate-term rates are likely going to feel the push and pull of 'inflation vs. recession', as any weak data tends to reignite a bid to developed market bonds.

Our largest relative conviction remains in the securitized space. We express this view mainly through consumer ABS as well as the non-agency RMBS market (mainly in non-QM). We have been constructive on the consumer balance sheet for quite some time, but that view has evolved where we are currently cautious on the subprime consumer while remaining fairly constructive fundamentally on prime borrowers. Within ABS, bonds up the capital stack currently yield in the mid-single digits while bonds BBB and below are in the high single digits or greater. The risk/return is compelling given prime borrower quality as well as the structural protections, both on an underlying borrower and bond level. Borrowers accessing non-QM loans typically put 30% down on their mortgage, and given strong credit histories, the loans start paying down and provide great protection even in a scenario where home prices outright fall. The biggest risk in securitized space, and in the fixed income sector as a whole, is liquidity risk, and we are mindful to a point where we are selective in what we are adding to the portfolio. The fundamentals would suggest a higher allocation, but we need to be protective of drawdown.

Within the corporate space, we are selectively adding to names in both investment-grade and high yield. With the rise in both Treasury yields and credit spreads, overall yields are starting to look more interesting. However, we are not to a point of significantly adding risk unless we see a further protracted widening of spreads. The high yield new issue market remains largely shut down, which has been a tailwind in keeping spreads somewhat at bay despite the macro risks. However, the investment grade market continues to put out new issue deals, and we continue to favor names with less cyclicality and less credit spread duration. We have selectively added in utility names and high quality financials. Investment grade corporate spreads, as measured by the Bloomberg U.S. Corporate Index, ended the quarter at 159 bps, just slightly higher than at the end of June. High yield spreads actually tightened a bit but are still wide of historical averages, with the Bloomberg High Yield Index ending September at 552 bps.

In emerging markets space, we remain outright cautious given the macro and geopolitical risks. U.S. dollar strength has emerged as an additional headwind for issuers who have U.S. dollar liabilities. That said, we will be selective and favor bonds in areas with high real rates, advanced policy cycles, and improving domestic demand. Further volatility in EM space will give us an opportunity to exploit security level mispricings.

Important Information

The performance data quoted represents past performance; it does not guarantee future results.

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 30 September 2022.

Investments in the Strategy carry risks, including possible loss of principal. Carefully consider the Strategy's investment objectives, risks, and expenses before investing. There is no guarantee that the portfolio will meet its investment objectives.

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.

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Portfolio holdings and characteristics shown herein are from a representative account managed within the investment composite. The representative account is selected based on account characteristics that Thornburg believes accurately represent the investment strategy as a whole. Should these characteristics change materially, Thornburg may select a different representative account. Holdings may change daily and may vary among accounts, which may contribute to different investment results. The representative account information is supplemental to the strategy's composite and GIPS compliant presentation.

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 quality ratings use the highest rating available from either S&P Global Ratings or Moody's Investors Service. Where neither rating is available, we have used ratings from other nationally recognized statistical rating organizations (NRSROs). "NR" = Not Rated.

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.

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.

The Bloomberg U.S. Universal Index measures the performance of U.S. dollar-denominated taxable bonds that are rated either investment-grade or high yield. The index includes U.S. Treasury bonds, investment-grade and high yield U.S. corporate bonds, mortgage-backed securities, and Eurodollar bonds.

The Bloomberg U.S. Universal Total Return Index Value Unhedged 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.

Portfolio construction will have significant differences from that of a benchmark index in terms of security holdings, industry weightings, asset allocations and number of positions held, all of which may contribute to performance, characteristics and volatility differences. Investors may not make direct investments into any index.

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