

Thornburg Municipal Bond Funds

Portfolio Manager Commentary

31 December 2023



Market Review

Interest rates began the fourth quarter on the same upward march that characterized the previous few months, with the 10-year Treasury in mid and late October briefly eclipsing 5%, the highest level in over 15 years. This set the stage for a meaningful reversal, with rates rallying significantly into year-end. The broad measure of the U.S. bond market, the Bloomberg U.S. Aggregate Index, generated the highest single quarterly total return since the 2nd quarter of 1989. The interest rate rally was powered by further optimism on falling inflation, with headline CPI falling to 3.1% in December from 3.7% two months prior. Most significantly, the output from the Federal Reserve's December meeting was judged by markets to be unexpectedly dovish, with the FOMC projecting three cuts in 2024 instead of the previous forecast of two. In response, risk assets rallied strongly into the year-end, with corporate, securitized, and municipal spreads all moving tighter for the quarter.

Fourth Quarter 2023 Performance Highlights

- The Thornburg Municipal Bond portfolios posted strong absolute positive total returns over the quarter. November saw the highest total return for the broad market municipal bond index since its inception in the late 1980s. Despite the strong absolute returns, all portfolios underperformed their respective indexes, gross of fees, during the quarter.
- Municipal bond prices rose significantly during the quarter and given the inverse relationship, yields fell significantly as well. The decline in yields resulted in duration being the largest driver of absolute and relative performance during the period. Despite strong absolute returns, lower duration positioning against their respective indexes resulted in relative underperformance.
- The rally in yields was accompanied by a tightening of credit spreads as investors snapped up risk assets in anticipation of a Fed pivot. This led lower quality Munis to outperform higher quality Munis during the period. The higher quality bias of the Thornburg portfolios lead to slight underperformance versus their respective benchmarks.

Current Positioning and Outlook

The ICE BofA Municipal Securities Index posted a 7.62% total return over the quarter with performance across the municipal market driven by falling Treasury yields.

The combination of the speed and magnitude of the rally in municipal bond yields in the fourth quarter was historic. While the changes in the fundamental outlook for the U.S. economy, and monetary policy in particular, did justify lower Treasury yields and thus lower municipal bond yields, we think it is likely that the market will see a period of consolidation.

Given the extent of outflows from municipal bond funds over the calendar year, it is possible that prices were driven higher by an unusual degree of demand to re-enter the market. And the sharp convergence of tax-equivalent yields – particularly in the highest credit ratings – offered by municipal bonds relative to their underlying Treasury yields, also suggests technical demand may have exceeded fundamental valuations. And while the increased chances of a soft landing are unequivocally good news for the broader economy and the possibility of lower Treasury yields to come, we are mindful of some of the challenges ahead. State budgets have come under increasing pressure, while a relatively high portion of large-scale municipal projects have been delayed and are likely to require funding in the coming year. Both of these factors could put upward pressure on municipal bond spreads, regardless of the direction of the underlying Treasury yields.

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

The fundamentals justified the Muni market's historic fourth-quarter rally. But the market may have overreached and climbed too far, too fast.

Portfolio Managers

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For investment in bonds with under 15-year maturities, the still inverted curve does make municipal bond investing challenging: with U.S. Government T-Bills setting the income benchmark at around 5.3%, adding duration in municipal bonds comes with the cost of lower income. Bonds with a maturity above 15 years, however, benefit from the steepness in the municipal curve – adding duration increases yield and thus more opportunities to lock in higher-yielding assets for the long term.

While 2023 rewarded patient municipal bond investors with unusually high returns, we remain optimistic on the market's ability to deliver attractive income in the year ahead. Yields may again rise, but we continue to believe the current, more volatile, environment offers opportunities for active managers like ourselves who focus on adding incremental income – not duration, credit, or macroeconomic risk – and thus have the potential to provide not just a higher income stream, but a more stable and durable one.

Thank you for your continued trust and support investing alongside of us in the Thornburg municipal strategies.

AVERAGE ANNUAL TOTAL RETURNS (AS OF 31 DECEMBER 2023)

THORNBURG SHORT DURATION MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	EXPENSE RATIOS (%)	
								GROSS	NET
A Shares TLMAX (Incep: 30 Dec 13)									
Without sales charge	2.46	3.46	3.46	0.20	0.67	0.56	0.56	--	--
With sales charge	0.16	1.16	1.16	-0.55	0.37	0.41	0.41	1.10	0.70
I Shares TLMIX (Incep: 30 Dec 13)	2.60	3.75	3.75	0.43	0.88	0.76	0.76	0.58	0.50
ICE BofA 1-3 Year U.S. Municipal Securities Index (Since: 30 Dec 13)	2.74	3.35	3.35	0.53	1.32	1.11	1.11		
THORNBURG LIMITED TERM MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares LTMFX (Incep: 28 Sep 84)									
Without sales charge	4.61	4.29	4.29	-0.41	1.09	1.24	4.21	--	--
With sales charge	2.29	1.95	1.95	-1.17	0.78	1.08	4.17	0.71	0.71
I Shares LTMIX (Incep: 5 Jul 96)	4.68	4.46	4.46	-0.18	1.32	1.51	3.26	0.48	0.48
ICE BofA 1-10 Year U.S. Municipal Securities Index (Since: 28 Sep 84)	4.93	4.29	4.29	-0.01	1.78	1.90	N/A*		
THORNBURG INTERMEDIATE MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares THIMX (Incep: 22 Jul 91)									
Without sales charge	5.69	5.45	5.45	-0.11	1.79	2.11	4.12	--	--
With sales charge	3.57	3.31	3.31	-0.79	1.39	1.91	4.05	0.91	0.77
I Shares THMIX (Incep: 5 Jul 96)	5.84	5.71	5.71	0.15	2.05	2.39	3.85	0.67	0.53
ICE BofA 3-15 Year U.S. Municipal Securities Index (Since: 22 Jul 91)	6.55	5.41	5.41	-0.22	2.21	2.67	N/A*		
THORNBURG STRATEGIC MUNICIPAL INCOME FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares TSSAX (Incep: 1 Apr 09)									
Without sales charge	6.46	5.89	5.89	-0.55	1.51	2.37	4.22	--	--
With sales charge	4.36	3.79	3.79	-1.22	1.11	2.17	4.08	1.27	0.81
I Shares TSSIX (Incep: 1 Apr 09)	6.51	6.12	6.12	-0.33	1.72	2.63	4.50	0.99	0.59
ICE BofA U.S. Municipal Securities Index (Since: 1 Apr 09)	7.62	6.52	6.52	-0.44	2.27	3.13	5.32		

Returns for less than one year are not annualized. ITD is inception to date.

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.

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: The maximum sales charge for the Fund's A shares is 2.25%. Intermediate Municipal and Strategic Municipal Income: The maximum sales charge for the Fund's A shares is 2.00%. There is no up-front sales charge for class I shares. Thornburg Investment Management and/or Thornburg Securities LLC have contractually agreed to waive fees and reimburse expenses through at least February 1, 2025, for some of the share classes; these are reflected in the net expense ratio. For more detailed information on fund expenses and waivers/reimbursements, please see the fund's prospectus.

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AVERAGE ANNUAL TOTAL RETURNS (AS OF 31 DECEMBER 2023)

THORNBURG CALIFORNIA LIMITED TERM MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	EXPENSE RATIOS (%)	
								GROSS	NET
A Shares LTCAX (Incep: 19 Feb 87)									
Without sales charge	4.30	4.17	4.17	-0.30	0.83	1.12	3.62	--	--
With sales charge	1.95	1.86	1.86	-1.05	0.52	0.97	3.58	0.95	0.74
I Shares LTCIX (Incep: 1 Apr 97)	4.28	4.43	4.43	-0.07	1.07	1.40	3.05	0.71	0.49
ICE BofA 1-10 Year U.S. Municipal Securities Index (Since: 19 Feb 87)	4.93	4.29	4.29	-0.01	1.78	1.90	N/A*		
THORNBURG NEW MEXICO INTERMEDIATE MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares THNMX (Incep: 18 Jun 91)									
Without sales charge	5.24	3.93	3.93	-0.84	1.06	1.59	3.67	--	--
With sales charge	3.10	1.87	1.87	-1.51	0.65	1.39	3.60	1.01	0.99
I Shares THNIX (Incep: 1 Feb 07)	5.24	4.18	4.18	-0.55	1.36	1.92	2.71	0.73	0.67
ICE BofA 3-15 Year U.S. Municipal Securities Index (Since: 18 Jun 91)	6.55	5.41	5.41	-0.22	2.21	2.67	N/A*		
THORNBURG NEW YORK INTERMEDIATE MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares THNYX (Incep: 5 Sep 97)									
Without sales charge	5.30	4.75	4.75	-0.28	1.32	1.68	3.16	--	--
With sales charge	3.17	2.68	2.68	-0.96	0.91	1.47	3.08	1.22	0.99
I Shares TNYIX (Incep: 1 Feb 10)	5.38	5.09	5.09	0.04	1.65	2.00	2.56	0.98	0.67
ICE BofA 3-15 Year U.S. Municipal Securities Index (Since: 5 Sep 97)	6.55	5.41	5.41	-0.22	2.21	2.67	4.26		

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Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 December 2023.

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.

There is no guarantee that investment objectives will be met.

Basis Point (bp) – A unit equal to 1/100th of 1%. 1% = 100 basis points (bps).

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).

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.

Fed Funds Rate – The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

Federal Open Market Committee (FOMC) – The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

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.

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.

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.

The ICE BofA 1-3 Year U.S. Municipal Securities Index (ICE BofA 1-3 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 3 years.

The ICE BofA 1-10 Year U.S. Municipal Securities Index (ICE BofA 1-10 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 10 years.

The ICE BofA 3-15 Year U.S. Municipal Securities Index (ICE BofA 3-15 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity greater than or equal to three years and less than 15 years.

The ICE BofA U.S. Municipal Securities Index (ICE BofA US Muni) tracks the performance of U.S. dollar-denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market.

The Bloomberg U.S. Aggregate Index (BBG US Agg TR Value) 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 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.

Not FDIC Insured. May lose value. No bank guarantee.

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.

Thornburg is a global investment firm delivering on strategy for institutions, financial professionals and investors worldwide. The privately held firm, founded in 1982, is an active, high-conviction manager of fixed income, equities, multi-asset solutions and sustainable investments with \$42.9* billion in total assets across mutual funds, institutional accounts, separate accounts and UCITS.



*Includes assets under management (\$41.8B) and assets under advisement (\$1.1B).