

Thornburg Strategic Income Fund

Portfolio Manager Commentary

31 March 2024



Market Review

Economic data released during the first quarter of 2024 was supportive of the narrative that U.S. growth would not only remain resilient but resume a cyclically upward trend. Both nonfarm payroll releases in January and February exceeded analyst expectations, while the final measure of fourth quarter GDP was revised up from 3.2% to 3.4%. The downward trajectory in inflation remained stalled, with year-over-year CPI down only a tenth of a percentage point to 3.8%. Given this backdrop, Fed communication focused on patience and the need for better inflation data before committing to a rate cut. Markets repriced a higher for longer path, resulting in the 10-year U.S. Treasury yield rising from 3.88% to 4.20% over the quarter. Solid economic data helped keep the broader risk rally going, with spreads tightening across fixed income sectors and lower quality outperforming higher quality on a relative basis.

Attractive yields provide an offset to tight spreads given current macro uncertainties.

First Quarter 2024 Performance Highlights

- In 1Q24 the portfolio (I share class) returned 0.92%, 139 basis points ahead of the Bloomberg U.S. Universal Index. Year to date the portfolio (I share class) returned 0.92%, 139 basis points ahead of the Index.
- The portfolio's structural short duration position versus the index was the primary contributor in a quarter marked by rising rates. The portfolio held an average duration of 3.73 years for the first quarter.
- Our allocation to non-agency RMBS (CMO) contributed to relative performance as mortgage credit spreads tightened due to positive investor sentiment and continued robust housing fundamentals.
- Exposure to both investment-grade and high-yield corporates was beneficial, as credit performed well and consistent with the broader risk rally.
- Exposure to low-coupon MBS pass-throughs was a modest contributor to performance. The mortgage basis (i.e. spread between Treasuries and MBS) rallied into the quarter-end after initially widening earlier in the period.
- There were no material detractors from a sector perspective during the first quarter.

Portfolio Managers

Jeff Klingelhofer, CFA

Co-Head of Investments
Portfolio Manager

Lon Erickson, CFA

Portfolio Manager

Ali Hassan, CFA, FRM

Portfolio Manager

Christian Hoffmann, CFA

Portfolio Manager

Supported by the entire Thornburg investment team

Current Positioning and Outlook

The rally in risk assets over the past few months has contributed to a virtuous circle where household wealth gains have fueled better investor sentiment and could potentially serve as a tailwind for private consumption going forward. Recession is now the bear, not the base case, but firm data flow during the January through March period was also coupled with a few mixed signals. Consumer delinquencies continue a slow but consistent march higher, decoupling from a still tight labor market. Disposable income, on a nominal basis, has increased at a pace faster than pre-COVID trends, but real disposable income gains lag, suggesting the consumer is having difficulty keeping pace with inflation. These mixed signals will need to be monitored given the extent to which fixed income spreads have grinded tighter. Though recession is not a concern for now, it should be noted that over the past 70 years, it has taken an average of ten quarters after an initial Fed hike for a recession to occur. Markets cannot declare victory yet during this particular cycle, as we are currently only eight quarters past the first hike.

During the Fed's March meeting, the average dot for number of Fed cuts by year-end remained at three. The data flow, both on the growth and inflation front, do not support the ability for the FOMC to deliver on this forecast.

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. There is no up-front sales charge for class I shares.

In the absence of recession, one cut appears to be far more appropriate, with inflation no longer showing any material downward momentum. Average hourly earnings growth (year-over-year) has stabilized in the mid 4% level, and the rebound in housing prices tends to be a leading indicator of the direction of core CPI. The fall election also looms over Fed decision making, and the FOMC will want to steer clear from policy decisions that could be interpreted as politically motivated.

Nominal and real yields pushed higher in the first quarter in response to the data and the paring of Fed cut rate expectations. We added rate risk into the sell-off, with duration positioned at 3.9 years as of early April versus 3.5 years to begin 2024. Meanwhile, agency mortgage-backed securities (MBS) continue to demonstrate compelling relative value versus high grade credit, although valuations are somewhat neutral versus non-agency RMBS. Our exposure is in low coupon pass-throughs which have discounted dollar prices and provide both attractive total return potential and fundamental diversification to credit.

Within non-agency RMBS (CMO), fundamentals remain positive given robust underwriting and low housing LTVs, with spreads on senior bonds attractive relative to investment-grade credit. Our exposure has been focused on non-QM, but we see good relative value additions within reperforming loan (RPL) securities. In ABS, our caution on the consumer continues as delinquencies slowly but consistently rise, though senior bonds with shorter weighted average lives are well protected and provide good front end yield. Although CMBS represents a small percentage in the portfolio, there have been select opportunities to take advantage of investor caution in the space to buy attractively priced bonds backed by strong, cash-flowing properties.

Spreads in both investment-grade and high-yield corporates continued their grind tighter in the first quarter. Within the latter, high single digit yields provide good total return potential and protection to wider spreads. However, spread levels do not compensate investors for uncertainty and the potential for higher defaults. On the credit quality stack, we prefer BBB corporates to the BB/B cohort as fundamentals look more appealing on a relative basis. Our investment-grade exposure, however, is focused on defensive, strong cash flow businesses. Spreads are also tight relative to history, but the new issuer calendar remains robust and therefore provides select relative value opportunities going forward.

Within emerging markets, valuations overall in the sovereign and corporate space are tight while interest coverage and leverage have ticked higher. While issuance is running well ahead of previous years, we find the compensation relative to quality to be largely insufficient. We are being highly selective on additions we seek to avoid macro tail risks. Potential opportunities include mispricing which may occur through the busy EM election calendar, as well as in countries where rate cuts may improve the economic outlook and outweigh any inflation or currency depreciation concerns.

AVERAGE ANNUAL TOTAL RETURNS (AS OF 31 MARCH 2024)

THORNBURG STRATEGIC INCOME FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	EXPENSE RATIOS (%)	
								GROSS	NET
A Shares TSIAX (Incep: 19 Dec 07)									
Without sales charge	0.74	0.74	5.29	1.03	3.07	3.05	5.00	--	--
With sales charge	-3.81	-3.81	0.56	-0.51	2.13	2.57	4.71	1.07	1.05
I Shares TSIX (Incep: 19 Dec 07)	0.92	0.92	5.70	1.46	3.47	3.43	5.37	0.77	0.60
Bloomberg U.S. Universal Index (Since: 19 Dec 07)	-0.47	-0.47	2.67	-2.11	0.69	1.83	3.07		

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. The maximum sales charge for the Fund's A shares is 4.50%. 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 1 February 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.

THORNBURG STRATEGIC INCOME FUND

Portfolio Manager Commentary | 31 March 2024

Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 March 2024.

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.

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.

There is no guarantee that the Fund will meet its investment objectives.

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

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.

Gross Domestic Product (GDP) – A country's income minus foreign investments: the total value of all goods and services produced within a country in a year, minus net income from investments in other countries.

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.

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.

Mortgage-backed Security – A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must be grouped in one of the top two ratings as determined by an accredited credit rating agency and usually pay periodic payments that are similar to coupon payments. The mortgage must have originated from a regulated and authorized financial institution.

Mortgage Pass-Through – A security consisting of a pool of residential mortgage loans. Payments of principal, interest and prepayments are "passed through" to investors each month.

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

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

"Bloomberg®" and the Bloomberg index(es) mentioned in this piece are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Thornburg Investment Management. Bloomberg is not affiliated with Thornburg, and Bloomberg does not approve, endorse, review, or recommend Thornburg. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Thornburg.

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 \$44.4* billion in total assets across mutual funds, institutional accounts, separate accounts and UCITS.

*Includes assets under management (\$43.2B) and assets under advisement (\$1.1B).

