

Thornburg Municipal Bond Strategies

Portfolio Manager Commentary

31 March 2025



Market Review

The first quarter of 2025 was characterized by significant volatility and complexity across global financial markets that was not driven by a singular trend but was a tug-of-war between multiple forces. Aggressive fiscal measures, particularly new tariffs, injected uncertainty and inflationary pressures, initially steepening the yield curve. However, the Federal Reserve maintained a patient stance, signaling potential rate cuts later in the year amid concerns of slowing economic momentum. This dovish tilt capped longer-term yields and supported risk assets, including corporate credit, which saw modest spread tightening despite the macro headwinds. Inflation-linked bonds also garnered attention as tariff-induced price pressures became a focal point. The quarter concluded with markets closely watching inflation data and central bank rhetoric for clearer signals on the future path of rates and the ultimate impact of fiscal policy on the broader economy.

We actively adjusted portfolio positioning as volatility driven by record issuance coincided with market outflows that were amplified by policy uncertainty

First Quarter 2025 Performance Highlights

- The Thornburg Municipal portfolios posted mixed total returns during the quarter as muni yields unexpectedly rose, especially for bonds with longer maturities in March. The market may have been understandably nervous about holding longer bonds with talk about potential policy changes impacting tax exemption
- The yield curve steepened during the quarter, driven by the greater rise in longer maturity bonds versus shorter maturity bonds. As a result of the inverse relationship between bond yields and prices, longer maturity portfolios underperformed shorter maturity portfolios as duration drove absolute total returns.
- Despite the sell-off in yields, it was not accompanied by spread widening as investors continued to reach for yield across the credit spectrum. The portfolios' absolute and relative performance benefited from the sector/quality allocations during the quarter.

Portfolio Managers

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Supported by the entire Thornburg investment team

Current Positioning and Outlook

The first quarter of 2025 marked a significant adjustment for the U.S. Municipal Bond market. The ICE BofA U.S. Municipal Securities Index posted a total return of -0.49% as overwhelming technical pressure in March, stemming from record issuance coinciding with outflows from the space, were amplified by policy uncertainty. This dynamic overshadowed stable credit fundamentals and the initially constructive macro backdrop, leading to underperformance.

Favorable initial conditions, supported by declining U.S. Treasury yields, shifted in March as substantial technical pressures emerged, dominating the market. While falling Treasury yields initially aided municipals, a significant divergence occurred in March. Despite stable or falling Treasury yields, municipal yields rose, particularly at intermediate and long maturities which caused a pronounced steepening of the tax-exempt yield curve. Consequently, a key outcome is the notable improvement in relative valuations.

The technically driven correction adjusted municipal yields and ratios to levels appearing considerably more attractive, particularly for intermediate and longer durations. Consistent with our mandates, we actively adjusted portfolio positioning throughout the quarter in response to evolving market conditions and relative value opportunities. Our active management approach proved crucial in navigating the quarter's volatility as security selection, driven by our bottom-up fundamental credit research, was a key contributor, allowing us to identify resilient issuers across various sectors.

The performance data quoted represents past performance; it does not guarantee future results. Please see the Composite standardized performance tables included herein.

Spreads on investment-grade municipal bonds remained largely unchanged throughout the quarter. This resilience suggests that the market stress was primarily attributable to technical imbalances and interest rate fluctuations rather than widespread credit deterioration concerns. Most issuers continue to benefit from healthy reserve fund balances, although ongoing monitoring of sector-specific pressures remains prudent. High-yield municipal spreads also exhibited resilience, tightening modestly throughout the quarter which led to a slightly positive return for the sector.

As we look forward to the second quarter, the technically driven market correction has adjusted municipal yields and relative value metrics to much more attractive levels. While headline risk associated with potential tax policy persists and warrants continued attention, the fundamental credit outlook for the majority of investment-grade issuers remains sound. We look forward to an environment which may present strategic opportunities to selectively add duration or credit exposure to the portfolios at much more attractive yield levels.

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

ANNUALIZED RETURNS (AS OF 31 MARCH 2025)

THORNBURG SHORT DURATION MUNICIPAL STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 APR 14)
Composite (Gross)	1.12	1.12	4.01	3.04	1.87	1.64	1.58
Composite (Net)	1.02	1.02	3.60	2.65	1.51	1.28	1.21
ICE BofA 1-3 Year U.S. Municipal Securities Index	1.01	1.01	3.62	2.43	1.50	1.38	1.32
THORNBURG LIMITED TERM MUNICIPAL STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 JAN 85)
Composite (Gross)	1.11	1.11	3.01	2.58	1.51	1.83	5.02
Composite (Net)	1.02	1.02	2.69	2.30	1.24	1.56	4.28
ICE BofA 1-10 Year U.S. Municipal Securities Index	0.63	0.63	2.42	2.09	1.31	1.70	N/A*
THORNBURG INTERMEDIATE TERM MUNICIPAL STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 NOV 91)
Composite (Gross)	0.53	0.53	2.27	2.69	1.92	2.41	4.85
Composite (Net)	0.46	0.46	1.92	2.31	1.53	2.00	4.18
ICE BofA 3-15 Year U.S. Municipal Securities Index	0.18	0.18	1.49	1.89	1.23	2.05	N/A*
THORNBURG STRATEGIC MUNICIPAL INCOME STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 MAY 09)
Composite (Gross)	0.53	0.53	3.36	2.84	2.20	2.63	5.06
Composite (Net)	0.34	0.34	2.59	2.12	1.53	1.92	4.26
ICE BofA U.S. Municipal Securities Index	-0.49	-0.49	1.44	1.46	1.12	2.18	3.55

In US\$ terms. **Returns may increase or decrease as a result of currency fluctuations.**

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

*Index not inception yet.

Performance data for the Short Duration Municipal Strategy is from the Short Duration Municipal Composite, inception date of 1 April 2014. The Short Duration Municipal Composite includes all non-wrap discretionary accounts invested in the Short Duration Municipal Strategy.

Performance data for the Limited Term Municipal Strategy is from the Limited Term Municipal Composite, inception date of 1 January 1985. The Limited Term Municipal Composite includes all non-wrap discretionary accounts invested in the Limited Term Municipal Strategy.

Performance data for the Intermediate Term Municipal Strategy is from the Intermediate Term Municipal Composite, inception date of 1 November 1991. The Intermediate Term Municipal Composite includes all non-wrap discretionary accounts invested in the Intermediate Term Municipal Strategy.

Performance data for the Strategic Municipal Income Strategy is from the Strategic Municipal Income Composite, inception date of 1 May 2009. The Strategic Municipal Income Composite includes all discretionary accounts invested in the Strategic Municipal Income Strategy.

Returns are calculated using a time-weighted and asset-weighted calculation. 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. 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. Gross of fee returns are net of transaction costs. 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 MUNICIPAL BOND STRATEGIES

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CALENDAR YEAR RETURNS

THORNBURG SHORT DURATION MUNICIPAL STRATEGY (%)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	3.20	4.27	-1.48	0.44	1.66	2.73	1.68	1.60	0.72	0.74
Composite (Net)	2.80	3.89	-1.84	0.09	1.34	2.37	1.33	1.25	0.38	0.34
ICE BofA 1-3 Year U.S. Municipal Securities Index	2.63	3.35	-2.03	0.34	2.16	2.88	1.76	0.99	0.33	0.76
THORNBURG LIMITED TERM MUNICIPAL STRATEGY (%)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	1.95	4.93	-4.39	0.46	3.65	4.62	1.58	3.04	-0.01	2.31
Composite (Net)	1.64	4.68	-4.64	0.20	3.38	4.33	1.31	2.77	-0.28	2.04
ICE BofA 1-10 Year U.S. Municipal Securities Index	1.58	4.28	-4.61	0.48	3.81	5.28	1.69	2.83	-0.05	2.12
THORNBURG INTERMEDIATE TERM MUNICIPAL STRATEGY (%)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	2.11	6.10	-5.57	1.57	4.65	6.65	1.47	4.44	0.48	3.03
Composite (Net)	1.73	5.68	-5.94	1.17	4.24	6.21	1.06	4.00	0.04	2.58
ICE BofA 3-15 Year U.S. Municipal Securities Index	0.99	5.41	-6.64	0.94	4.96	7.01	1.45	4.64	-0.06	3.16
THORNBURG STRATEGIC MUNICIPAL INCOME STRATEGY (%)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	3.71	6.75	-7.53	2.10	4.65	6.57	1.82	5.07	0.88	3.55
Composite (Net)	2.94	5.96	-8.08	1.50	4.02	5.82	1.18	4.29	0.12	2.78
ICE BofA U.S. Municipal Securities Index	1.62	6.52	-9.03	1.83	5.26	7.74	1.04	0.00	0.44	3.55

In US\$ terms. **Returns may increase or decrease as a result of currency fluctuations.**

The performance data quoted represents past performance; it does not guarantee future results. Please see the Composite standardized performance tables included herein.

Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 March 2025

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.

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.

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.

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. The index shown is unmanaged, reflect total returns and assume the reinvestment of all income in U.S. dollars. It does not reflect any management fees or brokerage expenses associated with a portfolio's returns. Returns for an actual portfolio may differ from those of an index due to (among other things) differences in timing and the amount invested and fees and expenses. Investors may not make direct investments into any index.

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*Includes assets under management (\$45.4B) and assets under advisement (\$1.2B).



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