Thornburg Multisector Opportunistic Strategy

Portfolio Manager Commentary
30 September 2024

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.

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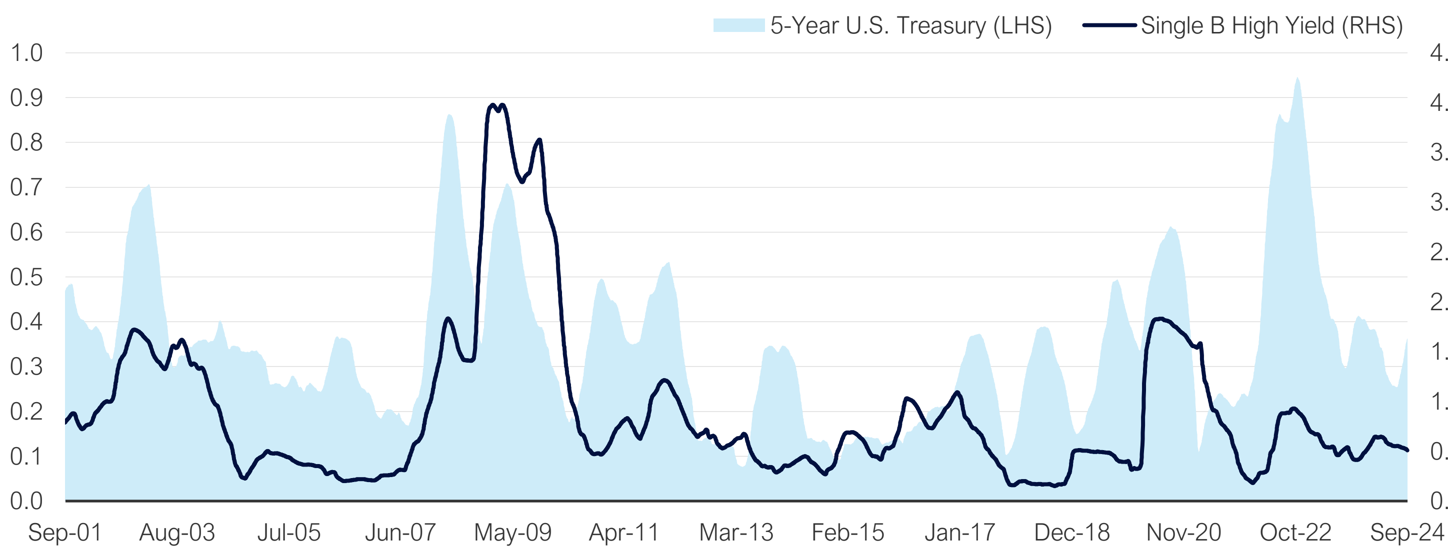
Supported by the entire Thornburg investment team

Market Review

The U.S. Federal Reserve delivered a well anticipated rate cut in the middle of September, though they surprised some market participants by delivering 50 basis points instead of a more conservative 25 basis point move. Treasury yields fell over the quarter in anticipation of both September's move and future anticipated cuts. Fed Funds Futures priced in a rate cutting cycle that would have the Fed Funds rate near neutral (approximately 3%) by this time next year. Globally, central banks have a broad rate cutting bias, with the notable exception of the Bank of Japan, which is addressing its own domestic inflationary pressures. Except for early August's "Manic Monday", spread volatility was relatively contained given resilient U.S. economic growth and persistent investor demand for spread sectors across the fixed income space.

Figure 1: Rate Volatility Significantly Higher than Spread Volatility
Gap reveals complacency in pricing of credit spreads

ROLLING 1-YEAR STANDARD DEVIATION: RATE VOLATILITY VS. SPREAD VOLATILITY



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

Third Quarter 2024 Performance Highlights

- In 3Q24 the portfolio (net of fees) returned 4.3%, -90 basis points behind the Bloomberg U.S. Universal Index. Year to date the portfolio (net of fees) returned 6.28%, 137 basis points ahead of the index.
- The portfolio's structural short duration position versus the index detracted on a relative basis, as rates on the front and intermediate portions of the curve fell significantly ahead of the Federal Reserve rate cut. However, rallying rates meant that returns were additive on an absolute basis.
- Exposure to low-coupon MBS pass-throughs was a modest contributor, as the mortgage basis (i.e. spread between Treasuries and MBS) tightened by 20 basis points in sympathy with falling rates.
- Our allocation to asset-backed securities (ABS) was a slight detractor, and although spread volatility was muted overall, ABS spreads, as measured by the ICE BofA AA-BBB US Asset Backed Securities Index, ended the quarter 17 basis points wider.
- Exposure to corporate credit proved to be neither a material contributor nor detractor. Spreads broadly ended the quarter rangebound (investment-grade) to modestly tighter (high yield) versus the end of June.

Current Positioning and Outlook

The rates and credit markets have behaved each with different interpretation of the current macro trajectory. Treasury yields generally, and Fed Funds Futures specifically, have been pricing in more pessimistic scenarios, while tight credit spreads suggest that positive growth will continue uninhibited. As we enter the fourth quarter, the rates market is starting to converge with the credit market view, but there are still market expectations for multiple rate cuts over the next 12 months. The Fed's minutes from their September meeting revealed that the committee views the current labor market as being close to what they consider maximum employment, and therefore prefer to avoid any weakening of the labor market going forward. We believe it will be difficult for the Fed to reconcile this view with their price stability goals, given that the predominant contributor to still above-trend inflation is services inflation, most closely associated with wage inflation.

At current rate levels, the portfolio's duration remains at the upper end of its historical range. We have been opportunistic around duration positioning given the continued volatility in rates, having modestly trimmed since the spring but added back slightly coming into the fourth quarter. The risk/reward profile for taking rate risk is favorable overall, albeit with renewed uncertainty about the Fed's policy path. With inflation still above the Fed's goal, realized cuts over the next year may be more modest than expected, and at the moment there is no catalyst for a strong rate rally. But neither do we believe the economy can remain on firm footing very long with a cost of capital built on Treasury yields at 5%.

ANNUALIZED RETURNS (AS OF 30 SEPTEMBER 2024)

THORNBURG MULTISECTOR OPPORTUNISTIC STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 JAN 08)
Composite (Gross)	4.44	6.71	11.90	2.97	4.45	4.42	6.23
Composite (Net)	4.30	6.28	11.30	2.40	3.85	3.80	5.45
Bloomberg U.S. Universal Index	5.20	4.91	12.08	-1.05	0.70	2.15	3.28

CALENDAR YEAR RETURNS

THORNBURG MULTISECTOR OPPORTUNISTIC STRATEGY (%)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Composite (Gross)	8.26	-5.59	3.39	8.90	8.56	1.38	7.27	8.94	-1.15	4.34
Composite (Net)	7.67	-6.14	2.77	8.25	7.92	0.77	6.60	8.25	-1.77	3.66
Bloomberg U.S. Universal Index	6.17	-12.99	-1.10	7.58	9.29	-0.25	4.09	3.91	0.43	5.56

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.

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%.

Within the agency mortgage space, low coupon MBS dollar prices remain discounted, and although they appear closer to fair value than earlier in the year, they are interesting on a relative value basis versus investment-grade corporates. We have added a bit to Agency CMOs, which have relatively wide spreads as well versus corporates and remain cheap as bank buyers have yet to step back in.

In the investment-grade (IG) corporate credit sector, the technical backdrop remains solid, but tight IG spreads still warrant caution here. We continue to be highly selective with a focus on more defensive, less cyclical issuers. With a solid IG new issuance calendar this fall, we prefer to add where pricing concessions provide better opportunities to exploit relative value on a security level. Within high yield, the sector continues to have good overall yield and protection to wider spreads. However, risk/reward is skewed to the downside as spreads price in optimistic growth and default scenarios. High yield spreads are at levels that historically have indicated a limited ability to rally much further versus their ability to widen. In the bank loan space, floating rates remain relatively high and continue to put pressure on over levered and weak businesses, causing default rates to trend modestly higher. Additionally, waves of repricings are eroding spread from the asset class, increasing downside risk.

There are good relative value opportunities in the securitized space. Although we are cautious on the consumer, particularly subprime, senior ABS bonds remain compelling. These bonds are well protected from loss, pay down principal faster than junior tranches, and have good front end yields. In non-agency RMBS (CMO), the backdrop for housing remains strong, with low LTVs and demand exceeding supply. We continue to fundamentally like non-QM, though valuations are fair in our view. The reperforming (RPL) loan space looks appealing, with discounted dollar prices, low LTVs, and a high percentage of borrowers paying on their mortgage loans. In regard to commercial mortgage-backed securities (CMBS), the sector continues to be a small position in the portfolio. There have been select opportunities in single asset single borrower (SASB) deals backed by high quality office properties with robust occupancy and in attractive locations within metropolitan areas.

We have a modest exposure in emerging market debt. While index level spreads look tight, we are neutral on EM spread risk overall, given pockets of widening in both IG and HY rated areas on the back of U.S. rate volatility and Fed policy path uncertainty. While EM central banks have communicated currency stability as a priority, the recent rally in EM currencies has allowed them to pivot more dovish. Our focus continues to be on countries with attractive real rates, falling inflation, and currency appreciation. Hard currency quasi sovereigns remain a favored space within the broad universe, and we have made small adds to local currency EM bonds.

Portfolio Characteristics

PORTFOLIO STATISTICS	REP. ACCT.
Weighted Average Coupon	4.1%
Weighted Average Price	96.2
Average Credit Quality	A-
Average Effective Maturity	5.3 Years
Effective Duration	3.9 Years

ASSET CLASS WEIGHTS (%)	REP. ACCT.
Corporate	42.1
U.S. Treasury	13.4
CMO	12.0
Mortgage Pass Through	10.3
ABS	10.2
CMBS	2.9
Non-U.S. Treasury	1.6
Bank Loans	0.8
Preferred Stock	0.5
Commercial Paper	0.2
Municipal Bonds	0.0
Common Stock	0.0
Cash	5.9

CREDIT QUALITY RATINGS (% EX-EQUITY)	REP. ACCT.
U.S. Government	26.5
AAA	10.7
AA	2.4
A	11.8
BBB	22.3
BB	12.2
B	4.1
CCC	0.1
D	0.0
NR	4.1
Cash	5.9

TEN LARGEST COUNTRIES (%)	REP. ACCT.
United States	81.1
Canada	1.6
Mexico	1.0
United Kingdom	0.8
Japan	0.8
Brazil	0.7
Australia	0.7
Dominican Republic	0.6
China	0.5
France	0.5

Source: FactSet and Thornburg
Cash may include cash equivalents and currency forwards. Holdings are classified by country of risk as determined by MSCI and Bloomberg. Portfolio attributes can and do vary. Weights are percentages of total portfolio, unless otherwise noted. Holdings may change daily.
Credit quality ratings use the highest rating available from either S&P Global Ratings or Moody's Investors Service. Unrated securities are evaluated by the firm using available data and their own analysis that may be similar to that of a nationally recognized rating agency; however, such determination is not equivalent to a national agency credit rating. "NR" = Not Rated. Please see disclosure page for other important disclosures and definitions.

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 2024

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.

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.

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

OAS (Option Adjusted Spread) - The difference between the yield of a fixed income instrument and the duration-matched Treasury yield assuming the instrument had no embedded options (such as an issuer's option to call a bond at a future date). Option-adjusted spreads enable investors to separate out embedded options and better judge the degree to which an instrument's yield compensates them for credit risk, liquidity risk, or other such factors.

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.

Fed Funds Futures are financial futures contracts based on the federal funds rate and traded on the Chicago Mercantile Exchange (CME) operated by CME Group Inc. (CME). The federal funds rate is the rate banks charge each other for overnight loans of reserves on deposit with the Federal Reserve.

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.

Collateralized Mortgage Obligation (CMO) - A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Commercial Mortgage-backed Securities (CMBS) - A type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets. CMBS issues are usually structured as multiple tranches, similar to collateralized mortgage obligations, rather than typical residential pass-throughs.

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 a 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.

ICE BofA U.S. ABS Index tracks the performance of U.S. dollar denominated investment grade fixed and floating rate asset backed securities publicly issued 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 ($45.6B) and assets under advisement ($1.2B).

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