Thornburg High Yield Strategy

Portfolio Manager Commentary
31 March 2024

Thornburg

Investment Strategy

The strategy goal is to outperform the Bloomberg U.S. Corporate High Yield Index over a full market cycle with lower volatility.

A research-intensive workflow is combined with a consistent level of communication between high yield portfolio managers and the broader team in order to make decisions and execute quickly and efficiently.

Portfolio Managers

Ali Hassan, CFA, FRM
Portfolio Manager

Christian Hoffmann, CFA
Portfolio Manager

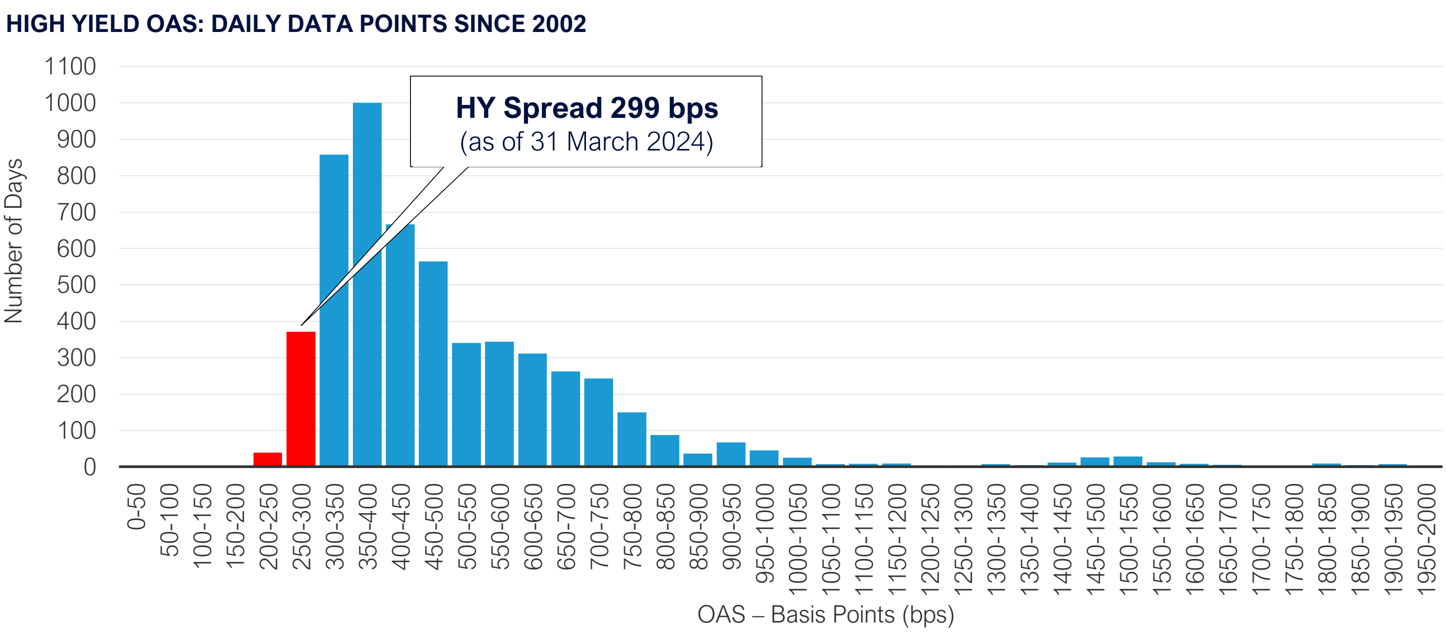
Supported by the entire Thornburg investment team

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.

High yield spreads continued a grind tighter over the quarter, with the Bloomberg U.S. High Yield OAS eventually dropping slightly under 300 basis points (bps) to end the quarter. The market was buoyed by the resilient macro backdrop as well as attractive all-in yields. Despite spread tightening, the backup in Treasuries caused the index yield-to-worst to rise modestly, to 7.66% from 7.59% at the end of the year. Excess returns across the high yield credit quality stack were positive, albeit not as robust as the prior quarter. The BB, B, and CCC cohorts of the index outperformed duration-adjusted Treasuries by 1.37%, 1.39%, and 2.09%, respectively, for the first quarter.

Figure 1: Risky Fixed Income Sector Spreads Are at Levels That Do Not Justify Macro Uncertainty
High yield corporate spreads are at levels that price in too much optimism



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

First Quarter 2024 Performance Highlights

- In 1Q24 the portfolio (net of fees) returned 1.35%, -12 basis points behind the Bloomberg U.S. Corporate High Yield Index. Year to date the portfolio (net of fees) returned 1.35%, -12 basis points behind the Index.
- An overweight to food & beverage aided performance as the sub-sector posted solid excess return for the quarter.
- An underweight to telecommunications also benefited the portfolio as the sub-sector underperformed duration-adjusted Treasuries.
- Underweights to retail, oil & gas, and chemicals were detractors as all three areas outperformed in sympathy with the broader high yield rally.
- An underweight to CCC names detracted as the lower quality cohort outperformed both single Bs and BBs.
- A relative short duration position contributed on a relative basis as rates rose over the period.

Current Positioning and Outlook

Positive risk sentiment for high yield rolled over into the new year, as investors chose to focus on the relatively attractive yield the sector offered rather than increasingly tighter spreads. High yield issuers took note of the benign risk environment, with primary market issuance rising to levels not seen in three years. We have largely avoided participating in the new deals offered, as spread compensation continues to shrink and the asymmetry between how further spreads can tighten versus the degree which they can widen is increasing. Spreads, as measured by the Bloomberg U.S. High Yield Index, ended the quarter at 299 basis points, not very far from the post-COVID tight of 262 bps set in July 2021. Should macro concerns continue to recede and default levels remain where they are today, a good argument can be made that current spread levels are fair. However, we believe there is more uncertainty within the data that in our view does not justify the optimism being priced in. On the growth front, there is a notable gap between current GDP growth (3+%) and gross domestic income (GDI) (-0.1%), two measures that typically track each other very closely. We also continue to observe rising credit card delinquencies, which is concerning to us given this is happening while the economy is sustaining positive employment growth.

Consistent with this cautious theme, our largest exposure is to non-cyclical names, including in packaging & containers, healthcare, food, and household products. We are underweight cyclical names, and in this environment, we tend to pass on issuers with very cyclical cash flow profiles.

ANNUALIZED RETURNS (AS OF 31 MARCH 2024)

THORNBURG HIGH YIELD STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	ITD (1 APR 19)
Composite (Gross)	1.46	1.46	9.08	3.99	5.74	5.74
Composite (Net)	1.35	1.35	8.60	3.52	5.26	5.26
Bloomberg U.S. Corporate High Yield Index	1.47	1.47	11.15	2.19	4.21	4.21

CALENDAR YEAR RETURNS

THORNBURG HIGH YIELD STRATEGY (%)	2023	2022	2021	2020
Composite (Gross)	11.51	-4.77	5.17	8.70
Composite (Net)	11.01	-5.20	4.70	8.22
Bloomberg U.S. Corporate High Yield Index	13.44	-11.19	5.28	7.11

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 High Yield Strategy is from the High Yield Composite, inception date of 1 April 2019. The High Yield Composite includes all discretionary accounts invested in the High Yield 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. 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%.

We hold underweights to telecommunications, retail, oil & gas, and leisure. From a credit quality perspective, we hold a structural higher quality bias in the portfolio, with overweights to double-B and crossover names, while underweight both single-B and CCC cohorts.

We continue to be cautious on bank loans and hold a very modest position. Although bank loan spreads are nominally wider versus high yield and have outperformed on a relative basis, we believe the sector remains exposed to a very asymmetric risk/return profile, particularly as default levels have been outpacing high yield defaults. We are concerned that the floating rate nature of bank loans do not provide ballast if spreads widen into a risk-off period, which typically coincides with a falling rate environment. During such periods, liquidity in bank loans tends to be weak and we are keen to make sure we keep the portfolio liquid in order to rotate into attractive opportunities during selloffs.

Within other non-index exposure, we hold a modest allocation to asset-backed securities, which provides diversification and gives the portfolio exposure to the consumer sector in a way which provides better relative value, versus accessing exposure through the corporate balance sheet. We are fundamentally cautious on the consumer, though ABS senior bonds with shorter weighted average lives are well protected and provide good front end yield. In terms of the overall portfolio, despite our relative caution on risk, yield levels are projecting an attractive total return outlook over the medium term, which will compensate for some of the uncertainty that exists. We expect the portfolio to provide good participation on the upside and remain very well positioned to take advantage of market selloffs and dislocations.

Portfolio Characteristics

PORTFOLIO STATISTICS	REP. ACCT.
Weighted Average Coupon	5.2%
Weighted Average Price	96.1
Average Credit Quality	BB
Average Effective Maturity	3.5 Years
Effective Duration	2.7 Years

ASSET CLASS WEIGHTS (%)	REP. ACCT.
Corporate	86.0
ABS	3.4
Bank Loans	1.4
CMBS	1.3
Preferred Stock	0.9
CMO	0.9
Cash	6.1

CREDIT QUALITY RATINGS (% EX-EQUITY)	REP. ACCT.
U.S. Government	0.4
A	0.7
BBB	15.3
Below Invest. Grade	73.9
NR	3.5
Cash	6.1

TEN LARGEST COUNTRIES (%)	REP. ACCT.
United States	82.6
Canada	6.2
Netherlands	2.0
Australia	0.9
Guatemala	0.7
Mexico	0.5
Jamaica	0.5
Israel	0.4
United States	88.0
Canada	6.6

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. Where neither rating is available, we have used ratings from other nationally recognized statistical rating organizations (NRSROs). "NR" = Not Rated. Please see disclosure page for other important disclosures and definitions.

THORNBURG HIGH YIELD STRATEGY

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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 31 March 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. The representative account information is supplemental to the strategy's composite and GIPS compliant presentation.

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

High yield bonds may offer higher yields in return for more risk exposure.

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.

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.

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.

Yield to Worst (YTW) - The lowest potential yield that can be received on a bond without the issuer actually defaulting.

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.

The Bloomberg U.S. Corporate High Yield Index (BBG US Corp High Yield TR Value) measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

The Bloomberg U.S. High Yield Index covers the universe of fixed-rate, non-investment grade debt.

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 ($43.2B) and assets under advisement ($1.1B).

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