Thornburg Core Plus Bond Fund

Portfolio Manager Commentary
30 September 2024

Thornburg

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.

Attractive yields provide an offset to richly valued spreads.

Third Quarter 2024 Performance Highlights

- In 3Q24 the portfolio (I share class) returned 5.13%, -7 basis points behind the Bloomberg U.S. Universal Index. Year to date the portfolio (I share class) returned 4.85%, 40 basis points ahead of the index.
- 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.
- While a relative long duration position was additive to performance, the resulting overweight to the 10-year part of the curve detracted as short maturity yields fell more than their longer end counterparts.
- Our allocation to asset-backed securities (ABS) and collateralized mortgage obligations (CMO) proved to be neither a material contributor nor detractor to relative performance.

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Supported by the entire Thornburg investment team

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.

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%.

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.

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 very 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.

AVERAGE ANNUAL TOTAL RETURNS (AS OF 30 SEPTEMBER 2024)

THORNBURG CORE PLUS BOND FUND	QTR	YTD	ITD	EXPENSE RATIOS (%) GROSS	EXPENSE RATIOS (%) NET
A Shares THCAX (Incep: 2 Oct 23)					
Without sales charge	5.06	4.64	12.54	--	--
With sales charge	0.31	-0.06	7.47	1.04	0.75
I Shares THCIX (Incep: 2 Oct 23)	5.13	4.85	12.84	0.79	0.50
Bloomberg U.S. Aggregate Index (Since: 2 Oct 23)	5.20	4.45	12.38		

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 CORE PLUS BOND FUND

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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 30 September 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.

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.

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. 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 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 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 $46.8* billion in total assets across mutual funds, institutional accounts, separate accounts and UCITS.

*Includes assets under management ($45.6B) and assets under advisement ($1.2B).

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