

Four Dividend-Focused Equity Funds to Add Income

Income-focused equity funds can be a powerful addition to investors' tool kits.

Fund Spy | 05-14-09 | By Lawrence Jones

Although it's generally the case that fixed-income funds offer much higher yields than can typically be had among equity mutual funds, it is still important to look beyond bonds when constructing an income-producing portfolio and asset allocation. And while many firms have been in dividend-cutting mode during the recession, that shouldn't frighten investors away from income-focused equity funds, as there are still some excellent options out there that can help supplement bond funds by providing strong income streams. As is well known, dividends have historically constituted an important part of a stock's total return over time, and as the economy eventually recovers, so, too, should many stocks' payouts. Moreover, with equity price levels still considerably below prior peak levels, average dividend yields are looking considerably more attractive today than they were roughly a year ago. In fact, the SEC yield (which looks to the 30-day period ended the last day of the previous month, unlike the trailing 12-month yield, which makes the calculation over the past year) on the S&P 500 Index has risen near half a percentage point, to 2.56%, over the past year. Many firms have slashed dividend payments, but prices have fallen even further, driving yields up.

Some may try to invest directly in dividend-paying stocks, but while that may be an option for a modest portion of an investors' portfolio, gaining stable dividend exposure through direct stock investment can be tricky for most investors and can expose them to significant volatility and stock-specific risk. Rather, we suggest looking to top fund options instead. And while some of the best options are already quite well known, such as American Funds Capital Income Builder (CAIBX), we've highlighted four others below (in no particular order) that deserve more attention and can provide investors with a compelling income stream while also contributing to the total return potential of their portfolio.

Thornburg Investment Income Builder (TIBAX)

Trailing 12-month Yield: 7.53%

SEC Yield: 7.42%

This offering is also a fund where management understands the importance of looking abroad when searching for strong dividend-paying stocks (recently nearly a third of assets were in foreign stocks). The team has long argued that international firms have shown a greater willingness to pay dividends to shareholders than have their U.S. counterparts; in particular, European companies are increasingly improving dividend policies. Moreover, management seeks to invest in firms that cannot only sustain an appealing dividend payout, but also have the potential and willingness to increase it. Historically speaking, the fund has held a more modest position in bonds than many of its world-allocation category counterparts, which held the fund back as its equity-heavy portfolio swooned through the financial crisis. Still, we think that management's experience and its flexible and opportunistic approach should help make the fund a compelling offering for those seeking income.

At a time when yields in various sectors of the fixed-income marketplace are quite compelling and, conversely, cash and Treasury-market yields are meager, it's still very important to consider equity-oriented funds that can offer income, both as a bulwark against market gyrations and as a complement to bond funds in an income-producing portfolio.

This is an excerpt of the full article. The other funds selected were omitted for reprint purposes. To view the full article, please visit www.morningstar.com.

Lawrence Jones is a Senior Mutual Fund Analyst with Morningstar.

Average Annual Total Returns as of 3/31/09

| | YTD* | | | | Since 12/24/02 |
|--|---------------|---------|---------|--------|----------------|
| | As of 5/21/09 | 1-Yr | 3-Yr | 5-Yr | Inception |
| Thornburg Investment Income Builder Fund, Class A | | | | | |
| Without sales charge | 7.61% | -34.40% | -6.93% | 1.57% | 6.42% |
| With maximum 4.5% sales charge | 2.75% | -37.36% | -8.35% | 0.64% | 5.64% |
| Blended Index | 3.07% | -32.96% | -8.92% | -1.40% | 2.89% |
| S&P 500 Index | -0.53% | -38.09% | -13.06% | -4.76% | 0.18% |

* Not annualized for periods less than one year

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. The total annual operating expense ratio of class A shares is 1.31%.

Thornburg Investment Income Builder Fund 30-day SEC Yield as of 3/31/09: 8.09%. Yields quoted in the article are as of 12/31/08.

Investments in the Fund carry risks including possible loss of principal. Investing outside the United States involves additional risks, such as currency fluctuations. Additionally, the Fund invests a portion of the assets in small capitalization companies, which may increase the risk of greater price fluctuations. As with direct bond ownership, funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk, and inflation risk. The principal value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise. Investments in the Fund are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity.

The Blended Index is comprised of 25% Lehman Brothers Aggregate Bond Index and 75% MSCI World Index. The Lehman Brothers Aggregate Bond Index is composed of approximately 6,000 publicly traded bonds including U.S. government, mortgage-backed, corporate and Yankee bonds with an average maturity of approximately 10 years. The index is weighted by the market value of the bonds included in the index. The Morgan Stanley Capital International (MSCI) World Index is an unmanaged market-weighted index that consists of over 1,200 securities traded in 23 of the world's most developed countries. Securities are listed on exchanges in the U.S., Europe, Canada, Australia, New Zealand, and the Far East. The index is calculated with net dividends reinvested, in U.S. dollars.

The S&P 500 Index is an unmanaged broad measure of the U.S. stock market.

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.

This communication is not authorized for distribution to prospective investors in the Fund unless preceded or accompanied by an effective prospectus. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the Fund.

Thornburg Funds are distributed by Thornburg Securities Corporation® • 2300 North Ridgetop Road • Santa Fe, New Mexico 87506
800.847.0200 • www.thornburg.com • 5/22/09 • TH1933