

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Investing in Dividend-Paying Companies



JASON BRADY, CFA, is a Managing Director for Thornburg Investment Management. He is the Portfolio Manager of the Thornburg Limited Term U.S. Government Fund and Co-Portfolio Manager of the Thornburg Limited Term Income Fund, Thornburg Investment Income Builder Fund and Thornburg Strategic Income Fund. Mr. Brady joined Thornburg in 2006 as an Associate Portfolio Manager and was named Managing Director in 2007. Prior to joining Thornburg, he was a Portfolio Manager with Fortis Investments in Boston, Mass., and he has held various positions at Fidelity Investments and Lehman Brothers. Mr. Brady holds a B.A. with honors in environmental biology and English from Dartmouth College and an MBA with concentrations in analytical finance and accounting from Northwestern's Kellogg Graduate School of Management.

SECTOR — GENERAL INVESTING

TWST: Please start with a brief history and overview of Thornburg Investment Management.

Mr. Brady: The firm was started in the early 1980s by a gentleman named Garrett Thornburg. The first Thornburg fund was a limited term municipal bond fund, which was originally intended to be municipal money market, but in the early 1980s that was rocket science. Through the 1980s and early 1990s, the firm was a fixed income shop. In that time, the firm started up a longer-term muni fund, a government bond, an investment grade bond fund, and slowly branched out from the initial days. In 1995 the firm started its first stock fund, which was a domestic value fund. It then started an international equity fund, which is now our largest single strategy. Throughout the 2000s, we started up a few other strategies, the most successful of which is a combination stock and fixed income fund looking to provide current income, and which generally grows that income over the years on a per-share basis — The Thornburg Investment Income Builder Fund. From the early 1980s until now, we started only 16 strategies. We are always trying to focus on what we are best at, the things we have the capability to do rather than something that is popular at a particular time.

TWST: You manage or co-manage two different funds, the Thornburg Strategic Income Fund and the Thornburg Investment Income Builder Fund?

Mr. Brady: That's right. I am Head of the Taxable Income Group here, and I also manage two other funds, the Thornburg Limited Term U.S. Government Fund and the Thornburg

Limited Term Income Fund. In all, I manage four different funds. The two that you mentioned have broader mandates. The other two are more narrow mandates.

TWST: Tell us about the strategy and the objectives of the Thornburg Investment Income Builder and Thornburg Strategic Income Fund.

Mr. Brady: The Thornburg Investment Income Builder is a fund which has basically three objectives, which individually can be somewhat difficult to achieve, but in concert seem even more difficult to achieve. But we are helped by the asset classes that we invest in. Those three goals are an attractive income today, potential for capital appreciation, but most importantly, a growing dividend over time for the fund. We want to pay our shareholders more dollars and cents per share every year. It doesn't mean that we want to have a higher yield every year, we just want to continue to grow an income stream. And we principally do that with investments in dividend-paying stocks.

Over time, stocks tend to grow, income from the company tends to grow, and they tend to pay more income to shareholders. Sometimes that leads to increases in stock prices over a shorter term, sometimes not. A constant p/e ratio would result in a constantly rising stock price, but clearly stock price can move around. What we like to do is look at what are the actual dollars we're receiving on our investments and passing that on of course to our shareholders. That's really the goal there, and dividend-paying stocks are the primary vehicle. Other asset classes do include preferreds, converts and straight fixed income. Those certainly help with the income-generation piece, and sometimes

with the capital-appreciation piece. Most recently that was the case in late 2008 and early 2009, where we got much bigger in preferreds, converts and fixed income versus equities. While equities were cutting their dividends, we were able to get into securities with contractual or nearly contractual income streams. If you had to cut your dividend, that certainly wasn't in keeping with the goal of growing the dividends or returns.

“[The Thornburg Investment Income Builder’s] three goals are an attractive income today, potential for capital appreciation, but most importantly, a growing dividend over time for the fund. We want to pay our shareholders more dollars and cents per share every year.”

Our Strategic Income Fund is a little different. It is just a little over three years old now. The goal there was a focus on looking for attractive income on its own. In other words, a lot of people are looking for yield, but in looking for yield, they run into a lot of traps. The biggest one is that those investors tend to just go buy high-yield bonds, which is another way of saying they tend to buy low-quality corporate bonds. That is sometimes a good investment and sometimes not. High-yield bonds are called just that; it is an asset class, not a strategy. The goal with the Strategic Income Fund is to be much more focused on current strong, sustainable income from a robust variety of sources. Basically, a better mousetrap for providing folks sustainably high income. As an example of the flexibility of the fund, we own non-dollar bonds, as well as preferreds, converts and straight fixed income bonds. The majority of the fund's holdings are right around the border of BBB and BB, so-called “crossover” bonds, so it's not even junk in credit quality. And yet, we have been able to provide a really interesting income.

In addition, we have been able to be less volatile than the high-yield market, and all in all, I think get people what they are looking for when they look for that kind of fund. One of the things we try not to do at Thornburg generally is say, “Hey, this index will provide people what they are looking for, and we will try to be just a little better than the index.” We're instead examining what people are looking for, what is the smart thing, basically what kind of fund do we want to invest in, since in fact, we are investing in it, especially in the seeding process. And what should that fund or what should that investment process look like. That was the idea behind the Strategic Income Fund, and over the last three-plus years, we have been able to meet the investment goals in a pretty challenging market environment.

TWST: What are some of your major holdings right now in each fund and why do they hold those positions?

Mr. Brady: Let's start with the Income Builder. Our bigger holdings are dividend-paying stocks. One of the biggest overweights on stocks we have from the sector perspective is global telecom. Our largest holding right now is **Telstra** (TLS.AX), which is basically the incumbent telecom provider of Australia and is not tremendously expensive. Using Bloomberg numbers, the forward p/e is about 10. The gross yield is about 14%.

Obviously, there are some taxes and other fees there, but there is a significant income component, and we believe that this company has stable cash flows and earning power. If you are getting a 10%-plus income stream and a 3% to 5% earnings growth, that is a nice holding. It is not a tremendously complex business. That's a pretty attractive holding for us. It's got some growth, it's certainly got income, and that combination and the parameters of

the company make it one of our largest holdings.

Coca-Cola (KO) is another major holding for us. It has an interesting yield, a little more than 3% now, but that looks pretty good. We believe there is growth potential, net income growth anywhere between 8% and 12%. What you are also getting is the potential for growing per-share dividend. The dividend yield for **Coke** right now is 2.8%. By 2013 we estimate it will be 3.5%, just based on their potential growth in earnings. Now, we presume that **Coke** will also grow its earnings, and it's actually expected to grow its earnings a little faster than even that rate. When you look at income today, you're getting growth in the earnings stream, which probably over time will mean growth in the stock price, and you are getting a little growth in the dividend payout.

On the fixed income side, we were about 46% fixed income at the end of the first quarter of 2009,

and now we are about 25%. On the fixed income side, we have a number of different kinds of investments that we think are attractive. Convertibles, preferreds, and of course straight bonds, all of which provide interesting income. A simple example is our investment in **Deutsche Tel** (DTE.DE) bonds. We bought their 20-year bond when it was priced at \$0.60 on the dollar. The income was good and potential for further decline of dollar price was pretty limited given the assets that they have. So that was an attractive investment and is still bringing income for our shareholders.

Highlights

Jason Brady discusses the funds of Thornburg Investment Management. He says the Thornburg Investment Income Builder has three objectives: an attractive income today, potential for capital appreciation and a growing dividend over time. The Strategic Income Fund is more focused on current strong, sustainable income from a robust variety of sources. It contains non-dollar bonds, preferreds, convertibles and straight fixed income bonds. Mr. Brady discusses specific stock and fixed income holdings in each fund and the types of investors suited to each.

Companies include: Telstra Corporation (TLS.AX); The Coca-Cola Company (KO); Deutsche Telekom AG (DTE.DE) and Federal Agricultural Mortgage Corp. (AGM).

On the Strategic Income Fund, it's much more heavily weighted towards fixed income. The Strategic Income Fund is about 90% fixed income and about 10% common stocks and preferreds. The second largest holding, however, is a preferred of the **Federal Agricultural Mortgage Corporation (AGM)**, or **Farmer Mac**. There is a federal agency that is involved in helping to fund farms. Farms have held their value pretty well, and

1-Year Daily Chart of The Coca-Cola Company



Chart provided by www.BigCharts.com

"I have 100% of my Thornburg 401(k) in the Investment Income Builder, so I think that's a pretty interesting vehicle for long-term investment. It meets the needs of a lot of investors. Honestly, you can put that in a portfolio of somebody who is much younger and who is looking for capital appreciation over a long period of time."

these guys basically wanted to have a slice of their capital structure, which was not just straight debt and not just the equity. For the first five years, the security pays 8.875%. If they don't call it, then it jumps to 10.875% for the next five years. And if they don't call it then, then it jumps to LIBOR plus 8.21%. So there is not a whole lot of interest rate risk here even though it is a perpetual preferred, because later on down the line if there are higher rates, either they call this or if they don't call it, it floats with LIBOR, which presumably will move up as rates move up. There is a pretty significant income stream, and we really like the credit quality of **Farmer Mac**. There is also potential for government support. The government did not support Fannie (FNMA.OB) and Freddie (FMCC.OB) preferred, so it's certainly not something that we're banking on, but it's nevertheless a pretty interesting piece. We own some EETC paper, which are airline bonds backed by the actual collateral like aircraft. Another preferred piece is an obligation of **Swiss Re**. It pays a fixed coupon until 2016 and afterwards floats versus LIBOR as well. We bought that at a significant discount to par, and it's now closing in on par. So you can see that within the Strategic Income Fund, we're taking a flexible approach providing income to folks.

TWST: What makes you change your holdings and how often do you change?

Mr. Brady: It's very market dependent. We don't target a turnover rate, it's more about the price in the market and where there is value. Basically, the important thing is to understand relative value in the market. The **Swiss Re** perpetual preferred is

a good example. At one point it was our biggest holding in both funds, and we were able to pick up pieces in the high 20s to 30 cents of a dollar. Now it's at par. So we own a lot less in it. It's not that it's a bad security, it's just that there are other securities that are maybe more interesting, and we are finding more opportunities elsewhere. A similar example would be, take a typical \$25 preferred. If I'm buying that at 10 cents on the dollar, there is a lot of potential for capital appreciation up to \$25 or par. If I'm buying it at \$25.0 or \$25.5, when it's basically callable at \$25, there is not a lot more room to go up, so I have to be very satisfied with just the income stream. Okay, say I'm satisfied with the income stream for now. The other thing I have to realize is if it's callable, the company is only going to call it when it's to the company's advantage. It's gone from something where I'm happy to have this income stream for a long time and maybe there is price upside, too, to realizing that if the company decides that they are happy to pay 6% or 7% or 8% or whatever the coupon is forever, and it's fixed, then I'm going to be stuck with that forever. The British government has 2.5% perpetual bonds, but these \$25 preferreds are not as creditworthy as the British government. And even the British government bonds aren't trading anywhere close to par. You got to make sure you're well positioned given the market environment, and with the flexible funds, you have every opportunity to do that.

1-Year Daily Chart of Telstra Corporation



Chart provided by www.BigCharts.com

TWST: What types of investors are best suited for these two funds?

Mr. Brady: I have 100% of my Thornburg 401(k) in the Investment Income Builder, so I think that's a pretty interesting vehicle for long-term investment. It meets the needs of a lot of investors. Honestly, you can put that in a portfolio of somebody who is much younger and who is looking for capital appreciation over a long period of time. Also, we've done some work around that fund. And taking a 5% distribution from your

investment and taking that 5% distribution and adjusting it for inflation over time, what you are able to do is reinvest over and above the 5%. So you're getting income which is actually growing faster than inflation. It gets to the point where you're not taking anything on the principal at all. That is pretty attractive maybe for an older person or certainly an endowment or foundation. Clearly, however, the Investment Income Builder Fund has more volatility than a bond fund. For example, it is primarily global equities and fixed income. So there are a lot of moving parts, and there's certainly some volatility in those asset classes and therefore, volatility in the fund.

The Strategic Income Fund is notably less volatile than the Income Builder Fund, still provides income, actually more on a yield basis than most income products. However, its objective is not to grow the dividend over time, so that looks much more like a fixed income fund. Again, we believe this is a better mousetrap for someone who typically would look at a junk bond fund. The two other funds that I run that I mentioned are much more

typical bond funds. It's sort of an anchor to my portfolio and a piece of my asset allocation. So there's a full range of different options, but the Investment Income Builder and the Strategic Income Funds fit in a lot of places. They are unusual funds that meet a lot of needs.

TWST: Thank you. (LMR)

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Average Annual Total Returns as of 12/31/10

Thornburg Investment Income Builder Fund, A (TIBAX Incep: 12/24/2002)

| | <u>1-Yr</u> | <u>3-Yr</u> | <u>5-Yr</u> | <u>Since Incep</u> |
|----------------------|-------------|-------------|-------------|--------------------|
| Without sales charge | 13.42% | 0.42% | 8.27% | 12.07% |
| With sales charge | 8.32% | -1.12% | 7.27% | 11.43% |
| Blended Index | 10.90% | -1.75% | 3.63% | 7.64% |
| S&P 500 Index | 15.06% | -2.86% | 2.29% | 6.47% |

Thornburg Strategic Income Fund, A (TSIAX Incep: 12/19/2007)

| | <u>1-Yr</u> | <u>3-Yr</u> | <u>Since Incep</u> |
|-----------------------|-------------|-------------|--------------------|
| Without sales charge | 13.10% | 8.01% | 8.65% |
| With sales charge | 8.03% | 6.38% | 7.02% |
| Blended Index | 7.95% | 4.12% | 4.34% |
| BarCap U.S. Universal | 7.16% | 6.01% | 6.07% |

30-day SEC yields as of 12/31/10

Thornburg Investment Income Builder Fund: 4.52%; Thornburg Strategic Income Fund: 5.13%

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 800-847-0200. The maximum sales charge for Class A shares is 4.50%. The Income Builder Fund's A shares carry a 30-day redemption fee of 1%. The total annual fund operating expense ratios are as follows: Investment Income Builder Fund, A: 1.25%; Strategic Income Fund, A: 1.35%. Thornburg Investment Management and Thornburg Securities Corporation have contractually agreed to waive fees and reimburse expenses through at least February 1, 2012, so that actual expenses for Strategic Income Fund do not exceed 1.25%. Without these reductions, the SEC yield would have been 5.09%.

The Blended Index for Thornburg Investment Income Builder Fund is composed of 25% Barclays Capital Aggregate Bond Index and 75% MSCI World Index. The Blended Index for Thornburg Strategic Income Fund is composed of 80% Barclays Capital Aggregate Bond Index and 20% MSCI World Index. The Barclays Capital Aggregate Bond Index 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 MSCI World Index is an unmanaged market-weighted index that consists of securities traded in 24 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 Barclays U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, 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 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.

Top Ten Holdings as of 12/31/10

Thornburg Investment Income Builder Fund: Telstra Corp. Ltd., 3.2%; Enel SpA, 2.5%; Total SA, 2.5%; Royal Dutch Shell plc, 2.2%; Coca Cola Co., 2.1%; Eni SpA, 2.1%; Pfizer, Inc., 2.1%; Telefonica SA, 2.0%; Intel Corp., 2.0%; Microsoft Corp., 1.9%.

Thornburg Strategic Income Fund: QBE Insurance Group Ltd., 1.4%; Continental Airlines, 1.4%; American Airlines, Inc., 1.4%; Otter Tail Corp., 1.3%; FALConS Funding Trust I Preferred, 1.3%; Prospect Capital Corp., 1.3%; United Airlines, Inc., 1.0%; United Airlines 2000 Pass Through Trust Series 1-B, 1.0%; CMS Energy Corp., 1.0%; Niska Gas Storage, 0.9%; International Lease Finance Corp., 0.9%.

The views expressed by Mr. Brady reflect his professional opinions and are subject to change. Under no circumstances does the information contained within represent a recommendation to buy or sell any security.

Investments in the Funds carry risks, including possible loss of principal. Investing outside the United States, especially in emerging markets, entails special risks, such as currency fluctuations, illiquidity, and volatility. Investments in small capitalization companies may increase the risk of greater price fluctuations. Funds investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The principal 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. Funds invested in mortgage backed securities may bear additional risk. 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 the Funds are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity. There is no guarantee the Funds will meet their investment objectives.

Before investing, carefully consider the Fund's investment goals, risks, charges, and expenses. For a prospectus containing this and other information, contact your financial advisor or visit thornburg.com. Read it carefully before investing.

The securities mentioned are for illustration purposes only. Under no circumstances does the information contained within represent a recommendation to buy or sell the securities. The views expressed by the Portfolio Managers reflect their professional opinions and are subject to change.

Price/Earnings ratio (P/E ratio) is a valuation ratio of a company's current share price compared to its per-share earnings. P/E equals a company's market value per share divided by earnings per share.

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. The Funds used ratings from Moody's Investors Service. Where Moody's ratings are not available, we have used Standard & Poor's ratings.

Thornburg Funds are distributed by Thornburg Securities Corporation®

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03/1/11
TH2345

Withdrawal Scenarios Taking a 5% Distribution

Initial Investment Amount:
\$1 million

Start Date:
Fund Inception

Initial Annual Withdrawal:
5% of initial investment
(\$12,500 per quarter)

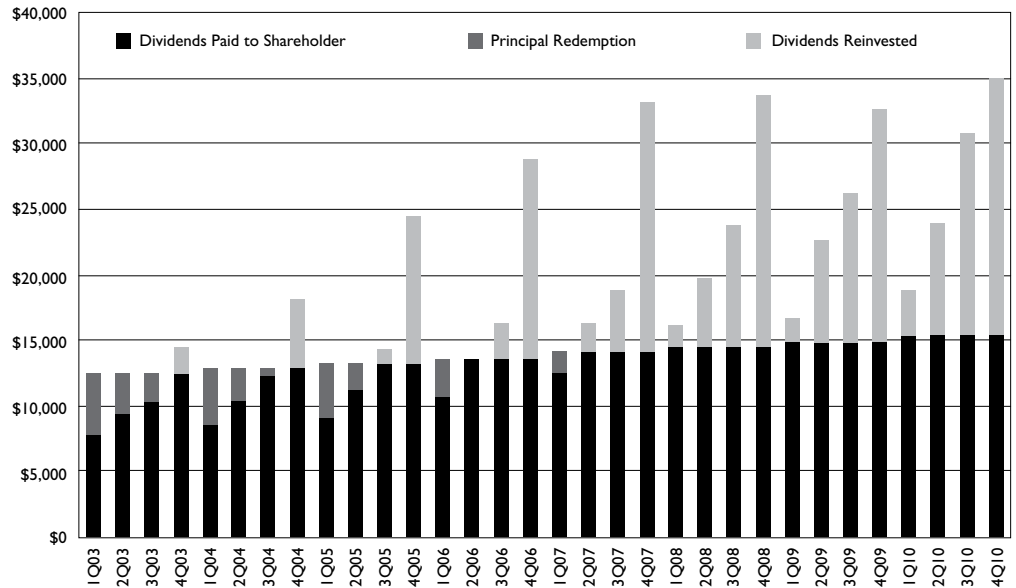
Cost of Living Adjustment:
Increase of 3% per year

Quarterly withdrawals are first taken from dividend income (shown on the chart in black), then supplemented by principal redemptions (dark gray) to equal \$12,500 plus the cost of living adjustment. Any dividends remaining after quarterly withdrawals are reinvested (light gray).

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 800-847-0200. The maximum sales charge for Class A shares is 4.50%. The total annual fund operating expense ratios are as follows: Investment Income Builder Fund, A: 1.25%; Strategic Income Fund, A: 1.35%. Thornburg Investment Management and Thornburg Securities Corporation have contractually agreed to waive fees and reimburse expenses through at least February 1, 2012, so that actual expenses for Strategic Income Fund do not exceed 1.25%.

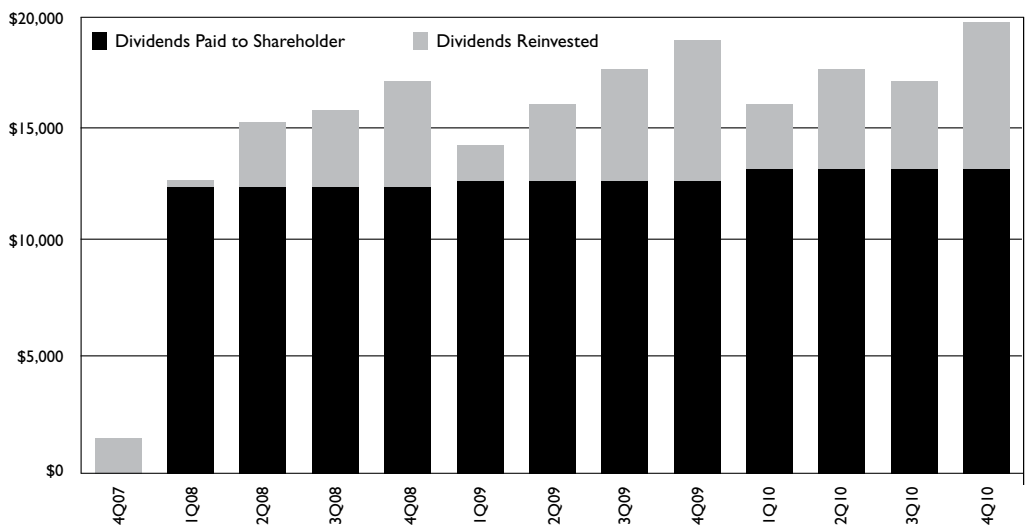
There is no up-front sales charge on investments of \$1 million or more, but a contingent deferred sales charge (CDSC) of 1% will be imposed on redemptions made within 12 months of purchase. In the hypothetical illustration above, the CDSC was not applied to principal redemptions within the first year. If the CDSC had been deducted, results may have been different. Portfolio Value above reflects capital appreciation and reinvestment of capital gains. Dividends are either paid or reinvested as indicated on the chart. Thornburg Strategic Income Fund example assumes no income was received in first quarter-end after Fund's inception (12/31/2007). Dividend of \$0.018 paid on 12/31/2007 was reinvested; first quarterly 5% income payment was received on 3/31/2008.

Thornburg Investment Income Builder Fund, A (TIBAX Inception: 12/24/02)



| Initial Investment | Total Dividends Earned | Total Income Received | Net Reinvested Dividends | Ending Portfolio Value |
|--------------------|------------------------|-----------------------|--------------------------|------------------------|
| \$1,000,000 | \$599,651 | \$444,617 | \$155,035 | \$1,860,842 |

Thornburg Strategic Income Fund, A (TSIAX Inception: 12/19/07)



| Initial Investment | Total Dividends Earned | Total Income Received | Net Reinvested Dividends | Ending Portfolio Value |
|--------------------|------------------------|-----------------------|--------------------------|------------------------|
| \$1,000,000 | \$200,963 | \$154,545 | \$46,418 | \$1,091,521 |