

Thornburg Limited-Term Muni A LTMFX

This fund has an edge.

03-01-12 | by David Falkof

Thornburg Limited Term Municipal's simple strategy works.

Comanagers Josh Gonze, Chris Ihlefeld, and Chris Ryon build a "laddered" portfolio, meaning they spread the fund's assets evenly across one- to 10-year maturity bonds. They don't stray far from that discipline, but they will make marginal adjustments. In late 2010, for instance, the managers took advantage of depressed prices by extending the fund's duration (a measure of interest-rate sensitivity) to 4.0 years from 3.5. That move worked to their advantage in 2011 as muni yields fell. More recently, they've held more cash and short-term bonds to guard against rising interest rates.

But because the managers mainly adhere to this laddering structure, the fund's duration has historically been longer than its typical peer's. As of January 2012, the fund had a 3.6-year duration, while the category norm was 2.2 years. That extra interest-rate sensitivity has helped the fund's three-, five-, and 10-year returns all land near the top of the category through Feb. 23, 2012. While the fund's overall sensitivity to interest-rate fluctuations stays relatively constant, the managers try to bolster returns by picking undervalued bonds. Roughly half the fund's assets are in bonds rated AAA and AA, but they've lately built up a sizable 43% stake in mid-quality bonds rated A and BBB (the peer group norm is 28%).

This approach won't work well in every environment. During periods of rising yields, such as in 1994, 1999, and 2008, the fund has briefly underperformed. Amid the 2008 financial crisis, the fund's combination of above-average duration and credit sensitivity caused its 0.9% gain to trail

82% of its category peers. The fund's trailing returns have also been more volatile than the norm, as measured by standard deviation.

The managers aren't excessive in their risk taking. They favor essential service revenue bonds, for instance, limiting the fund's exposure to riskier areas of the market, such as tobacco settlement bonds (1% of assets). Overall, this is a worthwhile option.

Process Pillar: + Positive

This team runs a laddered portfolio, meaning it spreads assets evenly across bonds with maturities between one and 10 years. When the shorter bonds mature, management redeployes the cash at the longer end of the maturity spectrum. The managers will make slight changes to the maturity allocations, but the fund's duration has typically come in just short of 4.0 years, which is on the longer end for muni-national short funds. That longer duration has contributed both to the fund's above-average returns as well as its above-average volatility.

The managers keep the portfolio broadly diversified by state, sector, and issuer. They look for issuers with predictable cash flows, which have led them to favor essential service revenue bonds. The managers hold very little exposure to the muni market's more volatile segments, such as a 1% allocation to tobacco bonds.

Performance Pillar: + Positive | David Falkof 01/11/2012

People Pillar: ● Neutral

Comanagers Josh Gonze, Chris Ihlefeld, and Chris Ryon have led this fund since early 2011. George Strickland had previously run the fund since 1998 but moved over to Thornburg's taxable-bond team in January 2011. Gonze joined Thornburg in 1999

Morningstar's Take LTMFX

Morningstar Rating	★★★★★
Morningstar Analyst Rating	🏅 Bronze
Morningstar Pillars	
Process	+ Positive
Performance	+ Positive
People	● Neutral
Parent	+ Positive
Price	● Neutral

Role in Portfolio

Supporting Player

Fund Performance LTMFX

Year	Total Return (%)	+/-Category
2011	6.70	3.10
2010	3.00	1.39
2009	8.85	2.94
2008	0.94	0.08

Data through 12-31-11

as a credit analyst on the muni team, while Ihlefeld joined in 2000 as a muni-bond trader. Both were named comanagers in February 2007. Ryon came to Thornburg in mid-2008, after managing muni funds at Vanguard for 20 years. He was named a comanager on the fund in February 2011.

The muni team is small relative to its industry peers. In addition to the three managers, the team has one trader and two credit analysts. The managers share responsibilities of credit analysis, trading, and portfolio management, but they each bring a specific skill set. Gonze's background is in credit analysis, Ihlefeld started as a trader, and Ryon focuses on quantitative analysis.

Parent Pillar: + Positive | William Samuel Rocco 08/24/2011

Thornburg Investment Management serves fund investors well. While many fund firms have expanded their rosters at rapid clips or ventured outside their core competencies, this

employee-owned firm has developed its lineup in a responsible manner.

Thornburg has done an excellent job of growing and strengthening its investment staff as its lineup and assets under management have expanded. (It had approximately \$83 billion in assets under management as of June 30, 2011.) It has attracted a mix of seasoned portfolio managers, midcareer investment professionals, individuals with industry as well as finance experience, and more junior analysts. It has retained a healthy majority of the investors it has hired.

Thornburg's equity and fixed-income funds employ sound and distinctive strategies. All the equity managers search far and wide for compelling opportunities and run fairly compact portfolios. And the firm's fixed-income managers employ straightforward strategies, using bottom-up credit research to identify bonds with superior risk-adjusted-return prospects.

Finally, the firm's staff eats its own cooking. As of June 30, 2011, Thornburg employees had \$299 million invested in the family's funds, and most of the firm's portfolio managers have significant investments in the funds. The firm has a mixed record when it comes to fund fees, but it is quite attractive otherwise.

Price Pillar: ● Neutral

**Thornburg Limited Term Municipal Fund
Total Returns (A Shares), as of 3/31/12**

Annualized for periods over one year

	1-yr	3-yr	5-yr	10-yr	Since Incep.
A Shares (Incep: 9/28/84)					
Without sales charge	7.01%	5.53%	4.64%	3.99%	5.51%
With sales charge	5.42%	5.01%	4.31%	3.84%	5.45%

30-day SEC yield as of 3/31/2012 (Class A shares): 1.08%

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/ltdmuni or call 877.215.1330.

The maximum sales charge for the Fund's A shares is 1.50%. The total annual fund operating expense for A shares is 0.74%.

Thornburg Limited Term Municipal Fund in Morningstar's Muni Short Category, as of 3/31/12

	1-yr	3-yr	5-yr	10-yr
Absolute Rank, A shares	12	6	3	9
Number of Funds	185	164	144	102

Ranks are based on total returns before sales charge. Past performance does not guarantee future results.



Overall Morningstar Rating™

Overall rating, among 164 funds, based on risk-adjusted returns, uses a weighted average of the fund's three-, five-, and ten-year ratings: respectively, 5 stars, 5 stars, and 4 stars among 164, 144, and 102 Muni National Short funds, as of 3/31/12.

Investments in the Funds carry risks, including possible loss of principal. Bond funds 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. Unlike bonds, bond funds have ongoing fees and expenses. Investments in the Funds are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity.

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.

To determine a fund's Morningstar Rating™, funds with at least a three-year history are ranked in their categories by their Morningstar Risk-Adjusted Return scores. The top 10% receive 5 stars; the next 22.5%, 4 stars; the middle 35%, 3 stars; the next 22.5%, 2 stars; and the bottom 10% receive 1 star. The Risk-Adjusted Return accounts for variation in a fund's performance (including the effects of all sales charges), placing more emphasis on downward variations and rewarding consistent performance. Other share classes may have different performance characteristics. © 2012 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Morningstar Municipal Short Category: Funds that focus on municipal debt/bonds with an average duration of less than 4.5 years, or an average maturity of less than five years.

The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Morningstar's analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors in their research, and the weighting of each pillar may vary. The Analyst Rating ultimately reflects the analyst's overall assessment and is overseen by Morningstar's Analyst Rating Committee. The approach serves not as a formula but as a framework to ensure consistency across Morningstar's global coverage universe. The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a "Silver" rating has notable advantages across several, but perhaps not all, of the five pillars-strengths that give the analysts a high level of conviction. A "Bronze" rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf>. The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings are based on Morningstar's current expectations about future events; therefore, in no way does Morningstar represent ratings as a guarantee nor should they be viewed by an investor as such. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.

Duration is the weighted maturity of a bond's cash flows. Duration measures the price sensitivity of a bond for a given change in interest rates. Bonds with longer durations experience greater price volatility than bonds with shorter durations.

Standard deviation is a statistical measurement of dispersion about an average which, for a mutual fund, depicts how widely the returns varied over a certain period of time. Investors use the standard deviation of historical performance to try to predict the range of returns that are most likely for a given fund. When a fund has a high standard deviation, the predicted range of performance is wide, implying greater volatility.

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.