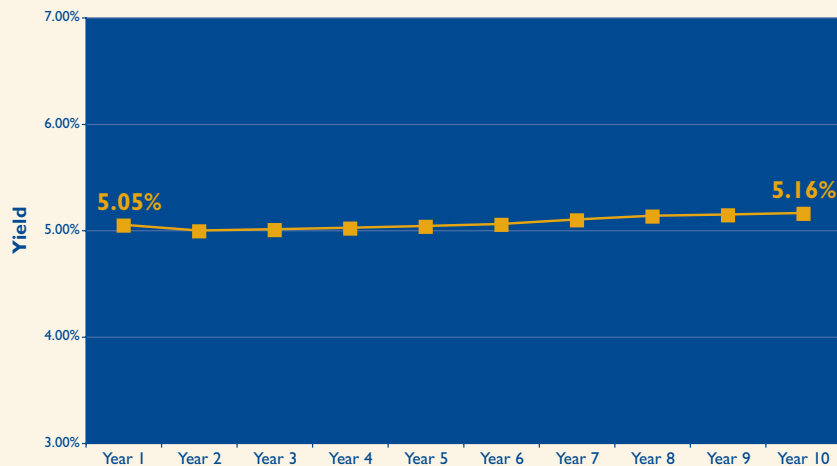


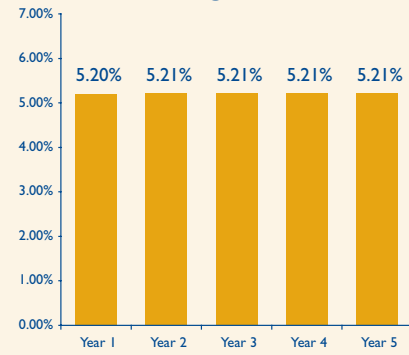
Changing Interest Rates and the Behavior of a Hypothetical Laddered Bond Portfolio

Scenario 1: Treasury Yield Curve as of May 11, 2006



If rates stay the same
Anticipated returns are stable.

Anticipated Total Returns with No Change in Rates

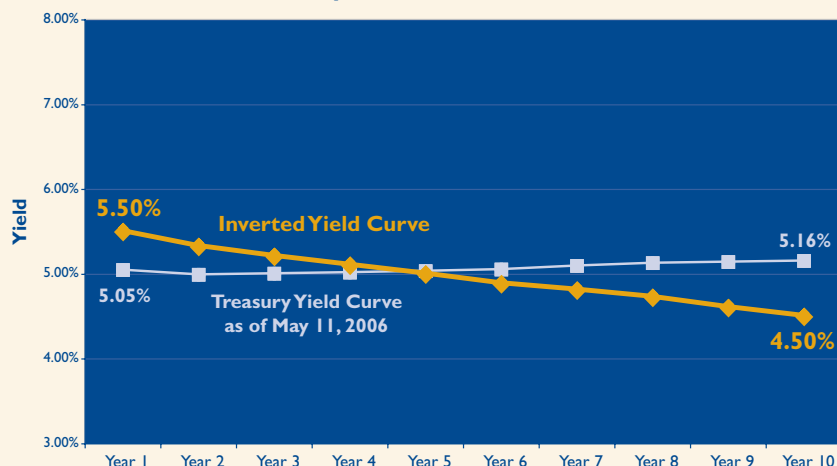


We are currently in an interest rate environment where the yield curve is flat, or in some cases even inverted, meaning that across parts of the curve, short-term rates are higher than intermediate or long-term rates.

Based on the unusual nature of this situation, the bond desk has examined how a laddering strategy would be expected to hold up under various hypothetical interest-rate scenarios.

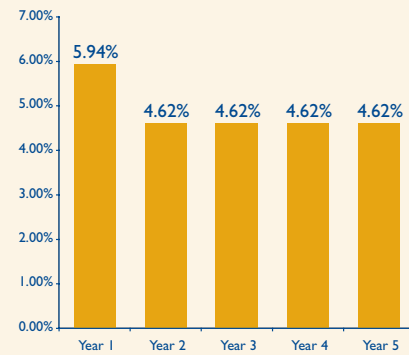
The following scenarios are based on a laddered portfolio of U.S. Treasury notes, using as a base the yield curve pictured from May 11, 2006, and assuming that each rung of the ladder contains 10% of the portfolio (see ladder diagram on page two). Note that this is a hypothetical investment for illustrative purposes only, and does not represent an investment in any Thornburg bond portfolio. Remember that as bond yields rise, prices of bonds fall.

Scenario 2: Treasury Yield Curve Under an Inversion Scenario



If the yield curve inverts
Returns increase initially and decrease in the long term.

Anticipated Total Returns Under an Inverted Yield Curve

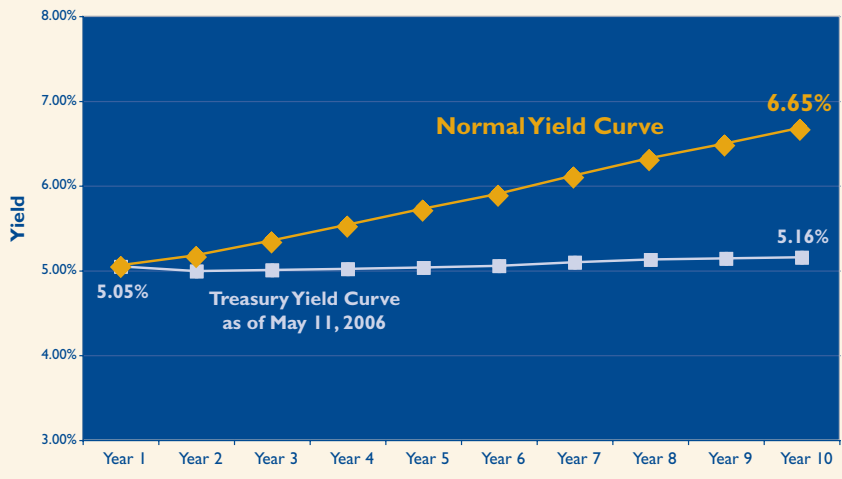


Scenario 1: Assume that the yield curve remains flat. In such a scenario, bond prices would remain stable, and as bonds within the portfolio mature, the proceeds received would be reinvested at the long end of the bond ladder. As shorter-term bonds matured, they would approach their par value, and maturing proceeds would be invested at the 5.16% yields currently available for ten-year treasuries.

Scenario 2: Assume however that the yield curve inverts in a more pronounced way. For example, if the Fed were to raise the Fed Funds rate to 5.50% and the economy begins to slow. Based on Fed policy, short-term rates would rise somewhat, while a slower economy, possibly combined with continued strong foreign inflows, could prove a boon for longer-term bonds, driving prices higher and yields lower.

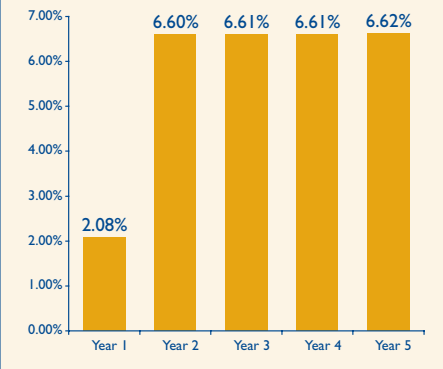
In our hypothetical inversion scenario, the Fed Funds Rate rises to 5.50% with yields then declining gradually out to ten-years, by which point they have fallen

Scenario 3: Treasury Yield Curve Under a Normalizing Scenario



If the yield curve normalizes
Initial returns are lower, but recovery is built into the ladder.

Anticipated Total Returns in a Normalizing Yield Curve Environment



to 4.50%. As proceeds from maturing bonds would be invested at lower yields further out on the curve, returns in subsequent years would be lower.

Scenario 3: Another possibility is that the yield curve resumes a more normal shape as long-term rates rise. For this to occur, short-term rates would need to remain stable and long-term rates would increase. This could occur for a number of reasons, including a Fed pause in interest rate increases combined with higher inflation or a slowdown in the purchases of bonds by foreigners, causing a decrease in their prices and an increase in their yields. In such a situation, the longer-term bonds in the ladder would face pricing pressures, resulting in higher yields, the further out one went on the yield curve. While investors would initially see lower returns in the first year, they would be rewarded with higher returns in later years.

Scenario 4: Economists debate what the Federal Reserve will do in the future, and one scenario being presented is the Fed eventually reversing its tightening stance. Were the economy to begin to slow dramatically, the Fed could lower the Fed Funds Rate to stimulate growth. If that were to happen, short-term rates would decrease, possibly dragging down longer-term rates to a lesser extent – this is known as a bull steepening.

Under this hypothetical scenario, the Federal Reserve lowers short-term rates to 3.50% with longer-term rates, as measured by the 10-year treasury yield, decreasing by a smaller extent to 4.50%.

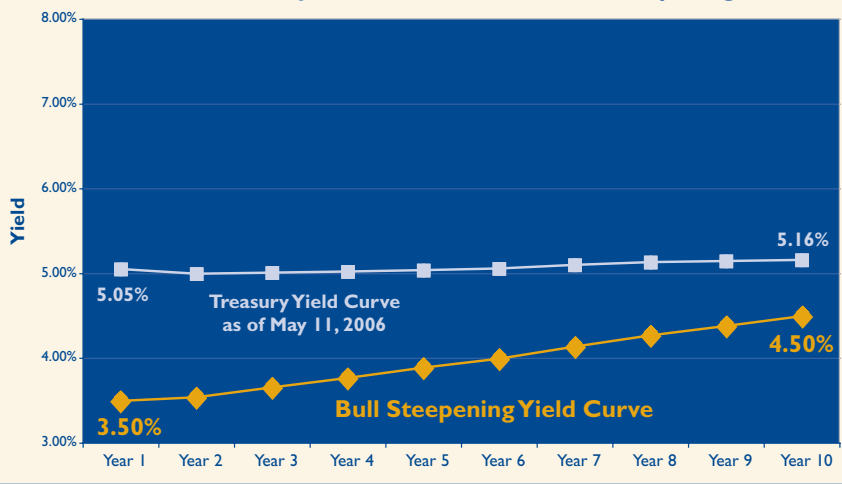
Were such a scenario to unfold, the bonds in the portfolio would increase in value since interest rates and prices are inversely related. Over time, the returns on such a portfolio would decrease, since long-term yields available for the maturing proceeds have declined.

The Fed Funds target rate is the interest rate that the Federal Reserve Board establishes as an ideal level for bank-to-bank lending among U.S. institutions; it is an accepted benchmark for short-term U.S. rates. Those loans are often for overnight periods only. Movement upward or downward in the Fed Funds target rate often – though not always – presages up or down movement in longer interest rates. The source data for the bond price and yield information quoted is Bloomberg.

A Treasury note is a debt obligation of the US government backed by the “full faith and credit” of the government. Notes are intermediate to long term investments typically issued in maturities of two, five and ten years. Interest is paid semi-annually.

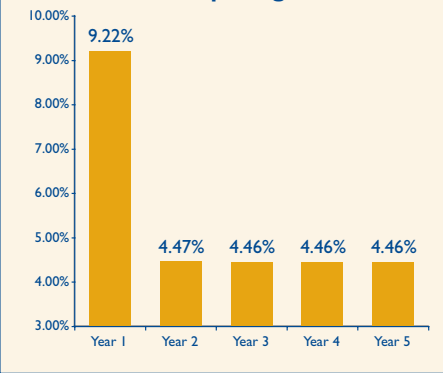
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Scenario 4: Treasury Yield Curve Under a Bull Steepening Scenario



If rates fall
Initial returns are boosted by price appreciation, but subsequent returns are lower.

Anticipated Total Returns Under a Bull Steepening Scenario



A Laddered Bond Portfolio

Rather than attempting to predict what interest rates will do, we suggest maintaining the same buy-and-hold discipline employed by investors in stock funds, and combining that with a strategy which can participate in all interest rate cycles – Laddering. Thornburg is an expert at laddering, the process of building a portfolio of bonds with staggered maturities so that a portion of the portfolio matures each year. Laddering is by definition a buy-and-hold strategy, as bonds are typically held until they are approaching or at maturity. Once the bonds do mature, the proceeds are invested at the far end of the bond ladder. This strategy participates when interest rates in aggregate are rising, falling, or stable across the yield curve.

For illustrative purposes only.

