

*2nd Quarter 2010 Portfolio Manager Market Commentary*  
Thornburg Corporate and Government Bonds



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The second quarter of 2010 was one in which markets lost confidence in the “better is good” story. That optimism came with a bottoming of financial conditions and the resulting risk asset move that had investment grade bond spreads tightening from over 600 bps to approximately 160 bps from late 2008 through the early months of 2010. Yet all is not really right with the world. A surplus of debt has continued to weigh on the economies of many developed countries, including the United States. This problem has expressed itself in the form of a European sovereign debt crisis, the ongoing bank stress tests there, and a burgeoning debate on the wisdom of continued deficit spending.

The second quarter U.S. GDP figures have not yet been released but many economists are currently downgrading their forecasts from mid 3% ranges to low 2%. While this would qualify as sluggish in any setting, given that we are coming out of the deep recession of late 2008 and early 2009, it is especially disappointing as the typical exit for recession involves releasing the “compressed spring” of demand. A number of factors are contributing to this growth slowdown, including the lapsing of government stimulus (such as the home-buyer tax credit). In particular, the need for individuals to pay down their debt load is likely to tamp down spending. On the corporate side, a recent survey by the Atlanta Fed showed that most businesses outside of the real estate and construction sectors found that the availability of debt was not the issue, but rather the lack of demand for more debt was the determining factor in low bank lending. In all, high unemployment and general economic malaise is likely to remain with us for some time.

U.S. fixed income has performed relatively well in this environment, and should continue to be a store of value for some time. Global fixed income return in U.S.D., dominated as it is by currency fluctuations, has been notably weaker as the dollar remains a flight-to-quality

**Performance** A shares, as of 6/30/10

**Limited Term Income Fund**

1-yr	3-yr	5-yr	10-yr	Since Incep. (9/28/84)
Without sales charge				
11.96%	7.20%	5.26%	5.70%	5.72%
With sales charge				
10.25%	6.65%	4.95%	5.54%	5.62%

**Limited Term U.S. Government Fund**

1-yr	3-yr	5-yr	10-yr	Since Incep. (7/22/91)
Without sales charge				
5.67%	6.55%	4.82%	5.25%	6.01%
With sales charge				
4.07%	6.03%	4.50%	5.09%	5.93%

*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 Limited Term Income Fund and the Limited Term U.S. Government Fund has a maximum sales charge of 1.50%. The total annual operating expenses are as follows: Limited Term Income Fund – A: 1.04%; Limited Term U.S. Government – A: 0.94%. Thornburg Investment Management and Thornburg Securities Corporation intends to waive fees and reimburse expenses so that*

asset. I would expect that the volatility that we have seen in the past several months will continue to be a frequent visitor to the global capital markets. As such, a continued allocation to fixed income makes sense as a hedge against volatility and as a source of income for the next several years.

The Limited Term Income Fund generated a 2.33% return for the quarter through June 30, 2010 on the A shares without sales charge. For the year-to-date period the Fund was up 4.50% which placed it near the top of its Morningstar category. The Limited Term U.S. Government Fund generated a 2.24% return for the quarter and a 3.32% return for the year-to-date period on the A shares without sales charge. This also compares favorably with its peers. Longer term the two funds remain extremely competitive in their categories, scoring in the top decile for all time periods for the A shares of the Limited Term Income Fund and the top quartile for all time periods for the A shares of the Limited Term U.S. Government Fund. Drivers of performance this quarter included a selloff in credit spreads and a concurrent decline in U.S. interest rates. In general, longer-term securities of high quality have outperformed shorter-term securities in part due to an income advantage (due to steep duration curves) but largely due to declining yields.

Longer term we are worried about the incentives of developed market governments to create notable inflation in order to “gently default” on their obligations. When inflation is high, the choice is between an unpalatable austerity plan and an unpalatable cost of deficit (both in interest cost and inflation). With inflation currently low and inflation expectations anchored for the moment, the choice is between unpalatable austerity and theoretically manageable interest costs. Thus the choice by policy makers is an easy one. Only in retrospect, if inflation begins to spiral out of control, does the potential cost become evident. In addition, because this cost is slow to assert itself (just as it was slow to go away in the late 70s and early 80s), the assumed benefit of spending (which is immediate) almost always outweighs the potential costs of deficits (which are in the future). We don’t bring this up as part of a diatribe on the United States, or any developed country’s, government. But incentives are powerful things and we believe over a longer term this could be a significant factor in the investment landscape. Still, any serious consideration of inflation and its consequences for asset allocation is for the moment theoretical.

The Chicago Board Options Exchange (CBOE) Volatility Index (VIX), corporate bond spreads, and individual stock volatility (including the “flash crash”) all indicate that we are in an environment of greater uncertainty. My belief is that the larger global debt load is partly to blame for this as well. The global situation is similar to the scenario where an individual has borrowed too

actual expenses do not exceed the following: A: 0.99% The fee waivers and expense reimbursements are voluntary and may be terminated at any time.

Investments in the Fund 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. Funds invested in mortgage backed securities may bear additional risk. Investments in the Fund 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.*

**Morningstar Rankings**

Total Return Ranks as of 6/30/10

**Thornburg Limited Term Income Fund Rank in Short-term Bond Category**

	1-Yr	3-Yr	5-Yr	10-Yr
<b>Class I</b>				
Actual	29	7	3	2
Percentile	7	2	1	1
# Funds	442	398	336	180
<b>Class A</b>				
Actual	36	13	16	6
Percentile	8	3	5	3
# Funds	442	398	336	180

**Thornburg Limited Term U.S. Government Fund Rank in Short Government Category**

	1-Yr	3-Yr	5-Yr	10-Yr
<b>Class I</b>				
Actual	31	10	14	5
Percentile	19	7	10	4
# Funds	160	149	143	118
<b>Class A</b>				
Actual	35	19	26	13
Percentile	22	13	18	11
# Funds	160	149	143	118

*Past performance does not guarantee future results. Class A share ranks are based on total returns before sales charge. I shares do not have a sales charge.*

much and faces various slings and arrows of outrageous fortune. If an individual's leverage is high and they lose their job, or get a pay cut, or have a medical issue or anything goes slightly wrong, that individual is more susceptible to having financial troubles. Globally, high debt makes us more vulnerable to all kinds of different shocks. We would expect that until we are able to work off high debt levels either through growth, inflation, or default, financial volatility will continue to be high.

### **Important Information**

The views expressed by the Portfolio Managers reflect their professional opinions and should not be considered buy or sell recommendations. These views are subject to change.

Securities and sectors mentioned are presented for the general information of Fund shareholders. Portfolio holdings are subject to change daily. Under no circumstances does the information contained within represent a recommendation to buy or sell securities.

The Chicago Board Options Exchange (CBOE) Volatility Index (CIX) shows the market's expectation of 30-day volatility.

**Corporate Bond Spreads** - The difference between the yields of two bonds with differing credit ratings. Most often, a corporate bond with a certain amount of risk is compared to a standard risk-free Treasury Bond. The bond spread will show the additional yield that could be earned from a bond which has a higher risk.

**Atlanta Fed** - The federal reserve Bank of Atlanta is part of the central bank of the United States. The Federal Reserve System—the Fed, as it is often called—consists of twelve Reserve Banks located around the country and the Board of Governors in Washington, D.C.

**Basis Point (bp)** - A unit equal to 1/100th of 1%. 1% = 100 basis points (bps)

**Treasuries** are negotiable debt obligations of the U.S. government 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.

The performance of any index is not indicative of the performance of any particular investment. Keep in mind that indices do not take into account any fees and expenses of the individual investments that they track. You cannot make an investment in any index.

Class I shares may not be available to all investors and minimum investments may be higher.

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A bond credit rating assesses the financial ability of a debt issuer to make timely payments of principal and interest. Ratings between AAA (the highest) and BBB are investment-grade quality. Ratings of BB and below are considered speculative grade, or junk bonds. Unless otherwise noted, the ratings listed are from Municipal Market Data and are a combination of ratings from Standard and Poor's, Moody's Investors Service, and Fitch Ratings.

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