

*4th Quarter 2011 Portfolio Manager Market Commentary*  
Thornburg Corporate and Government Bonds



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*What are you supposed to do in a low interest rate environment where everyone wants yield?*

Is this a trick question?

While the last few weeks have seen an increase in yields for U.S. Treasuries, particularly in the long end of the curve, the year finished at very low yield levels. Even at the time of this writing yields across the so-called “risk-free” curve are pretty uninteresting. (And, as the market’s discovered, “risk-free” has risk.) 2011 finished with the lowest yields for high-quality corporate bonds in more than a decade, but the second highest spreads in more than a decade. So either high-quality corporates are a really good deal or a really bad one.

Keep in mind, too, that yield is really not a great measure of your likely short-term return. Prices move around and given that yields of Treasuries can’t go too much lower (famous last words, perhaps; just ask Japanese bond investors), it seems as though their yield may even be overstating your return. A further caveat: these yields are nominal, not real numbers. So with inflation printing at 3%, pretty much the entire Treasury curve is promising a real loss if inflation stays at this rate.

Having fun yet?

With the prospect of very low income from the Limited Term Income Fund and the Limited Term U.S. Government Fund, as well as a likely negative return at some point in the next several years, many investors would ask why they should own high-quality fixed income at all.

Owning high-quality fixed income in this environment is clearly not about the income, but about the role that it plays in your overall portfolio. There are a number of frightening potential outcomes (see: Europe/Japan/LEH redux) that would lead to notable draw downs in risky assets. In this case, a high-quality portfolio that has a low

**Performance A shares, as of 12/31/11**

**Limited Term Income Fund**

	1-yr	3-yr	5-yr	10-yr	Since Incep. (10/1/92)
Without sales charge	5.08%	9.18%	5.88%	4.96%	5.62%
With sales charge	3.50%	8.62%	5.56%	4.80%	5.54%

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

	1-yr	3-yr	5-yr	10-yr	Since Incep. (11/16/87)
Without sales charge	3.73%	3.75%	4.95%	4.28%	5.79%
With sales charge	2.17%	3.22%	4.64%	4.12%	5.73%

*Annualized for periods over 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 or call 877-215-1330. The Funds’ maximum sales charge is 1.50%. The total annual operating expenses are as follows: Limited Term Income Fund – A: 1.01%; Limited Term U.S. Government – A: 0.92%. Thornburg Investment Management and Thornburg Securities Corporation have contractually agreed*

correlation to risky assets can help give you flexibility. If you DECIDE to sell as the market gets ugly, that's fine; you made an explicit decision, right or wrong. If you are FORCED to sell when the market gets ugly, then your decision was made for you and your capacity for loss is less than it needs to be.

In this sort of portfolio construction, it's important that your high-quality fixed income allocation is not highly correlated with your riskier portfolio components. Reaching for yield is nearly always an increase in risk, so searching for a high yielding fixed income allocation that will completely protect you on the downside is more or less akin to searching for a pot of gold at the end of the rainbow. At Thornburg Investment Management, we take our position as a provider of high-quality fixed income in our laddered funds seriously. While we don't take zero risk, and we certainly attempt to provide a reasonable return, we're not likely to be the highest yielding component in your portfolio. Even today, when the Limited Term Income Fund has a notable (33%) portion of the portfolio in BBB credit quality bonds, we believe we are taking a lesser risk route. Many of the highest rated bonds in the corporate universe are banks and other financials. If we wished to define "risk" merely by ratings quality, we wouldn't need to do much credit work. Instead, we spend nearly all of our time doing credit work, and if we disagree with the rating agencies, so much the better.

*to waive fees and reimburse expenses through at least February 1, 2012, so that actual expenses do not exceed 0.99% for class A shares of the Limited Term Income Fund.*

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.

It's hard to recommend the U.S. Government Fund here with yields at extremely low levels as the risk of having a losing year at some point in the next several years is fairly high. We think of yield not so much as a measure of return but as a cushion against adverse events. Right now that cushion is low and there are many scenarios where U.S. Government bonds will lose value. Because corresponding yields are small, it's also likely that total returns will be negative. Again, with inflation currently running at 3%, it's difficult to find any security that fits within the mandate of the Fund that has a positive real return (assuming, of course, that inflation continues at the current rate). At the same time, we try to keep volatility of the Fund low, such that the U.S. Government Bond Fund can remain a store of value in times of adversity.

We continue to believe that volatility in prices of all asset types will continue, and in this environment we strive to fulfill the three main goals of both funds: a good balance of risk and reward, reasonably low volatility, and a low-to-negative correlation with equities. These characteristics should make our funds fundamental long-term holdings in any portfolio, even at a time when high-quality bonds on the face of it seem unattractive.

Thanks for your interest.

### **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.

There is no guarantee the Funds will meet their objectives.

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.

A 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. 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.

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.

Investors may not make direct investments into any index.

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.

*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](http://thornburg.com). Read it carefully before investing.*

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