

4th Quarter 2011 Portfolio Manager Market Commentary

Thornburg Investment Income Builder Fund



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Thornburg Investment Income Builder paid an ordinary quarterly dividend of 37.5¢ per A share in the quarter ending December 31, 2011. This compares to dividends of 36¢ and 34.5¢ for the comparable quarters of 2010 and 2009, respectively. The Fund paid \$1.165 per A share in the twelve-month period ending December 31, 2011, up 3.3% from \$1.128 in calendar 2010. The dividend per share was higher for I shares and lower for C shares, to account for varying class specific expenses.

The Fund's net asset value (NAV) declined by \$1.08 per share (\$19.02 to \$17.94) during 2011, to \$17.94, therefore, the dividend slightly overcame the net asset value decline to give the Fund a modest positive return at net asset value for 2011.

The quarter ending December 31, 2011, was the 36th full calendar quarter since the inception of Thornburg Investment Income Builder in December, 2002. In 27 of these quarters, including Q4 of 2011, the Fund delivered a positive total return. The Fund has delivered positive total returns in 8 of its 9 calendar years of existence.

Investment Income Builder outperformed its own blended benchmark (75% MSCI World Equity Index and 25% Barclay's Capital U.S. Aggregate Bond Index) by 2.55% in calendar 2011, and trailed the S&P 500 Index by 1.62% for the year. Performance comparisons of Investment Income Builder to each of these benchmarks over various periods are shown on the right. Reviewing these, you will see that the performance of the Fund has compared very well to both benchmarks over various periods.

We did not pay any capital gains distribution for 2011 to shareholders of Thornburg Investment Income Builder.

INVESTMENT INCOME BUILDER FUND PERFORMANCE

A shares, as of December 31, 2011

| | 1-yr | 3-yr | 5-yr | Since Incep |
|----------------------|-------------|-------------|-------------|--------------------|
| Without sales charge | 0.49% | 15.90% | 3.76% | 10.73% |
| With sales charge | -4.05% | 14.13% | 2.81% | 10.16% |
| Blended Index | -2.06% | 10.44% | 0.18% | 6.52% |
| S&P 500 Index | 2.11% | 14.11% | -0.25% | 5.98% |

Periods over one year are annualized. Inception of the A shares is 12/24/02.

The 30-day SEC Yield of Class A shares as of 9/30/11 is 5.53%.

Blended Index is 75% MSCI World Index & 25% Barclays Capital Aggregate Bond Index

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 maximum sales charge for the Fund's A shares is 4.50%. The Fund's A shares carry a 30-day redemption fee

In assessing the performance of Thornburg Investment Income Builder, it is constructive to consider the performance in \$US of the sector components of the MSCI World Index over the year ending December 31, 2011. The MSCI World Index comprises 75%, and the entire equity portion, of the Fund's global performance benchmark:

1. Four of ten Index sectors (energy, consumer staples, health care, and telecommunications) showed positive total returns, ranging from approximately +0.3% (energy) to approximately +10% (health care). The other six Index sectors (financials, industrials, materials, information technology, consumer discretionary, and utilities) delivered negative 2011 returns, ranging from -1.53% (utilities) to -19.3% (materials).
2. In general, stocks in those sectors that exhibit the highest degree of volatility with economic cycles were down the most: materials, financials, and industrials. Investor anxiety about slowing global economic growth set in during the late spring of 2011, and this has not lifted. The financial sector, down -17.8% for 2011, also delivered sluggish relative performance in 2010.

By delivering coupon-like returns, Investment Income Builder's bond holdings boosted overall portfolio returns relative to the MSCI World Index for 2011.

The Investment Income Builder portfolio continued to have large portfolio allocations in telecommunications services firms, financials, and utilities, relative to the MSCI Index. Despite the fact that five of the six European telecom service providers held in the Fund portfolio delivered negative returns during 2011 (KPN, Telefonica, TDC, Telecom Italia, and France Telecom), the Fund's overall return from its telecommunications industry investments was positive. In brief, Australia's Telstra, the UK's Vodafone, Thailand's Advance Information Services, and AT&T "saved the year" with positive total returns. The same issues that have concerned investors in telecommunications businesses over recent years remain unresolved....mature markets, competitive price pressures, tradeoffs between the secular decline of the traditional fixed-line businesses and the growth of broadband connections. For the Europeans, concerns about refinancing maturing debts and possible increases in taxes were additional burdens.

Despite delivering a negative total return of slightly below -6% that burdened overall Fund performance, the Fund's holdings in the financial sector outperformed those of the Index by more than 10% during 2011, accounting for most of our outperformance vis-à-vis that benchmark. The Fund's average portfolio weighting in financials was almost 24%, including certain hybrid instruments and subordinated bonds. We owned only one small equity stake in a bank headquartered within the European Monetary Union (Intesa San Paolo, no longer owned), and our U.S. bank stock holdings were focused primarily in income-paying hybrid securities issued by Fifth Third Bancorp and Huntington Bancshares, both decent performers for the year. The Fund's mortgage REIT holdings delivered mixed 2011 performances, with the "U.S. agency mortgage only" portfolios modestly positive and the investors in hybrid private/agency mortgages declining in price. The Fund's insurance industry investments were also mixed, with Norway's Gjensidige Forsikring up more than 20% and Allianz, Munich Re, and Zurich Financial each down for the year. The Fund's modest holdings of medium-sized Swiss banks were weak against a backdrop of low interests rates and slow client trading, with Liechtenstein Landesbank turning in a particularly weak 2011 total return.

of 1%. The total annual fund operating expense for A shares is 1.25%.

Investments in the Fund carry risks, including possible loss of principal. Special risks may be associated with investments outside the United States, especially in emerging markets, including 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. Investments in the Fund are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity.

TOP 10 HOLDINGS AS OF 12/31/11

| | |
|---------------------------|------|
| Telstra Corp. Ltd. | 3.2% |
| Total SA | 2.8% |
| Microsoft Corp. | 2.7% |
| Vodafone Group plc | 2.5% |
| Royal Dutch Shell plc ADR | 2.3% |
| GDF Suez | 2.3% |
| Pfizer, Inc. | 2.3% |
| Entergy Corp. | 2.3% |
| Eni SpA | 2.1% |
| Enel S.p.A. | 2.0% |

Income Builder's investments in the energy sector delivered an absolute return of approximately 4% for 2011, significantly above that sector's contribution to the MSCI World Index. Royal Dutch Shell, ENI, and Total each contributed. Our health care industry holdings were also very solid contributors to both absolute and relative performance in 2011, led by Pfizer, Roche Holding, and Merck.

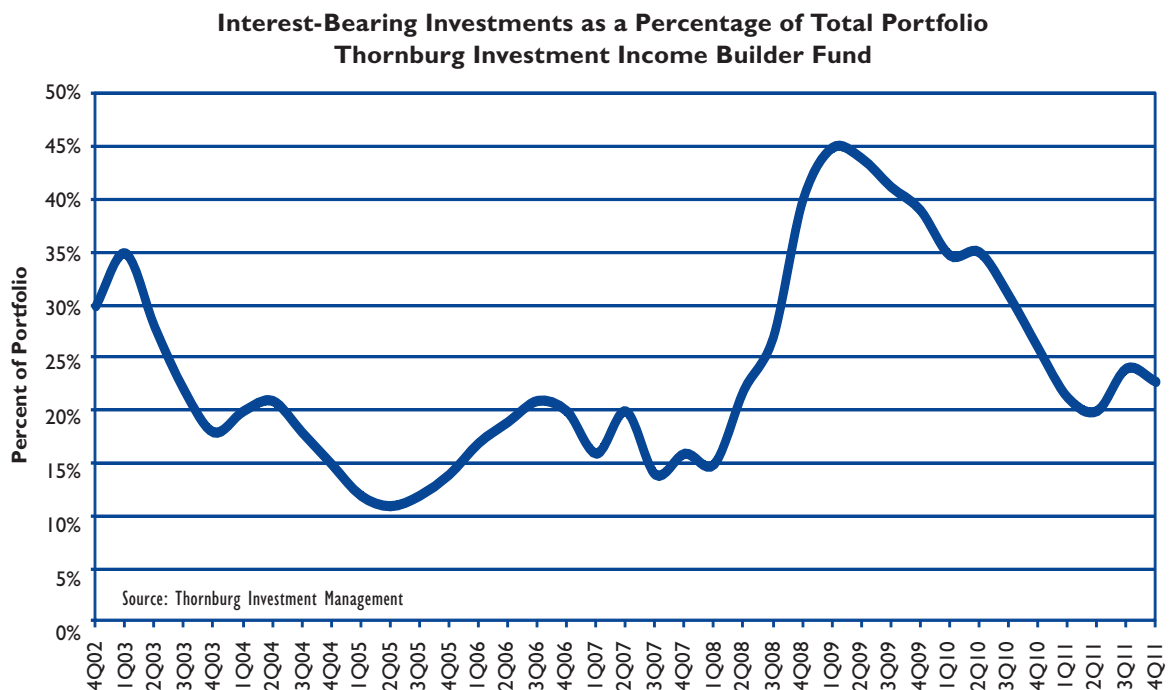
Our utilities investments performed below index averages, with Europeans ENEL SpA and GDP Suez each falling more than 10% for the year. As with the European telecoms, special taxes, negative regulatory rulings, and debt refinancing concerns shadow investor perceptions of these businesses. As of December 31, just over 14% of Investment Income Builder's portfolio assets were invested in euro-denominated securities. Almost half of this amount was invested in Royal Dutch Shell, ENI, and Total, large integrated international oil and gas firms that happen to be based in Europe. We have hedged a majority of the euro currency exposure of the Income Builder portfolio.

Income Builder's 1.2% average equity weighting in the weak performing industrials sector, which was less than 15% of the weighting of this sector in the MSCI World Index, helped overall portfolio performance in 2011. Our low weighting in equities in the materials sector (under 2%) also had a positive effect on relative performance, although our investments in Southern Copper and Impala Platinum each performed poorly in 2011.

In addition to those previously mentioned, the best contributing investments to portfolio performance in 2011 were semiconductor producer Intel, Australian airport operator Sydney Airport, Philip Morris International, McDonald's, and U.S. electric utility Entergy. Notable performance laggards included Apollo Investment, Och-Ziff Capital Management, and Australian retailer David Jones Ltd.

Within its bond portfolio, Investment Income Builder owned significantly fewer U.S. government and agency bonds than the Barclay's Index. This had a modest negative impact on the relative performance of the Fund's bond portfolio in 2011. We allocated the majority of new cash flow into equities in 2010 and 2011, because yields on corporate bonds and other non-government debt securities dropped to less interesting levels.

The chart below shows that interest-bearing investments as a percentage of the Fund's portfolio have varied over time, ranging from less than 12% in mid 2005 to 45% at June 30, 2009. We tend to buy more bonds on those days when liquidity is pressured and bond prices are depressed.



As of December 31, the Fund portfolio included approximately 200 bonds and hybrid securities.

Since its inception, the dividend increases paid by Investment Income Builder have been powered primarily by dividend increases from the Fund's equity holdings. These increases slowed significantly over the last three years, due to more than 20% aggregate declines in dividends paid in 2009 in most developed country equity markets. Dividend increases in 2010 and 2011 have brought aggregate dividends paid by U.S. listed firms almost back to pre-financial crisis levels, and Standard & Poor's predicts that new records for cash dividend payments will be reached in the U.S. market during 2012. For the U.S. equity market as a whole, the dividend payout ratio averages slightly below 30% of corporate earnings. Outside the United States, dividend yields and payout ratios tend to be higher (see the Investment Income Builder September 2011 Annual Report), but dividend growth will likely be lower, especially from European firms.

The average payout ratio of companies held in the Income Builder portfolio is slightly above 60%, reflecting our preference for firms that share earnings with shareholders. We expect earnings growth in most developed markets to be below the U.S. market in 2012. The evidence that this expectation is widely shared by investors around the world is indicated by the fact that only two (Indonesia and Philippines) of the 46 non-U.S. equity markets tracked by Standard & Poor's posted gains for 2011, while the S&P Global Ex-U.S. portfolio declined by 16.64%.

During 2011, the average dividend increase of our equity portfolio holdings was slightly above 6.5%. The average yield on our bond portfolio declined, reflecting the generally lower interest rates available on new investments vis-à-vis the Fund's portfolio at the beginning of the year.

There is now a great debate regarding the prospects for global economic growth in 2012. Conflicting macroeconomic forces are expected to act on business conditions and investor sentiment. Leverage in most developed market economies cannot expand at the rates seen in prior years, and may need to contract in certain countries. We have seen clear evidence that global markets are unwilling to finance significant further borrowing by certain European governments at acceptable rates. This may serve as a warning to other developed and developing market governments that limits on borrowing will constrain the ability of elected officials to formulate new programs and fully deliver on prior commitments. On the other hand, some large emerging market economies would appear to have room to increase private borrowing, government borrowing, or both, and aggregate demand in these countries is expanding. An election year United States could increase or restrict aggregate global demand, though recent economic indicators have been slightly positive.

Commenting on the U.S. equity market in its December, 2011 "Market Attributes" publication, Standard & Poor's states the following:

"Balance sheets and income statements for the S&P 500 are in excellent condition. Earnings (for the S&P 500 Index) best quarter was Q3'11, its second best was in Q2'11, and Q4'11 is estimated to be in third. Cash reserves are also at an all time high. Forward price-to-earnings ratios (P/Es) are historically low and yields are relatively high (compared to alternative investments or U.S. Treasuries).....Large-cap issues have found a way to cope with a slow economy and still improve earnings."

Summary data on the global equity portfolio indicate that most balance sheet metrics outside the United States have also improved in the last two years, even as declining price-to-earnings ratios show that investor desire to own equities is muted. In brief, firm values are below recent historical averages and overall sales and earnings results are coming in reasonably well. A lack of optimism about future business conditions keeps equity investors on the sidelines.

Yields on taxable and tax-exempt money funds are below ¼ of one percent, and banks have aggressively reduced yields on all deposits. A very large pool of investor dollars is looking for better returns elsewhere, but in sensible investments. We are optimistic that the types of income-producing investments owned by Thornburg Investment Income Builder will experience sustainable popularity among investors as their intrinsic values for income production are recognized.

A high percentage of investor funds belong to people over the age of 55, for whom income is an increasingly necessary and desirable attribute.

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, countries 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 S&P 500 Index, an unmanaged broad measure of the U.S. stock market, does not reflect sales charges.

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 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 S&P Broad Market Global Ex-U.S. Index is a market-capitalization weighted index that provides a broad measure of the global equities markets, excluding the U.S. market. The Index contains approximately 8,000 stocks.

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.

Agency Security – A debt obligation issued by government corporations or government sponsored enterprises. Agency securities are exempt from state and local taxes. They are not guaranteed by the U.S. government.

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

Price/Earnings ratio (P/E ratio) – 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.

This communication is not authorized for distribution to prospective investors in the Fund unless preceded or accompanied by an effective prospectus. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the Fund.

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