

*4th Quarter 2009 Portfolio Manager Market Commentary*  
**Thornburg Municipal Bonds**



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Following three tremendous quarters in 2009, the bloom came off the rose in the fourth quarter. The quarter brought slightly negative results for most sectors of municipal bonds. Only the very short maturities produced a profit for investors.

Key drivers for the market in the fourth quarter were strong retail demand for bonds, solid inflows into municipal bond funds, and supply constrained by the emergence of Build America Bonds (BABs). For the year, roughly 16% or \$64 billion of new issue volume in the municipal market consisted of BABs. Most of that represents displacement of tax-exempt supply, which is a predominant factor holding down tax-exempt yields. The finance of the federal BAB subsidy is so attractive that issuing BABs is often a better option for qualifying municipalities.

Interest rates rose for intermediate and long bonds as the yield curve pivoted and steepened, with five years being the inflection point. Inside of five years, bond yields declined to record lows. At year-end, municipal yields were the lowest in 40 years, with one-year AAA municipals yielding around 0.50%, while 30-year AAA securities were yielding around 4.50%.

The result of the pivoting yield curve was negative for many of the municipal bond indexes. The best performance, and the only positive returns, were for bonds inside of three years to maturity.

For the quarter, Limited Term Municipal Fund generated a return of -0.04% (A shares without sales charge), and Intermediate Municipal Fund reported a return of -0.60% (A shares without sales charge). Most of our tax-exempt portfolios benefited from over-weights in short-maturity bonds relative to benchmarks. We remain over-weighted in revenue and insured bonds, and underweighted in general obligations and pre-refunded bonds.

**Performance** A shares, as of 12/31/09

**Limited Term Municipal Fund**

	1-yr	3-yr	5-yr	10-yr	Since Incep. (9/28/84)
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Without sales charge	8.85%	4.54%	3.57%	4.17%	5.59%
With sales charge	7.22%	4.00%	3.25%	4.01%	5.53%

**Intermediate Municipal Fund**

	1-yr	3-yr	5-yr	10-yr	Since Incep. (7/22/91)
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Without sales charge	13.70%	3.93%	3.56%	4.48%	5.22%
With sales charge	11.39%	3.23%	3.15%	4.27%	5.11%

**Strategic Municipal Income Fund**

	1-yr	3-yr	5-yr	10-yr	Since Incep. (4/1/09)
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Without sales charge	-	-	-	-	17.87%
With sales charge	-	-	-	-	15.54%

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

Credit spreads had been compressing throughout the second and third quarters, but that trend stopped in the fourth quarter. The spread between BBB-rated bonds and AAA-rated bonds was 263 basis points, or 2.63%, at year end. What that meant for performance is that credit positioning (over-weight or under-weight BBB bonds) was not a performance driver for the quarter.

We continue to maintain a close watch on state and local economies. We are concerned about large budget deficits and for 2010 we anticipate most states will enact a combination of tax increases and spending cuts. Unless Congress approves more funding for state governments, stimulus spending will expire in 2011, leading to deficit pressure in 2012.

State tax collections in the first three quarters of 2009 posted their steepest decline in at least 46 years. The Nelson A. Rockefeller Institute of Government reported that state tax collections declined 10.9% year-over-year in the third quarter of 2009. For many states, the biggest drag on tax revenues has been the swoon in the personal income tax, down nearly 12% in the quarter. Sales taxes were down by 9%. Local government tax revenues look better with tax revenues that actually increased by 0.7%, due in large part to local governments' reliance on more stable property tax revenue.

We remain diligent on the credit front and continue to practice careful selection and diversification in order to protect portfolios in a difficult environment.

2009 was a superb year for our municipal bond portfolios. We are pleased to report as of December 31, 2009, the Limited Term Municipal Fund, Class I shares, was ranked by Morningstar in the top 1 percent of its peer group for the three-, five-, and ten-year time periods. The Intermediate Municipal Fund, Class I shares, was ranked in the top quartile for one-, three- and five-year time periods. Our new municipal fund, the Strategic Municipal Income Fund, which was launched on April 1, 2009, also had a strong year. These historical results demonstrates the success of our approach to bond investing over both short and long periods of time. It also reflects our team's competent approach to managing risk, its disciplined laddering process, and its passionate pursuit of quality execution.

### **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.

*thornburg.com. The Limited Term fund has a maximum sales charge of 1.50%. The Intermediate Term fund has a maximum sales charge of 2.00%. The total annual operating expenses are as follows: Limited Term Municipal Fund – A: 0.89%; Intermediate Municipal Fund – A: 0.96%; Strategic Municipal Fund – A: 2.13%. Thornburg Investment Management intends to waive fees and reimburse expenses so that 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 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 bond funds will fluctuate relative to changes in interest rates, decreasing when interest rates rise. This effect is more pronounced for longer term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Investments in lower rated and unrated bonds may be more sensitive to default, downgrades, and market volatility; these investments may also be less liquid than higher rated bonds. Investments in derivatives are subject to the risks associated with the securities or other assets underlying the pool of securities, including illiquidity and difficulty in valuation. 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](http://thornburg.com). Read it carefully before investing.*

Build America Bonds (BABs) are taxable bonds issued by state and local governments. The U.S. Treasury then provides these entities with a direct federal subsidy for a portion of the borrowing costs.

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

General Obligation Bond – A municipal bond backed by the credit and “taxing power” of the issuing jurisdiction rather than the revenue from a given project.

Revenue Bond – A bond on which the debt service is payable solely from the revenue generated from the operation of the project being financed or a category of facilities, or from other non-tax sources.

Pre-Refunded Bond – A type of municipal bond that has been escrowed or collateralized either by direct obligations guaranteed by the U.S. government, or by other types of securities. The escrow account is structured so that these refunded bonds are to be called at the first possible call date. Such bonds, if escrowed with securities guaranteed by the U.S. government, have little if any credit risk.

Insured Bond – A bond with interest and principle payments insured by a third party. Insured bonds are usually found as a feature of municipal bonds; they are purchased, underwritten and repackaged by a financial guarantee company who then sells the issue to investors.

Credit spreads – The difference between the yields of securities with different credit qualities.

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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## Morningstar Rankings

Total Return Ranks as of 12/31/09

### Thornburg Limited Term Municipal Fund Rank in Muni National Short Category

	1-Yr	3-Yr	5-Yr	10-Yr
<b>Class I</b>				
Actual	12	2	2	1
Percentile	8%	1%	1%	1%
# Funds	141	127	120	65
<b>Class A</b>				
Actual	13	8	10	7
Percentile	9%	6%	8%	10%
# Funds	141	127	120	65

### Thornburg Intermediate Municipal Fund Rank in Muni National Intermediate Category

	1-Yr	3-Yr	5-Yr	10-Yr
<b>Class I</b>				
Actual	54	56	34	54
Percentile	22%	25%	17%	42%
# Funds	246	219	198	128
<b>Class A</b>				
Actual	55	94	81	86
Percentile	22%	43%	41%	67%
# Funds	246	219	198	128

*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.*