

4th Quarter 2011 Portfolio Manager Market Commentary

Thornburg Value Fund



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After a challenging period of extreme volatility, the Thornburg Value Fund (A shares without sales charge) returned 5.74% versus the S&P 500 Index total return of 11.82% for the fourth quarter of 2011. Markets rebounded in October after a volatile summer with the announcement of a rescue plan for Europe to address the region's debt. However, volatility returned in force in November and December as investors fled risky assets. The year finished with continued gridlock in Washington and the uncertainty of the European debt crisis which has plagued equity markets. U.S. markets fared better than global markets, supported at the end of the year by signs of improvement in the economy and strong corporate earnings. Going into 2012, markets remain vulnerable to European debt woes and the outlook for the global economy.

While we are disappointed with the Fund performance during this very volatile market, we do not see fundamental deterioration, as measured by earnings and cash flow, in the portfolio. Our process and philosophy have not changed. In the context of our "promise at a discount" philosophy, our portfolio holdings have on average maintained their promise over the last twelve months while the discount has increased. We believe there is the potential for recovery in the share prices of many of our holdings that experienced significant valuation compression during 2011 with little or no fundamental deterioration.

As bottom up stock pickers, we find "theme-driven" markets more challenging. In these environments, valuations may be driven by momentum instead of fundamentals for long periods of time with little interruption. As such, identifying mispricing and being rewarded for this practice may prove to be more difficult. At this moment, stocks with exposure to economic cyclicality, financial leverage, or headline risk appear extremely discounted. Most of these stocks are in our basic value category. We typically limit exposure

VALUE FUND PERFORMANCE

A shares, as of December 31, 2011

	1-yr	3-yr	5-yr	10-yr	Since Incep.
Without sales charge	-13.44%	11.13%	-3.17%	2.15%	8.27%
With sales charge	-17.35%	9.44%	-4.06%	1.68%	7.97%
S&P 500 Index	2.11%	14.11%	-0.25%	2.92%	6.78%

Periods over one year are annualized. Inception of the A shares is 10/2/95.

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 of 1%. The total annual fund operating expense for A shares is 1.31%.

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. Investments in the Fund are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity.

to the basic value category to no more than 50% of the portfolio, so we have sufficient flexibility to have the chance to outperform in any market environment. We believe we have found specific companies with compelling promise and discount in the basic value category. The consistent earners category looks like greater promise at a discount than the S&P 500's top performing sector in 2011, consumer staples. Our consistent earners are expected to grow faster, yet are cheaper.

Stocks in the information technology (largest exposure) and energy sectors were four of the top five contributors during the quarter. In the information technology sector, Google is the global leader in online advertising, which is a niche that we believe has dramatically better growth prospects than the overall economy.

The online advertising market continues to grow as ad dollars shift online from print and other mediums. This “mature” business grew 26% year-over-year in the United States in Google’s most recent quarter. Google is also generating growing revenues from newer businesses including display advertising, YouTube, and mobile search. Over time, we expect Google to monetize other initiatives including their leading position in Smartphone operating systems with Android. Yahoo beat analysts’ expectations, reporting higher third-quarter earnings, and shares have risen on rumors of buyout speculation after the company fired its CEO in September. Yahoo announced Scott Thompson, the president of eBay’s PayPal business, as CEO right after year end.

In the energy sector, Exxon Mobil had strong third-quarter results with earnings surging over 40% from a year ago. Higher crude oil and natural gas price realizations and refining margin improvements offset output declines. SandRidge Energy Inc. rose on news that it profitably sold its interest in property in Oklahoma and southern Kansas to a Korean firm. We believe SandRidge has the potential to achieve high production growth and selective transactions help the company finance its growth.

Varian Medical rounded out the top contributors for the quarter. Varian Medical is the leader in radiation oncology equipment. It has greater than 50% market share and spends more on research and development than all of its competitors combined. Emerging markets, especially China, are underpenetrated and we are already seeing extremely strong demand for Varian Medical’s products. Varian Medical has net cash, earnings have grown dramatically during the past seven years, and the outlook for long-term growth appears robust.

Detractors during the quarter included stocks from the telecommunication services and information technology sectors: Level 3 Communications, KDDI Corp., and MEMC Electronic Materials. Level 3 Communications declined after announcing third-quarter results that disappointed analysts as they offered little positive information about performance, the recent Global Crossing acquisition, or guidance for the new combined entity. KDDI Corp., Japan’s second largest mobile carrier, reported in line 1H FY’11 results and no change to full year guidance. During the quarter, KDDI became the second carrier in Japan to offer the iPhone and the company revised up its sales targets of smartphones for the fiscal year. KDDI’s stock price has been weak of late as TEPCO sold its stake in the company and rumors surfaced about a new competitor possibly offering the iPhone. MEMC Electronic Materials Inc. reported a weak Q3 2011. The current operating environment is tough for the company’s semi and solar businesses. MEMC announced a major restructuring during the quarter and it appears that the management has truly shifted course by cutting costs and reducing capex spending. Profitability should improve next year as the company benefits from reduced expenses and increasing volumes of semi wafers and solar installation projects. The company is shifting away from upstream solar, increasing focus on cash flow generation and profitable businesses.

Other detractors included Thermo Fisher Scientific and Bank of America. Thermo Fisher Scientific is a leader in the manufacturing and distribution of equipment for biotechnology

TOP 10 HOLDINGS AS OF 12/31/2011

Gilead Sciences, Inc.	5.0%
Google, Inc.	4.8%
Inpex Corp.	4.2%
Hewlett-Packard Co.	3.9%
Thermo Fisher Scientific, Inc.	3.8%
United States Steel Corp.	3.7%
Staples, Inc.	3.6%
Yahoo!, Inc.	3.4%
Charles Schwab Corp.	3.3%
Varian Medical Systems, Inc.	3.1%

research. The stock declined after announcing it would lower guidance for FY2011. The revised lower growth estimates stem from reduced academic and government spending, and overshadowed positive third-quarter earnings, record revenues and adjusted earnings per share. Thermo Fisher is expected to grow earnings significantly in 2012. Bank of America fell on Eurozone sovereign debt concerns relating to its European capital markets business, its inclusion in a lawsuit by numerous pension funds regarding its role in the meltdown of MF Global, and the announcement of a new round of stress tests for U.S. banks by the Federal Reserve. Loan losses have been on a declining trend with the tightening of lending standards.

We have taken advantage of the historically low multiples and purchased what we believe are promising stocks, including Apache Corporation, Metlife, Apple and Juniper Networks. Apache Corporation is a leading independent oil company. We believe management is prudent and focuses on generating high returns on invested capital. The company has attractive projects in Australia and the North Sea that appear to be underappreciated by investors, and the valuation is compelling. Metlife Inc. is the global leader in life insurance. The company acquired the international life operations of AIG, which positions Metlife for superior long-term growth relative to the rest of the sector. Metlife is achieving high growth in unit sales, revenues and book value, even in the current environment. Apple Inc. is in the early stages of long-term share growth in the desktop, laptop and handset markets. Apple has dominated the tablet market so far, a market that should continue to grow. Enterprise penetration is low, but increasing across all of Apple's platforms. The combination of strong product development and a growing ecosystem that creates customer loyalty has led to strong revenue and earnings growth for Apple over the last few years. There should be a strong product cycle in 2012 with the iPhone 5 and iPad 3. Juniper Networks Inc., the information technology and computer networking product provider, has good growth prospects with the increasing demand for data and routers. The current slowing in cyclical spending for carriers allowed for an opportunity to purchase the stock at a discount.

Sales during the quarter included Transocean Ltd., Goldman Sachs, Turkiye Garanti Bankasi and US Bancorp. Transocean Ltd. was sold due to fundamental deterioration. The Macondo disaster caused changes in the regulatory environment that have forced Transocean to experience significantly more downtime for its rigs. More importantly, the long-term outlook has been clouded by the willingness of competitors to build drilling rigs without contracts in place. Transocean's business model was based on operating its rig fleet profitably and only building rigs when long-term contracts were available.

While we continue to believe that Goldman represents a strong investment opportunity at its current valuation, we have sold Goldman as a risk management measure. Of our three large-cap financials, Goldman, JP Morgan, and Bank of America, Goldman seems most exposed to the provisions of the Volker rule that limit U.S. banks' ability to execute proprietary trading. Turkiye Garanti Bankasi, one of Turkey's largest commercial banks, and US Bancorp were sold for more compelling investment ideas.

During 2010–2011 investors sought to reduce risk, and equities are perceived to be risky. This perception is due to the volatility and lack of appreciation of share prices since 2000. We think that this is part of a long cycle that has been going on for over a decade. Investors will probably return to equities when volatility declines. Investors may be skeptical that volatility will ever decline. While understandable, that fear is not justified by history. Over the past century we have had world wars, depression, regional wars, oil embargoes, nuclear threats (Cuban missile crisis), rampant inflation, interest rates near 20%, and more. Yet, market volatility has always returned to normal within a relatively short time frame after hitting levels similar to what we have recently experienced.

A hopeful fact is that the value proposition of equities relative to fixed income is the best that it has been in decades, so when confidence returns the money should flow to stocks. The 6.5% real earnings yield (taking into account inflation) of the S&P 500 Index today looks very attractive relative to real 10-year government yields, which are slightly negative, or real Baa corporate bond yields, which are just over 3%. After a decade of weak returns for equities, individual investor expectations have soured on the future prospects of this investment class. Keep in mind, in the

moment when there is the least enthusiasm for equities – and we think we’re close today – we believe there is potential that subsequent returns will be high.

We are excited about the prospects for the current portfolio.

Thank you for your continued support.

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 Fund will meet its objectives.

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 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.

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 Baa are investment-grade quality. Ratings of Ba, B, Caa, Ca, and C (the lowest) are considered below investment grade, speculative grade, or junk bonds.

Earnings per Share (EPS) – The total earnings divided by the number of shares outstanding.

Capex (Capital Expenditure) – Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations. These expenditures can include everything from repairing a roof to building a brand new factory.

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.

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