

Thornburg Municipal Bond Strategies

Portfolio Manager Commentary

31 December 2025



Market Review

U.S. fixed income markets concluded 2025 on a positive note, with broad gains driven by Federal Reserve rate cuts, cooling inflation, and broadly resilient economic data despite challenges like the U.S. government shutdown and labor market softness. The Federal Reserve continued its easing cycle with 50 basis points of rate cuts, including a widely expected 25bp cut at the December FOMC meeting that lowered the Fed Funds rate to 3.50-3.75% alongside a \$40B/month Treasury bill purchase program, though the FOMC minutes reflected continued divisions within the committee. November saw significant volatility in rate expectations with December futures probabilities dropping below 30% at one point following hawkish signals from Chair Powell and other Fed officials. Inflation showed continued disinflation with November CPI coming in below consensus at 2.7% year-over-year (core 2.6%), while mortgage rates dropped for three straight weeks to end 2025 at their lowest point for the year. The government shutdown delayed most employment and inflation data in October with impacts continuing into November, creating what analysts called a "data vacuum."

Treasury yields fluctuated throughout the period, with short-end yields declining approximately 20-30 basis points as rate-cut expectations increased. The curve continued to steepen with the 30-year yield rising as short-end rates fell. The job market in late 2025 was characterized by labor market softening, with unemployment reaching a four-year high of 4.6% in November amid layoff announcements from major companies including Meta, Target, Amazon, Molson Coors, and Applied Materials.

Fourth Quarter 2025 Performance Highlights

- The broad municipal index finished the year strong posting a total return of 1.56% as declining yields across intermediate and long duration drove gains with the AAA municipal curve falling 10-25 basis points.
- Revenue bonds underperformed GOs but housing and hospital sector bonds provided notable outperformance. Spreads tightened modestly for the month with high yield underperforming investment grade due to falling long-end yields. Issuance remained elevated by historical standards with 2025 setting a new decade high for issuance. Technicals remained relatively balanced as increased supply was met with strong investor demand.
- The Thornburg Municipal portfolios posted mixed total returns during the quarter as the AAA Muni curve flattened, with shorter maturities rising while longer maturities fell in Q4. The municipal team continues to find considerable value in the longer end of the curve and generally maintained a longer duration bias relative to portfolio benchmarks.

Curve steepening across prior quarters setup an attractive entry point for duration in 2026.

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The performance data quoted represents past performance; it does not guarantee future results. Please see the Composite standardized performance tables included herein.

*The tax treatment depends on the individual circumstances of each client and may be subject to change in the future and should seek expert tax advice.

Current Positioning and Outlook

We remain constructive on municipal fundamentals heading into 2026, fiscal positions remain generally healthy underpinned by solid state revenues, elevated reserves, and improved pension funding ratios. While issuance in 2025 set a new decade high and provided supply pressure, demand remained robust with strong inflows across maturities and credit qualities. Despite notable defaults within the high yield market in the first half of the year, positive flows into municipal high yield funds signaled renewed investor confidence. Our strategies continued to add to longer duration and higher quality bias compared to its long-term range, driven by attractive real yields and tight credit spreads. Security selection, driven by our bottom-up fundamental credit research, was a key contributor, allowing us to identify resilient issuers across various sectors and industries.

Credit trends remain positive and we are monitoring for early signs of weakness, such as unexpected drops in tax revenue or negative budget revisions. States often release monthly revenue updates that give investors timely insights into fiscal health. Currently, municipals offer strong relative value, with the 10-30 year spread on municipal indexes at its steepest since 2013. The robust credit outlook and steep yield curve present opportunities for investors to secure attractive, tax-free yields on high-quality municipal bonds heading into 2026.

ANNUALIZED RETURNS (AS OF 31 DECEMBER 2025)

THORNBURG SHORT DURATION MUNICIPAL STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 APR 14)
Composite (Gross)	0.68	4.26	4.26	3.91	2.11	1.89	1.74
Composite (Net)	0.58	3.85	3.85	3.52	1.74	1.53	1.37
ICE BofA 1-3 Year U.S. Municipal Securities Index	0.53	3.76	3.76	3.25	1.59	1.60	1.47

THORNBURG LIMITED TERM MUNICIPAL STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 JAN 85)
Composite (Gross)	0.85	5.36	5.36	4.06	1.60	2.08	5.03
Composite (Net)	0.77	5.02	5.02	3.77	1.32	1.80	4.30
ICE BofA 1-10 Year U.S. Municipal Securities Index	0.78	5.00	5.00	3.61	1.29	1.99	N/A*

THORNBURG INTERMEDIATE TERM MUNICIPAL STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 NOV 91)
Composite (Gross)	1.47	5.23	5.23	4.47	1.81	2.66	4.88
Composite (Net)	1.39	4.88	4.88	4.09	1.42	2.25	4.22
ICE BofA 3-15 Year U.S. Municipal Securities Index	1.32	5.42	5.42	3.92	1.13	2.34	N/A*

THORNBURG STRATEGIC MUNICIPAL INCOME STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 MAY 09)
Composite (Gross)	1.25	4.86	4.86	5.10	1.85	2.81	5.09
Composite (Net)	1.06	4.08	4.08	4.32	1.16	2.11	4.30
ICE BofA U.S. Municipal Securities Index	1.46	3.96	3.96	4.01	0.83	2.38	3.66

Source: CAPS

In US\$ terms. **Returns may increase or decrease as a result of currency fluctuations.**

Periods less than one year are not annualized. ITD is inception to date.

*Index not inception yet.

Performance data for the Short Duration Municipal Strategy is from the Short Duration Municipal Composite, inception date of 1 April 2014. The Short Duration Municipal Composite includes all non-wrap discretionary accounts invested in the Short Duration Municipal Strategy.

Performance data for the Limited Term Municipal Strategy is from the Limited Term Municipal Composite, inception date of 1 January 1985. The Limited Term Municipal Composite includes all non-wrap discretionary accounts invested in the Limited Term Municipal Strategy.

Performance data for the Intermediate Term Municipal Strategy is from the Intermediate Term Municipal Composite, inception date of 1 November 1991. The Intermediate Term Municipal Composite includes all non-wrap discretionary accounts invested in the Intermediate Term Municipal Strategy.

Performance data for the Strategic Municipal Income Strategy is from the Strategic Municipal Income Composite, inception date of 1 May 2009. The Strategic Municipal Income Composite includes all discretionary accounts invested in the Strategic Municipal Income Strategy.

Returns are calculated using a time-weighted and asset-weighted calculation. Periods less than one year are not annualized. Individual account performance will vary. The performance data quoted represents past performance; it does not guarantee future results. Net of fee returns are net of transaction costs and investment advisory fees. For periods prior to 2011, net returns for some accounts in the composite also reflect the deduction of administrative expenses. Thornburg Investment Management Inc.'s fee schedule is detailed in Part 2A of its ADV brochure. Gross of fee returns are net of transaction costs. Performance results of the firm's clients will be reduced by the firm's management fees. For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual management fee of 0.75%, this increase would be 142%.

THORNBURG MUNICIPAL BOND STRATEGIES

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CALENDAR YEAR RETURNS

THORNBURG SHORT DURATION MUNICIPAL STRATEGY (%)	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Composite (Gross)	4.26	3.20	4.27	-1.48	0.44	1.66	2.73	1.68	1.60	0.72
Composite (Net)	3.85	2.80	3.89	-1.84	0.09	1.34	2.37	1.33	1.25	0.38
ICE BofA 1-3 Year U.S. Municipal Securities Index	3.76	2.63	3.35	-2.03	0.34	2.16	2.88	1.76	0.99	0.33
THORNBURG LIMITED TERM MUNICIPAL STRATEGY (%)	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Composite (Gross)	5.36	1.95	4.93	-4.39	0.46	3.65	4.62	1.58	3.04	-0.01
Composite (Net)	5.02	1.64	4.68	-4.64	0.20	3.38	4.33	1.31	2.77	-0.28
ICE BofA 1-10 Year U.S. Municipal Securities Index	5.00	1.58	4.28	-4.61	0.48	3.81	5.28	1.69	2.83	-0.05
THORNBURG INTERMEDIATE TERM MUNICIPAL STRATEGY (%)	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Composite (Gross)	5.23	2.11	6.10	-5.57	1.57	4.65	6.65	1.47	4.44	0.48
Composite (Net)	4.88	1.73	5.68	-5.94	1.17	4.24	6.21	1.06	4.00	0.04
ICE BofA 3-15 Year U.S. Municipal Securities Index	5.42	0.99	5.41	-6.64	0.94	4.96	7.01	1.45	4.64	-0.06
THORNBURG STRATEGIC MUNICIPAL INCOME STRATEGY (%)	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Composite (Gross)	4.86	3.71	6.75	-7.53	2.10	4.65	6.57	1.82	5.07	0.88
Composite (Net)	4.08	2.94	5.96	-8.08	1.50	4.02	5.82	1.18	4.29	0.12
ICE BofA U.S. Municipal Securities Index	3.96	1.62	6.52	-9.03	1.83	5.26	7.74	1.04	0.00	0.44

Source: CAPS

In US\$ terms. **Returns may increase or decrease as a result of currency fluctuations.**

The performance data quoted represents past performance; it does not guarantee future results. Please see the Composite standardized performance tables included herein.

Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 December 2025

Investments in the Strategy carry risks, including possible loss of principal. Carefully consider the Strategy's investment objectives, risks, and expenses before investing. There is no guarantee that the portfolio will meet its investment objectives.

The views expressed are subject to change and do not necessarily reflect the views of Thornburg Investment Management, Inc. This information should not be relied upon as a recommendation or investment advice and is not intended to predict the performance of any investment or market.

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

U.S. Treasury securities, such as bills, notes and bonds, are negotiable debt obligations of the U.S. government. These debt obligations are 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.

A bond 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.

Credit Spread/Quality Spread - The difference between the yields of securities with different credit qualities.

Duration - A bond's sensitivity to interest rates. Bonds with longer durations experience greater price volatility than bonds with shorter durations.

Yield Curve - A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.

Fed Funds Rate - The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

Federal Open Market Committee (FOMC) - The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

The ICE BofA 1-3 Year U.S. Municipal Securities Index (ICE BofA 1-3 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 3 years.

The ICE BofA 1-10 Year U.S. Municipal Securities Index (ICE BofA 1-10 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 10 years.

The ICE BofA 3-15 Year U.S. Municipal Securities Index (ICE BofA 3-15 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity greater than or equal to three years and less than 15 years.

The ICE BofA U.S. Municipal Securities Index (ICE BofA US Muni) tracks the performance of U.S. dollar-denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market.

Portfolio construction will have significant differences from that of a benchmark index in terms of security holdings, industry weightings, asset allocations and number of positions held, all of which may contribute to performance, characteristics and volatility differences. The index shown is unmanaged, reflect total returns and assume the reinvestment of all income in U.S. dollars. It does not reflect any management fees or brokerage expenses associated with a portfolio's returns. Returns for an actual portfolio may differ from those of an index due to (among other things) differences in timing and the amount invested and fees and expenses. Investors may not make direct investments into any index.

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