

Thornburg Income & U.S. Government Bonds

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

- In 4Q25 the Limited Term Income Portfolio (net of fees) returned 1.28%, 8 basis points ahead of the Bloomberg Intermediate U.S. Government/Credit Index. Year to date the portfolio (net of fees) returned 7.18%, 21 basis points ahead of the index.
- Sector allocation and security selection contributed positively to relative outperformance with the portfolio's overweights to CMOs and MBS providing uplift of 17 and 8 basis points, respectively. Specifically, the portfolio's security selection within AAA and AA-rated issues resulted in strong contributions to relative performance.
- The portfolio maintained an average duration of 3.50 versus 3.72 for the index with the underweight duration and yield curve positioning detracting 2 basis points from relative performance for the quarter. Treasury yields inside 7 years fell in Q4 and the curve continued to steepen with short-end rates falling and the long end rising.

Current Positioning and Outlook

The portfolio remained positioned with a longer duration and higher quality bias compared to its long-term range, driven by attractive real yields and tight credit spreads. Although we maintain a generally cautious view of the data center and AI sectors, many hyperscaler firms demonstrate strong credit profiles and will require ongoing investment to expand their AI infrastructure. In recent months, we have identified attractive opportunities within project finance, specifically through lending secured by data centers under construction with leases to investment-grade tenants. These transactions are not intended as broad sector calls but rather as select opportunities characterized by high barriers to entry, which can deliver favorable valuations, robust structures, and desirable tenant profiles.

Despite volatility, our focus continues to be on generating attractive income and risk-adjusted total returns over the long term.

Portfolio Managers

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Supported by the entire Thornburg investment team

The global economy has shown surprising resilience despite mounting pressures from the delayed impact of tariffs and constrained fiscal flexibility. With ongoing uncertainty, careful portfolio construction remains essential. Instead of crowding into popular trades or implementing static allocations, we urge investors to focus on strategies that balance liquidity, potential returns, and diversification, while staying flexible to adapt to new opportunities. In 2026, those who favor high-quality fixed income, selectively add real assets for stability, and seek undervalued equity sectors may benefit most.

We maintained broad diversification across fixed-income sectors with an emphasis on sectors demonstrating resilience or offering compelling risk/reward profiles identified through our research. Credit spreads remain tight, particularly within private market areas that have experienced sharp growth. Despite a generally strong background for equities, shares of several large alternatives firms have seen declines. More broadly, recent bankruptcies and instances of fraud may be indicative of light covenants typically seen late-cycle. Investors should consider if their holdings justify the risks of credit, illiquidity, falling yields, and limited transparency.

ANNUALIZED RETURNS (AS OF 31 DECEMBER 2025)

THORNBURG LIMITED TERM INCOME STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 FEB 93)
Composite (Gross)	1.36	7.53	7.53	6.57	2.43	3.53	5.27
Composite (Net)	1.28	7.18	7.18	6.23	2.11	3.19	4.60
Bloomberg Intermediate U.S. Government/Credit Index	1.20	6.97	6.97	5.06	0.96	2.29	4.27

THORNBURG LIMITED TERM U.S. GOVERNMENT STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD (1 MAR 88)
Composite (Gross)	1.24	7.52	7.52	5.23	1.37	2.12	4.94
Composite (Net)	1.15	7.12	7.12	4.85	1.00	1.74	4.17
Bloomberg U.S. Government Intermediate Index	1.15	6.50	6.50	4.40	0.64	1.76	4.61

THORNBURG ULTRA SHORT INCOME STRATEGY (%)	QTR	YTD	1-YR	3-YR	5-YR	ITD (1 OCT 20)
Composite (Gross)	1.15	5.14	5.14	5.78	3.66	3.57
Composite (Net)	1.09	4.87	4.87	5.52	3.40	3.31
ICE BofA U.S. Treasury Bill Index	1.03	4.30	4.30	4.90	3.19	3.05

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.

Performance data for the Limited Term Income Strategy is from the Limited Term Income Composite, inception date of 1 February 1993. The Limited Term Income Composite includes all non-wrap discretionary accounts invested in the Limited Term Income Strategy. Returns reflect the reinvestment of income and capital gains.

Performance data for the Limited Term U.S. Government Strategy is from the Limited Term U.S. Government Composite, inception date of 1 March 1988. The Limited Term U.S. Government Composite includes all discretionary non-wrap accounts invested in the Limited Term U.S. Government Strategy. Returns reflect the reinvestment of income and capital gains.

Performance data for the Ultra Short Income Strategy is from the Ultra Short Income Composite, inception date of 1 October 2020. The Ultra Short Income Composite includes all non-wrap discretionary accounts invested in the Ultra Short Income Strategy. Returns reflect the reinvestment of income and capital gains.

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 INCOME AND U.S. GOVERNMENT BONDS

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CALENDAR YEAR RETURNS

THORNBURG LIMITED TERM INCOME STRATEGY (%)	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Composite (Gross)	7.53	5.21	6.99	-6.53	-0.33	8.09	6.26	1.72	3.22	3.99
Composite (Net)	7.18	4.87	6.65	-6.82	-0.64	7.74	5.91	1.38	2.89	3.63
Bloomberg Intermediate U.S. Government/Credit Index	6.97	3.00	5.24	-8.23	-1.44	6.43	6.80	0.88	2.14	2.08
THORNBURG LIMITED TERM U.S. GOVERNMENT STRATEGY (%)	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Composite (Gross)	7.52	3.32	4.91	-7.21	-0.99	4.69	4.55	1.71	1.53	1.90
Composite (Net)	7.12	2.94	4.52	-7.57	-1.35	4.31	4.16	1.33	1.16	1.52
Bloomberg U.S. Government Intermediate Index	6.50	2.44	4.30	-7.73	-1.69	5.73	5.20	1.43	1.14	1.05
THORNBURG ULTRA SHORT INCOME STRATEGY (%)	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Composite (Gross)	5.14	6.11	6.10	0.52	0.62					
Composite (Net)	4.87	5.84	5.83	0.27	0.37					
ICE BofA U.S. Treasury Bill Index	4.30	5.30	5.09	1.34	0.05					

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.

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.

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.

Collateralized Mortgage Obligation (CMO) - A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Mortgage-backed Security - A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must be grouped in one of the top two ratings as determined by a accredited credit rating agency and usually pay periodic payments that are similar to coupon payments. The mortgage must have originated from a regulated and authorized financial institution.

The Bloomberg Intermediate U.S. Government/Credit Index (BBG Int US Govt/Credit TR Value) is an unmanaged, market-weighted index generally representative of intermediate government and investment-grade corporate debt securities having maturities from one up to ten years.

The Bloomberg U.S. Government Intermediate Index (BBG US Govt Int TR Value) is an unmanaged, market-weighted index generally representative of all public obligations of the U.S. Government, its agencies and instrumentalities having maturities from one up to ten years.

ICE BofA U.S. Treasury Bill Index tracks the performance of US dollar denominated US Treasury Bills publicly issued in the US 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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