

Thornburg Investment Management®
Strategies for Building Real Wealth

Structuring Distribution Strategies for Retirees in a Bear Market

This material is for financial advisors and institutional clients only.

Presentation Biases

- “Retirement Income” is at the core of the financial planning process.
- Inflation is to be feared more in the distribution phase than market volatility.
- We believe reasonable spending policies, cash reserve strategy and utilizing a high and growing dividend strategy are all part of the solution.
- Advisors who embrace retirement income as a process may garner significant assets as client accounts are consolidated.

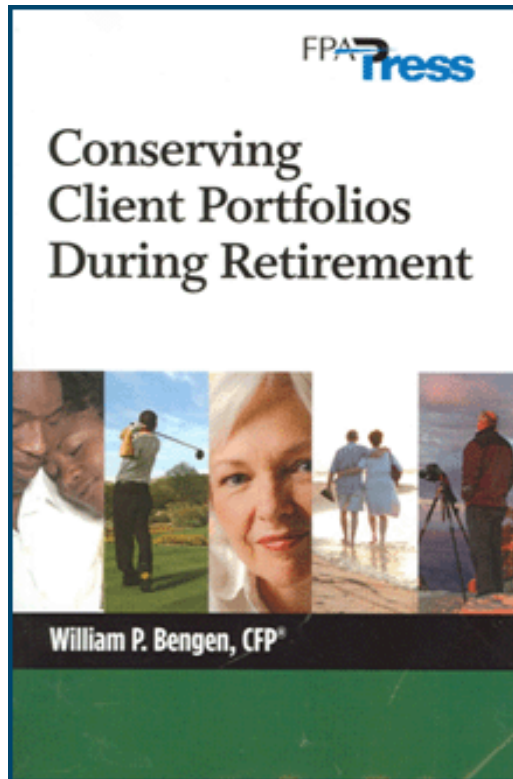
Utilizing these strategies does not guarantee against a loss.

Overview

- Retiring on January 1, 1973 versus January 1, 2000
- Making Changes to Potentially Improve Outcomes
 - Spending Rate and Policy
 - High and Growing Dividend Strategy
 - Cash Flow Reserve Strategy
- In Summary

No strategy can guarantee better performance, eliminate the risk of loss, or guarantee success of reaching your investment objective.

Revisiting Bill Bengen's Study

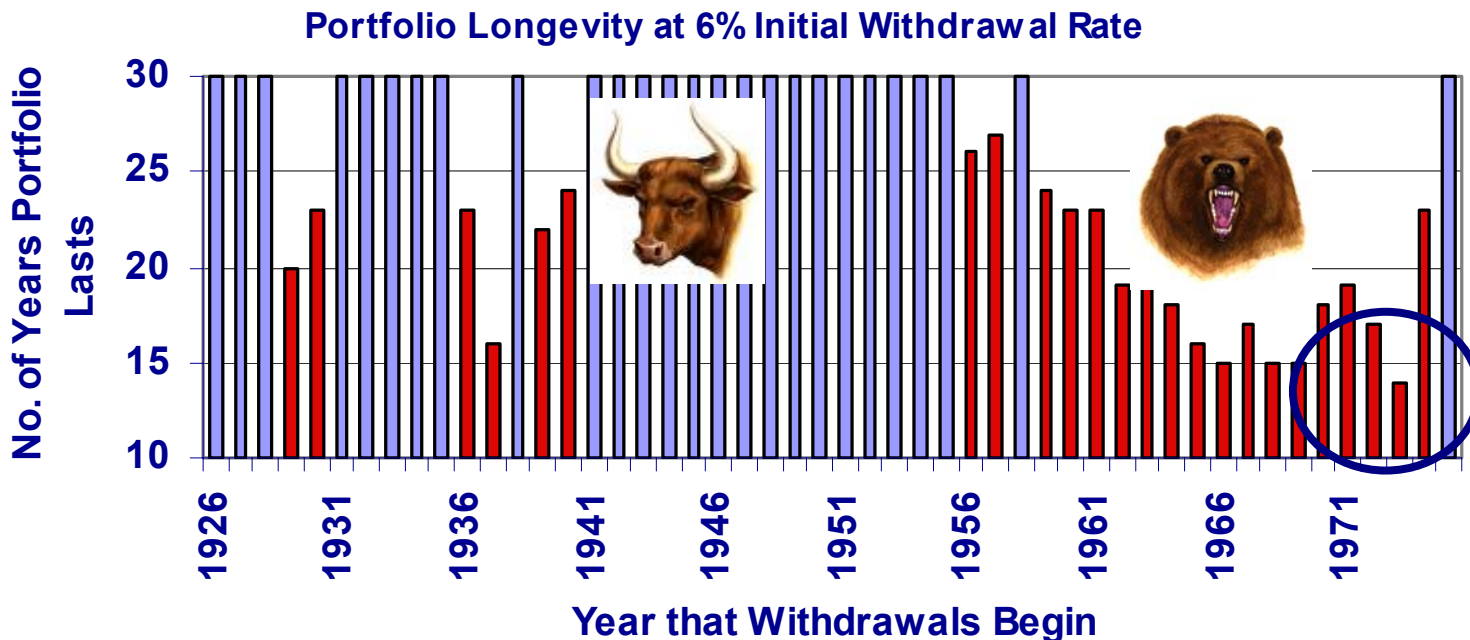


- **William P. Bengen, CFP®**
- **Analyzed 50, 30-year retirements for period of 1926-2004**
- **4.15% SAFEMAX**
- **Ibbotson SBBI data utilized**
- **Deterministic vs. Monte Carlo**

No strategy can guarantee better performance, eliminate the risk of loss, or guarantee success of reaching your investment objective.

Source: William P. Bengen – Conserving Client Portfolios During Retirement

Revisiting Bill Bengen's Study



Assume: rebalanced annually, 63% Large Cap Stock* “LCS” & 37% Intermediate-term Government Bonds “ITGB”**

Past performance does not guarantee future results.

Source: William P. Bengen – Conserving Client Portfolios During Retirement.

Individuals cannot invest directly in an index.

* As represented by the S&P 500 Index: The S&P 500 Index is an unmanaged broad measure of the U.S. stock market.

**As represented by Barclay's Intermediate Government Bond Index is an unmanaged index based on all publicly issued intermediate government debt securities. Average maturity is four (4) years. This index represents asset types which are subject to risk, including loss of principal.

I. The Withdrawal Challenge



Major Bear Markets Lasting > 1 Year Generally Consume 50% of Purchasing Power

| 5 Major Bear Markets | Duration (Months) | LCS Returns | Inflation/ (Deflation) | LCS Returns After Inflation | Total Return ITGB |
|----------------------|-------------------|-------------|------------------------|-----------------------------|-------------------|
| Sep 1929 - Feb 1933 | 42 | - 77.7% | - 27.8% | - 69.1% | + 17.6% |
| Mar 1937- Mar 1938 | 13 | - 50.0% | 0.0% | - 50.1% | + 3.1% |
| Jan 1973 - Dec 1974 | 24 | - 37.3% | 17.2 % | - 46.50% | + 10.6% |
| Sep 2000 - Sep 2002 | 25 | - 44.7% | 4.8% | - 47.2% | + 23.5% |
| Nov 2007 – Feb 2009 | 16 | - 49.0% | 1.2% | - 49.6% | + 11.8% |

Past performance does not guarantee future results. Source: William P. Bengen – Conserving Client Portfolios During Retirement.

I. 10-Year Market Comparison

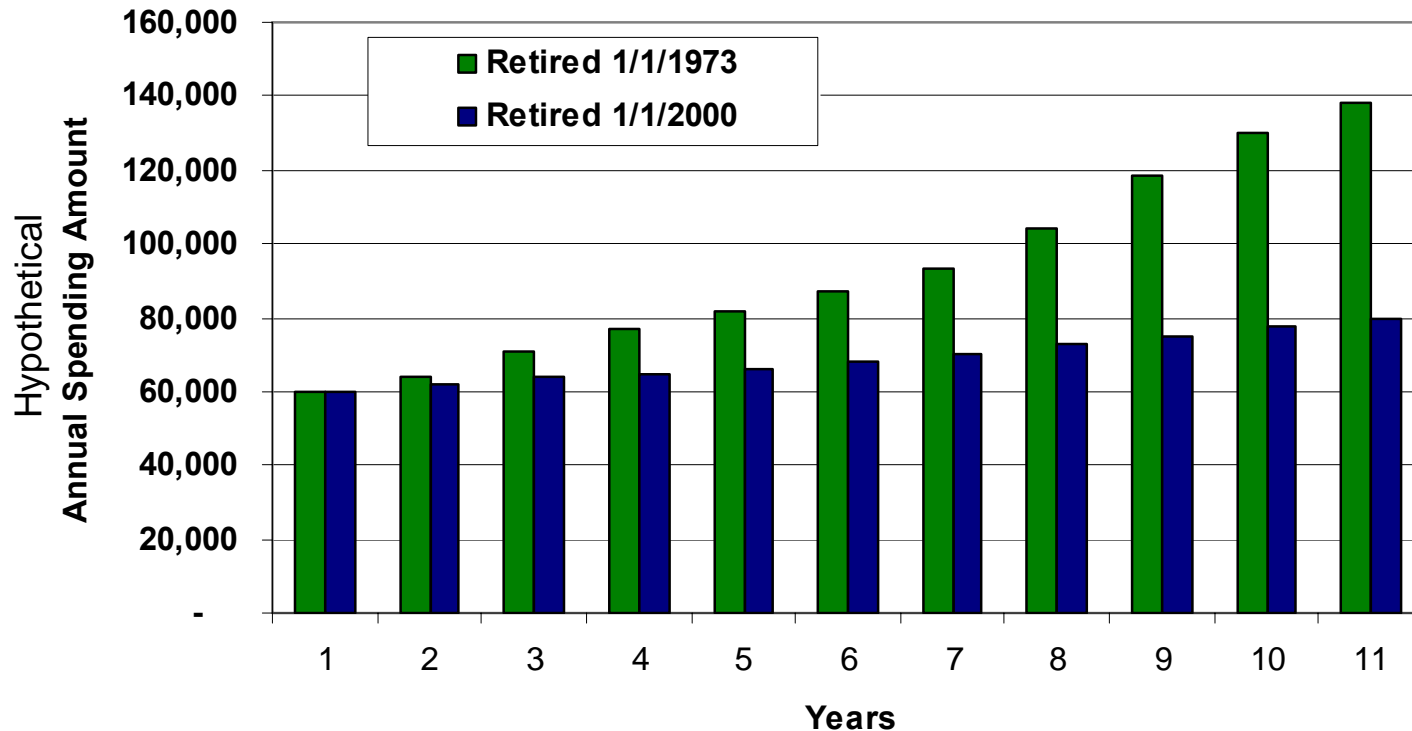
| | <u>1973-1982</u> | <u>2000-2009</u> |
|---------------------------------|------------------|------------------|
| 1) Annual Inflation | 8.75 % | 2.87 % |
| <u>2) S&P 500</u> | | |
| Nominal Return | 6.72 % | -0.95 % |
| Real Return | -1.86 % | -3.71 % |
| <u>3) Barclay's ITGB</u> | | |
| Nominal Return | 8.33 % | 5.65 % |
| Real Return | -0.38 % | 2.70 % |

Source: Thornburg Investment Management

Past performance does not guarantee future results.

I. Hypothetical Annual Spending Amounts

First 10 Years in Retirement - Lifestyle Spending Policy



Assumes \$1 million investment; 60% S&P 500 Index, 40% Barclays Intermediate Term Government Bond Index rebalanced annually, actual CPI for period, lifestyle spending policy.

For illustration purposes only. Does not represent any particular investment.

Source: Thornburg Investment Management

I. Hypothetical Current Withdrawal Rates

Current Withdrawal Rates for 1973 vs 2000 Retiree

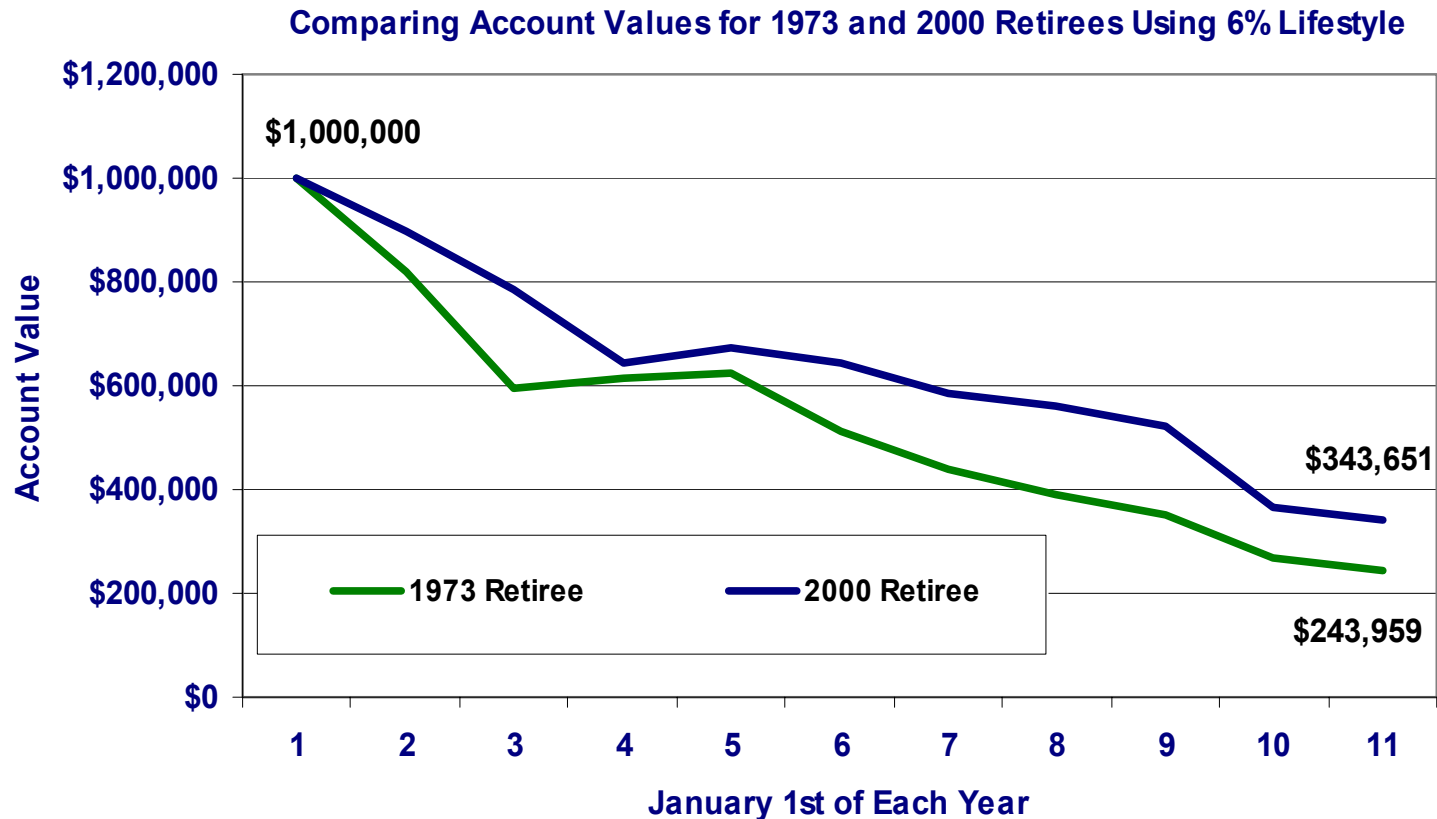


Assumes a \$1 million investment; 60% S&P 500, 40% Barclays ITGB rebalanced annually, actual CPI for period, lifestyle spending policy.

For illustration purposes only. Does not represent any particular investment.

Source: Thornburg Investment Management

I. Hypothetical Account Values for 1973 and 2000 Retirees



Past performance does not guarantee future results.

Assumes 60% S&P 500, 40% Barclays ITGB rebalanced annually, actual CPI for period, lifestyle spending policy.

Source: Thornburg Investment Management; For Illustration Purposes Only

II. Making Changes to Potentially Improve Outcomes

- **Spending Rate and Policy**
- **High and Growing Dividend Strategy**
- **Cash Flow Reserve Strategy**

No strategy can guarantee better performance, eliminate the risk of loss, or guarantee success of reaching your investment objective.

1. Striving for a Sustainable Spending Rate

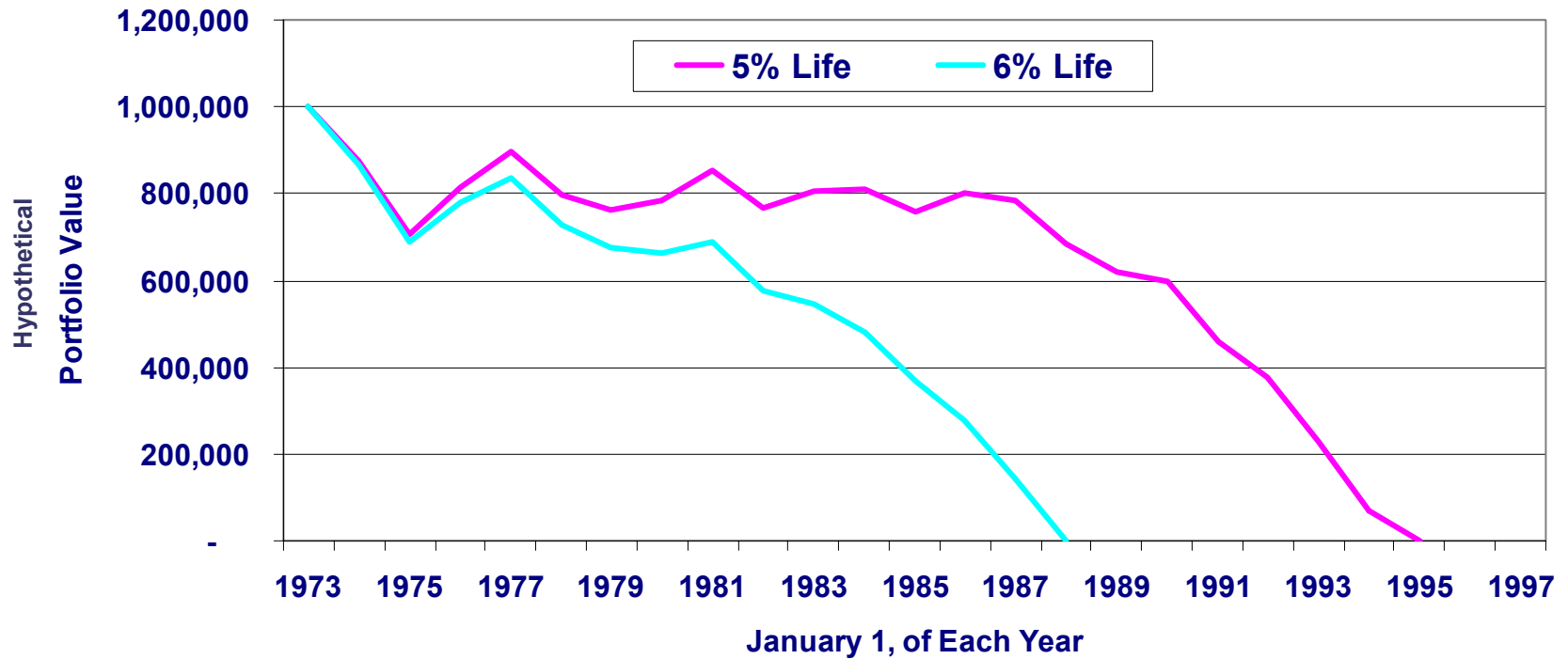
Average Annual Calculated Spending Rates, 2009–2000

| Endowment Assets | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | % | % | % | % | % | % | % | % | % | % |
| Greater Than \$1 Billion | 4.6 | 4.2 | 4.4 | 4.6 | 4.7 | 5.2 | 5.3 | 4.9 | 4.2 | 4.2 |
| > \$501 Million to ≤ \$1 Billion | 4.9 | 4.5 | 4.4 | 4.5 | 4.8 | 5.2 | 5.3 | 5.1 | 4.5 | 4.5 |
| > \$101 Million to ≤ \$500 Million | 4.4 | 4.2 | 4.5 | 4.6 | 4.7 | 4.9 | 5.2 | 5.1 | 4.9 | 4.6 |
| > \$51 Million to ≤ \$100 Million | 4.7 | 4.6 | 4.8 | 4.7 | 4.7 | 4.9 | 5.2 | 5.3 | 5.3 | 5.1 |
| > \$25 Million to ≤ \$50 Million | 4.3 | 4.3 | 4.8 | 4.8 | 4.7 | 4.8 | 5.0 | 4.9 | 4.9 | 4.7 |
| Under \$25 Million | 3.9 | 4.1 | 4.6 | 4.6 | 4.8 | 4.6 | 4.8 | 4.7 | 4.9 | 4.6 |
| Public | 4.2 | 4.2 | 4.5 | 4.5 | 4.6 | 4.5 | 4.9 | 4.9 | 4.8 | 4.6 |
| Private | 4.5 | 4.4 | 4.7 | 4.8 | 5.1 | 5.2 | 5.1 | 4.9 | 4.7 | 4.6 |
| Average | 4.4 | 4.3 | 4.7 | 4.7 | 4.9 | 5.1 | 5.0 | 4.9 | 4.6 | 4.5 |

Table data are equal weighted. Institutions have the opportunity to report 10 years of spending rate data in each year's survey. Sources: Fiscal Years 2007-2007, NACUBO (National Association of College and University Business Officers) Endowment Study, 2008; Fiscal Years 2008-2009, NACUBO-Commonfund Study of Endowments 2009

1. Spending Rates

For January 1, 1973 Retiree, Comparing Impact on Account Values by Decreasing Spending Rates from 6% to 5 % Lifestyle



Past performance does not guarantee future results.

Assumes a \$1 million investment. Per Bengen's model; 63% S&P 500, 37% Barclay's ITGB, Actual Inflation (CPI)

For illustration purposes only. Does not represent any particular investment.

Source: Thornburg Investment Management

1. Endowment Spending Policy

- Concept :** Set a sustainable long-term spending rate with a smoothing rule that adjusts spending amount gradually to changes in portfolio market value.
- Example:** 5% spending rate with a 90/10 smoothing rule
90% of prior year's spending amount plus
10% of the current value of the portfolio times the 5% spending rate plus annual cost of living adjustment
- Strength:** Gradually adjusts spending levels to reflect underlying portfolio performance. Requires belt-tightening in down markets. Smoothing effect of spending changes.
- Weakness:** More complicated than lifestyle, but still easy to implement. Requires belt-tightening during down markets.

Source: Thornburg Investment Management

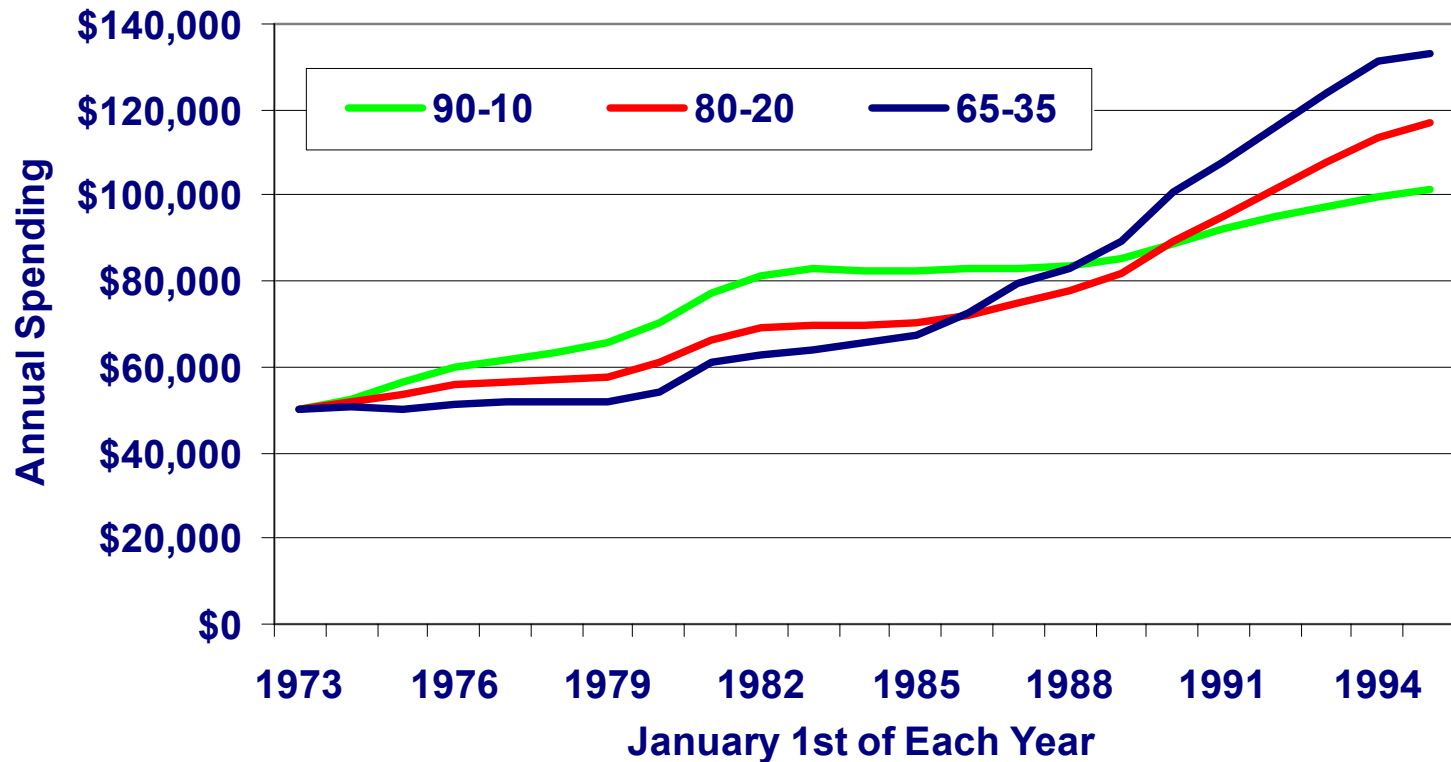
1. Endowment Spending Policy Illustrated

| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
|--|---------------------|------------------------|------------------------|
| Beginning Hypothetical Portfolio Value (“PV”) | \$ 1,000,000 | \$ 800,000 | \$ 700,000 |
| Spending Amount | \$ 50,000 | \$ 51,940 | \$ 55,773 |
| Current Spending Rate (Amount/PV) | 5.0 % | 6.5 % | 8.0 % |
| <i>Spending Amount Calculation:</i> | | | |
| 90% of Prior Year’s Spending | | \$ 45,000 | \$ 46,746 |
| 10% of PV Times 5% Spending Rate | | <u>4,000</u> | <u>3,500</u> |
| Subtotal before COLA | | \$ 49,000 | \$ 50,246 |
| Prior Year CPI Increase | | 6 % | 11 % |
| Annual Cost of Living Adj. (COLA) | | <u>\$ 2,940</u> | <u>\$ 5,527</u> |
| Spending Amount | | \$ 51,940 | \$ 55,773 |
| Increase / (Decrease) % from Prior Year | | 3.9% | 7.4% |

Source: Thornburg Investment Management

1. Endowment Smoothing Rules

Comparison of Spending Amounts Using Various Smoothing Rules for a Hypothetical 1973 Retiree



Past performance does not guarantee future results.

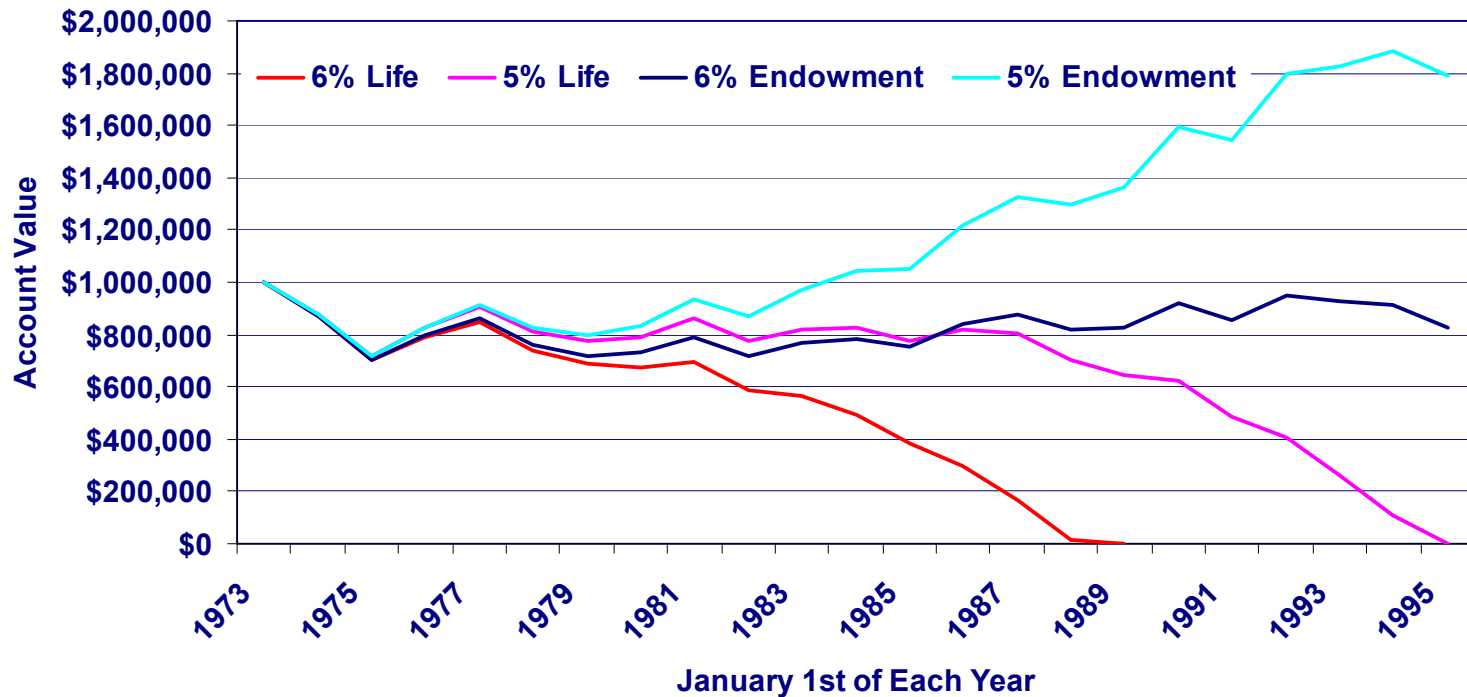
Assumes an initial investment of \$1 million; 60% S&P 500, 37% Barclays ITGB, Actual Inflation for 1973-2002 retirement period

For illustration purposes only. Does not represent any particular investment.

Source: Thornburg Investment Management

1. Spending Rates & Policies Compared

Comparing Impact on Account Values for Lifestyle vs Endowment Spending Policy for January 1, 1973 Retiree



Past performance does not guarantee future results.

Assumes an initial hypothetical investment of \$1 million. Per Bengen's model; 63% S&P 500, 37% Barclays ITGB, Actual Inflation (CPI)

For illustration purposes only. Does not represent any particular investment.

Source: Thornburg Investment Management

2. S&P 500 Index Dividend Growth

| | Dividends Per Share | Yield On Cost |
|-------------|---------------------------|---------------------|
| 1970 | 3.14 | 3.41% |
| 1971 | 3.07 | 3.33% |
| 1972 | 3.15 | 3.42% |
| 1973 | 3.38 | 3.67% |
| 1974 | 3.60 | 3.91% |
| 1975 | 3.68 | 4.00% |
| 1976 | 4.05 | 4.40% |
| 1977 | 4.67 | 5.07% |
| 1978 | 5.07 | 5.51% |
| 1979 | 5.65 | 6.14% |
| 1980 | 6.16 | 6.69% |
| 1981 | 6.63 | 7.20% |
| 1982 | 6.87 | 7.46% |
| 1983 | 7.09 | 7.70% |
| 1984 | 7.53 | 8.18% |
| 1985 | 7.90 | 8.58% |
| 1986 | 8.28 | 8.99% |
| 1987 | 8.81 | 9.43% |
| 1988 | 9.73 | 10.41% |

| | Dividends Per Share | Yield On Cost |
|-------------|---------------------------|---------------------|
| 1989 | 11.05 | 12.00% |
| 1990 | 11.44 | 12.43% |
| 1991 | 11.94 | 12.97% |
| 1992 | 12.37 | 13.44% |
| 1993 | 12.63 | 13.72% |
| 1994 | 13.17 | 14.31% |
| 1995 | 13.82 | 15.01% |
| 1996 | 14.91 | 16.20% |
| 1997 | 15.52 | 16.86% |
| 1998 | 16.19 | 17.59% |
| 1999 | 16.69 | 18.13% |
| 2000 | 16.28 | 17.35% |
| 2001 | 15.74 | 17.10% |
| 2002 | 16.07 | 17.46% |
| 2003 | 17.38 | 18.84% |
| 2004 | 22.52 | 24.44% |
| 2005 | 22.10 | 24.11% |
| 2006 | 24.87 | 27.03% |
| 2007 | 27.72 | 30.11% |
| 2008 | 28.39 | 30.84% |
| 2009 | 22.41 | 24.34% |

Dividend yield is one component of performance and should not be the only consideration for investment.

The source of all data on this page is Bloomberg and FactSet. Investors may not make direct investments into any index.

2. Market Performance Comparison

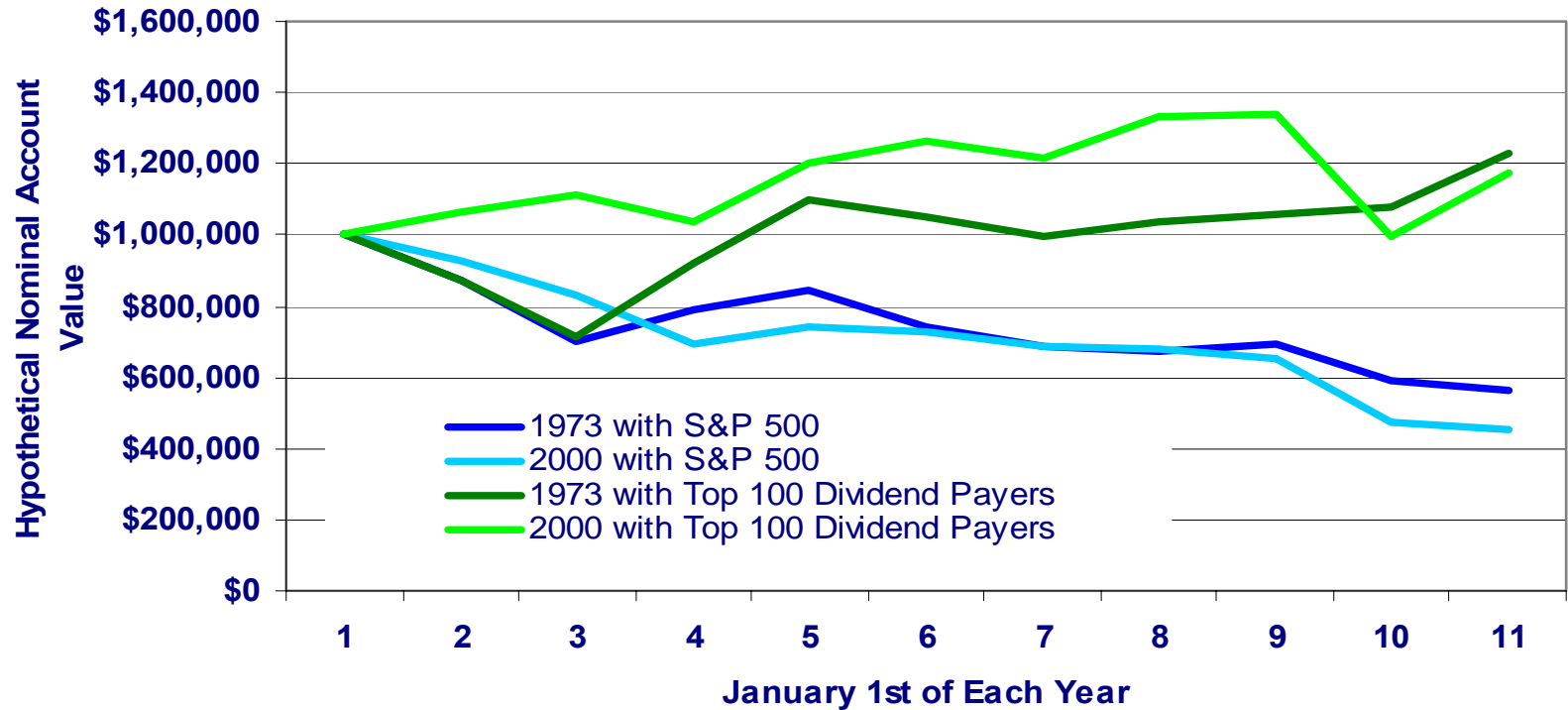
| | <u>1973-1982</u> | <u>2000-2009</u> |
|--|------------------|------------------|
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| Nominal Return | 6.72% | -0.95 % |
| Real Return | -1.86 % | -3.71% |
| <u>3) Barclay's ITGB</u> | | |
| Nominal Return | 8.33% | 5.65% |
| Real Return | -0.38 % | 2.70% |
| <u>4) S&P Top 100 Dividend Stocks</u> | | |
| Nominal Return | 13.98% | 7.90% |
| Real Return | 4.81% | 4.89% |

Source: Thornburg Investment Management

Past performance does not guarantee future results.

2. S&P Top 100 Dividend Payers vs S&P 500

Comparing Hypothetical Nominal Account Values Using S&P 500 Versus the Top 100 Dividend Paying Stocks Using 6% Lifestyle



Past performance does not guarantee future results.

Assumes hypothetical investment of \$1,000,000. Assumes inflation for period per CPI. Equity allocation of 60% to either S&P 500 or S&P Top 100 dividend paying stocks with 40% to Barclays intermediate-term government bonds, re-balanced annually. For illustration purposes only. Does not represent any particular investment.

Source: Thornburg Investment Management and Standard and Poor's

2. Dividend Paying Stocks in Retirement

“Conclusion: Substituting Top 100 dividend-paying stocks for S&P 500 Index stocks had very beneficial effects on the ‘SAFEMAX’ for retirees during the 1968-1975 period. The ‘SAFEMAX’ was increased by about 25% during this period, which translates into a significant improvement of lifestyle for those retirees.....”

- Bill Bengen

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The Case for a High and Growing Dividend Stock Strategy in Retirement Portfolios

A reprinted article from November/December 2008

Investments & Wealth MONITOR

IMCA®
investment management consultants association

This article received IMCA's 2009 Stephen L. Kessler Writing Award.



The Case for a High and Growing Dividend Stock Strategy in Retirement Portfolios

By Jack Gardner, CIMA®, AIF®

As a baby boomer, I am amazed by the disparity in the retirement income discussion within the financial advisor community. The discussion ranges from a simplistic comparison of product features to one that is academic and grounded in a holistic financial planning process. For those advisors who take a process approach to retirement income, there is a broad body of academic research regarding spending policies, tax planning techniques, and evolving asset allocation strategies. The goal of this research is to enhance the client's annual spending in retirement and the sustainability of the retirement portfolio for 30, 40, or possibly 50 years.

In my opinion, only a few retirement products that now are available have a place on the market. So many are overpriced or too complicated, and most require loss of control over assets. I know the "retirement income product industry" from baby boomers, but I do not believe it will materialize because the products cost too much and investors are loath to lose control of their hard-earned assets. This reluctance will create an opportunity for knowledgeable financial advisors to assist baby-boomer clients. During this pivotal

stage of life, boomers' accounts will need to be consolidated under one advisor to accommodate implementation and monitoring of a retirement income process. To participate in this opportunity, advisors need to know about all the tools available to structure retirement portfolios and be committed to staying abreast of all the academic research that is being done in this area.

Building Sustainable Retirement Income Portfolios

In 1994, William P. Bengen, CFP®, pioneered research into sustainable retirement income portfolios and

1975–2004. The analysis covered many business cycles and included four major bear markets. A major bear market was defined as one that lasted more than one year and consumed 50 percent of the retiree's purchasing power after factoring in effects of both the S&P 500 Index decline and inflation. Needless to say, major bear markets have a devastating effect on any portfolio, but they especially impact those who also are undergoing withdrawal.

As a result of this research, Bengen is credited with establishing the 4-percent withdrawal rule (or "SAFEMAX," to use Bengen's vernacular), which

establishing appropriate withdrawal rates when he published "Determining Withdrawal Rates Using Historical Data." Using historical-returns data, Bengen tested 50 different 30-year retirements that ran from 1926–1955, 1927–1956, 1928–1957, and so on up to

states that for a retirement portfolio with a beginning value of \$1 million, a retiree can spend \$40,000, or 4 percent per year, and increase the annual spending amount by an annual cost of living adjustment. Bengen concluded that at this spending level, there was a 100-per-

“ Bengen studied how various asset allocation strategies affect both the withdrawal rate and sustainability of a retirement portfolio in distribution. ”

This study contains the most current data available at the time of publication. Inclusion of 2008 performance could change results.

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Recipient of the 2009
Stephen L. Kessler Writing Award
from IMCA

Structuring Distribution Strategies for Retirees in a Bear Market

FEATURE

This article received IMCA's 2010 Stephen L. Kessler Writing Award - Honorable Distinction

Structuring Distribution Strategies for Retirees in a Bear Market

By Jack Gardner, CIMA, AFP

The poor performance of U.S. equity markets since the beginning of the millennium makes me worry about retirees and the impact this economic environment has had on retirement portfolios. During the past nine years, which included two bear markets (2000-2002 and 2008), the S&P 500 Index produced an average annual return of -3.60 percent on a nominal basis and a -6.30 percent average annual return on a real (post-inflation) basis. Those who began retirement at the beginning of this period are challenged to find a balance between meeting current expenses and having a sustainable investment portfolio that will meet needs for another 20 to 30 years. The past nine years should serve as a real-life case study for all financial consultants who are working to develop sustainable retirement income portfolios for clients.

For this article, I used this nine-year period to test two retirement income planning strategies to see how they would impact a retirement portfolio's withdrawal rates and sustainability. To better understand 2000-2008 and its effect on a retirement portfolio, I compared it to 1973-1981, one of the most challenging economic environments for retirees in the past 80 years.¹ I then tested the use of an endowment spending policy for effectiveness in conserving the portfolio.²

To really understand just how damaging these two periods were to retirees, see table 1, which shows a comparison of select market metrics. Table 1 indicates that although the 1973 retiree experienced hyper-inflation (more than 9 percent per year), the real return for the equity portion of the portfolio actually was better than for the 2000 retiree. Conversely, while the nominal returns for the Barclays Intermediate Term Government Bond Index for both 1973 and 2000 retirees were similar, the real return for the 1973 retiree was -2.22 percent.

Lifestyle Spending Policy
The consequence of experiencing negative real returns in a retirement portfolio undergoing the stress of withdrawals is especially dire. To illustrate this point, I

| Market Metrics | 1973-1981 | 2000-2006 |
|---|-----------|-----------|
| 1. Annual Inflation | 9.07% | 2.95% |
| 2. S&P 500 Index Return | | |
| Nominal | 5.19% | -3.05% |
| Real (post-inflation) | -3.50% | -6.30% |
| 3. Barclays Intermediate Term Government Bond Index | | |
| Nominal | 6.59% | 6.34% |
| Real (post-inflation) | -2.22% | 3.35% |

1. Annual Inflation based on U.S. Consumer Price Index. 2. Endowment spending policy based on the author's research.

FIGURE 1: REAL ACCOUNT VALUES FOR 1973 AND 2000 RETIREES (POST INFLATION)

| Year | 1973 Retiree | 2000 Retiree |
|------|--------------|--------------|
| 1 | \$1,000,000 | \$1,000,000 |
| 2 | \$850,000 | \$850,000 |
| 3 | \$700,000 | \$650,000 |
| 4 | \$650,000 | \$600,000 |
| 5 | \$650,000 | \$600,000 |
| 6 | \$650,000 | \$600,000 |
| 7 | \$650,000 | \$600,000 |
| 8 | \$650,000 | \$600,000 |
| 9 | \$650,000 | \$600,000 |
| 10 | \$445,976 | \$357,382 |



**Recipient of IMCA's 2010
Stephen L. Kessler Writing Award –
Honorable Distinction**

Thornburg Investment Income Builder (TIBAX) as of June 30, 2010

| Total Returns Annualized for Periods Over 1 Year | As of 6/30/10 | | | | |
|---|---------------|--------|--------|--------|------------------------------------|
| | YTD | 1 Year | 3 Year | 5 Year | Since Inception (12/24/2002) |
| Thornburg Investment Income Builder <i>without sales charge</i> | -3.20% | 16.82% | -2.84% | 5.98% | 10.58% |
| Thornburg Investment Income Builder <i>with maximum sales charge of 4.5%</i> | -7.55% | 11.57% | -4.32% | 5.01% | 9.90% |
| Blended Index* | -6.07% | 10.34% | -6.60% | 1.72% | 5.81% |
| S&P 500 Index** | -6.65% | 14.43% | -9.81% | -0.79% | 3.99% |

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.

The Fund's A shares carry a 30 day redemption fee of 1%. The total annual fund operating expense of the Fund's A shares is 1.30%.

*The Blended Index is comprised of 25% Barclays Capital US Aggregate Index and 75% MSCI World Index.

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.

Source: FactSet and Thornburg Investment Management.

2. Replacing S&P Top 100 Dividend Paying Stocks with Thornburg IIB (A Shares)

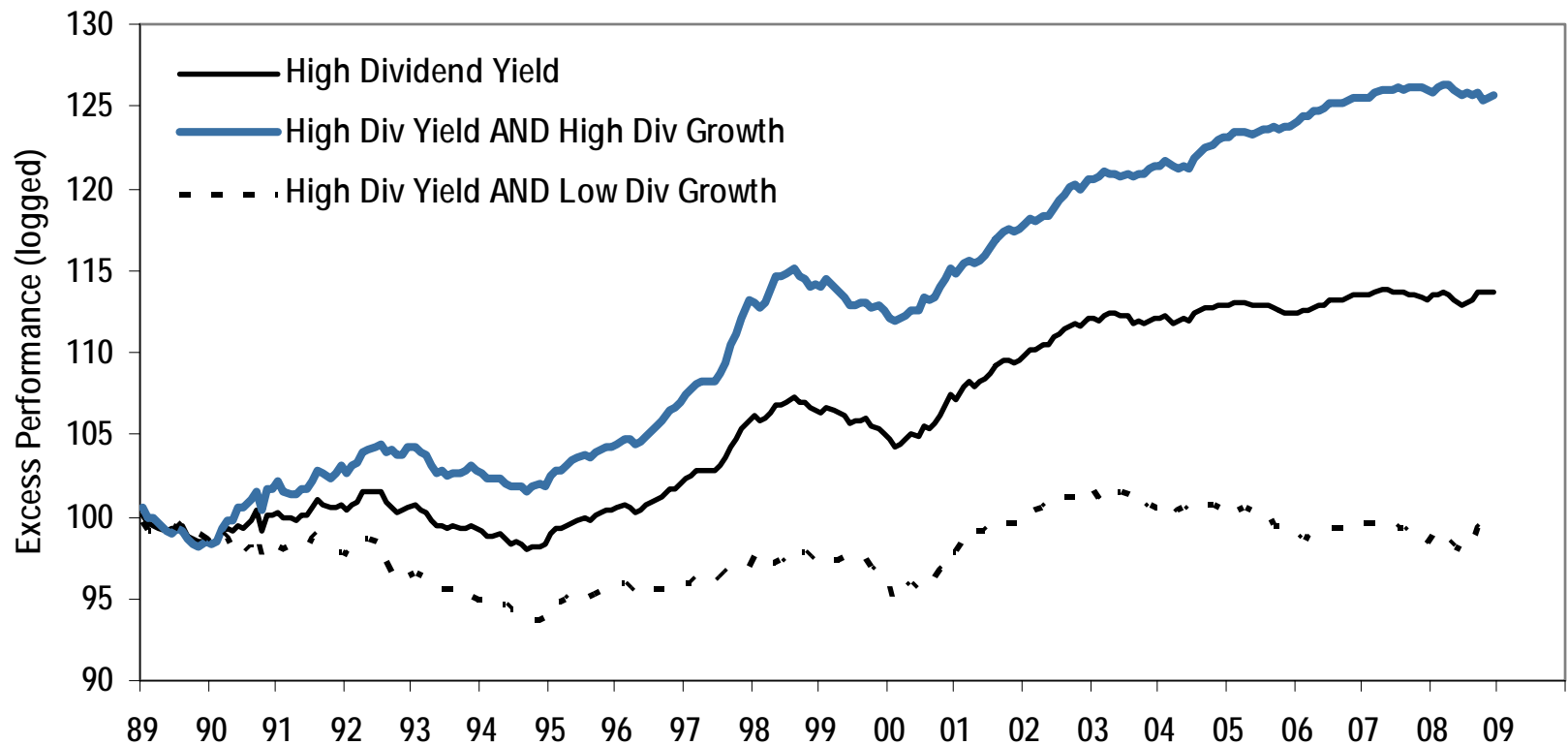
Performance Comparison January 2003-December 2009

| | S&P 500 Index | S&P Top 100 Dividend Paying Stocks | Thornburg IIB A shares |
|--|------------------|------------------------------------|------------------------|
| Annual Return | 5.53% | 8.73% | 11.92% |
| STD DEV | 14.61% | 22.46% | 13.36% |
| Sharpe | 0.04 | 0.17 | 0.52 |
| Correlation to S&P 500 | -- | 0.88 | 0.91 |
| Hypothetical PV of \$1mm Invested | \$1.46 mm | \$1.80 mm | \$2.20 mm |

Source: Thornburg Investment Management

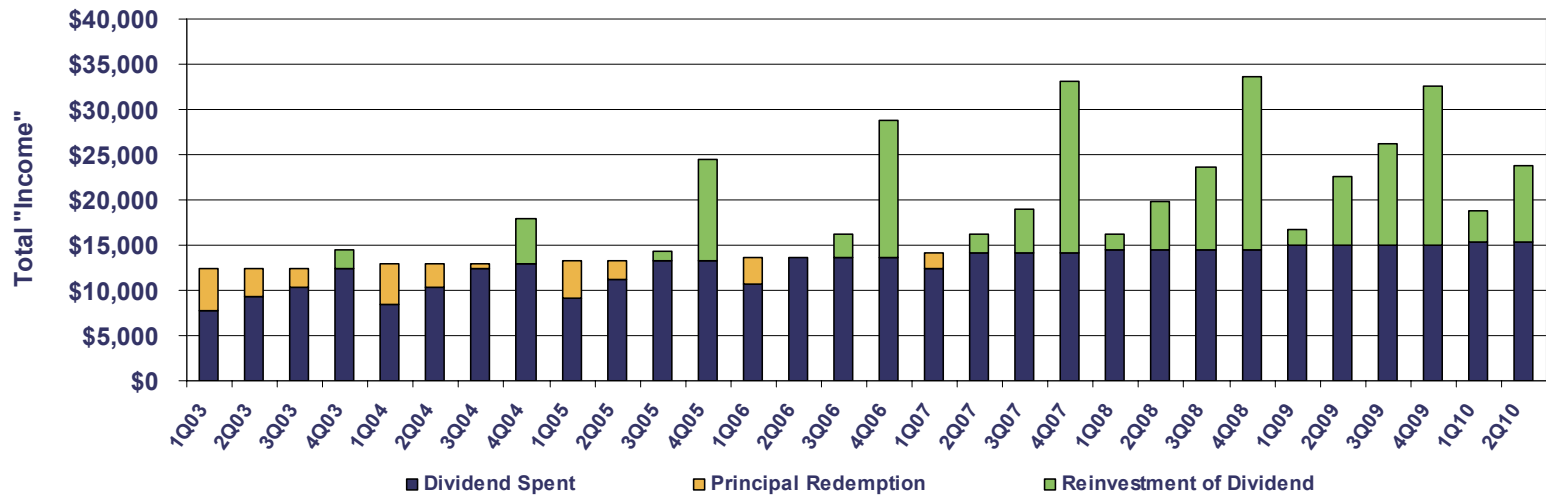
Past performance does not guarantee future results.

2. High Dividend Yield with High Dividend Growth Outperforms



Source: Merrill Lynch Global Quant Strategy. Index = S&P 500. Data as of December 31, 2008. This is the most recent data available. Inclusion of subsequent periods could change the results.

Thornburg's IIB Dividends for Retirement (TIBAX)



Hypothetical "Retirement Income" of 5% (\$12,500 per Quarter plus 3% COLA) by Investing \$1 Million in the Thornburg Investment Income Builder (A shares at NAV); Current Quarterly Payment \$15,373

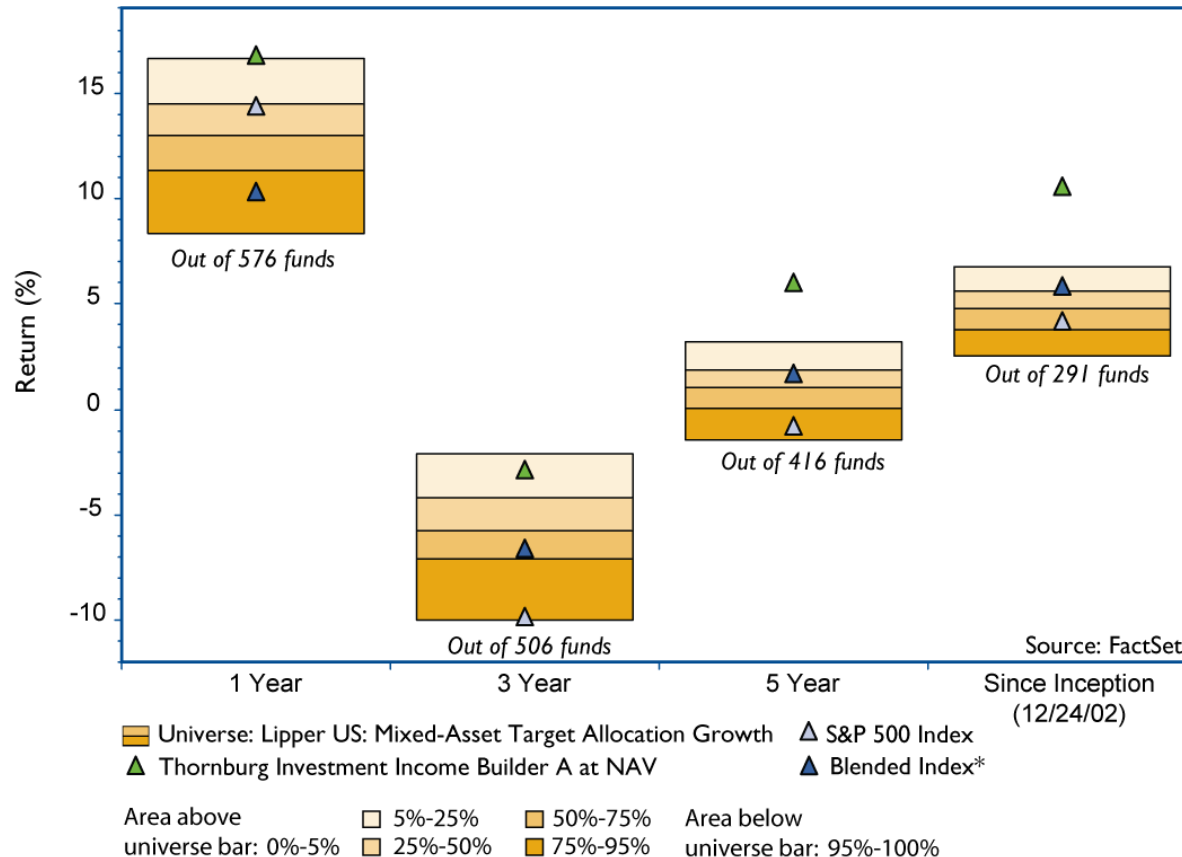
| | Total Dividends | Total Income Received | Net Reinvested Dividends | Ending Portfolio Value |
|-------|-----------------|-----------------------|--------------------------|------------------------|
| TIBAX | \$ 534,090 | \$ 413,870 | \$120,220 | \$ 1,614,219 |

Past performance does not guarantee future results. 30 day SEC Yield as of 6/30/2010= 5.14%

Thornburg Investment Income Builder Fund Manager vs. Universe

Lipper Universe Comparison: Total Returns as of June 30, 2010

Annualized for periods over one year



This fund is ranked 1% among 291 funds for the entire period, 1% among 416 funds for the five-year period, 9% among 506 funds for the three-year period, and 4% among 576 funds for the one-year period, based on total returns, before sales charge.

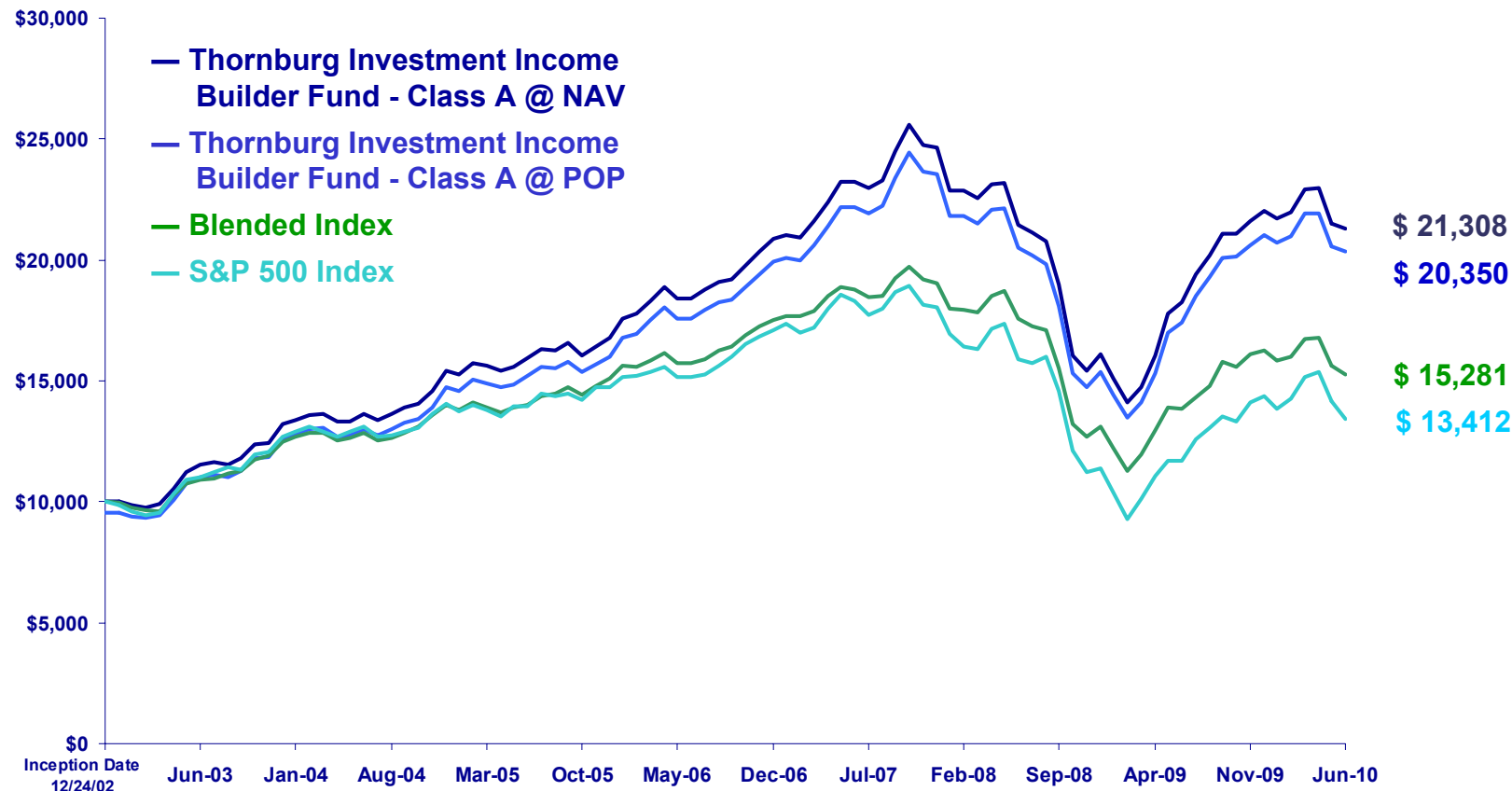
Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted. For performance current to the most recent month end, visit thornburg.com.

The Lipper Mixed Asset Target Allocation Growth category consists of Funds that by portfolio practice maintain a mix of between 60%-80% equity securities, with the remainder invested in bonds, cash, and cash equivalents.

*Blended Index is comprised of 25% Barclays Aggregate Bond Index and 75% MSCI World Equity Index.

Thornburg Investment Income Builder vs. the Benchmarks

Returns from a hypothetical \$10,000 invested on 12/24/02 (as of 6/30/10)



Past performance does not guarantee future results.

The graph illustrates a hypothetical \$10,000 investment in the Investment Income Builder Fund and how it compares to the performance of the S&P 500 Index and the Blended Index for the stated time period. Returns reflect capital appreciation and the reinvestment of dividends and capital gains, if any, as well as all fees and expenses.

Source: Thornburg Investment Management

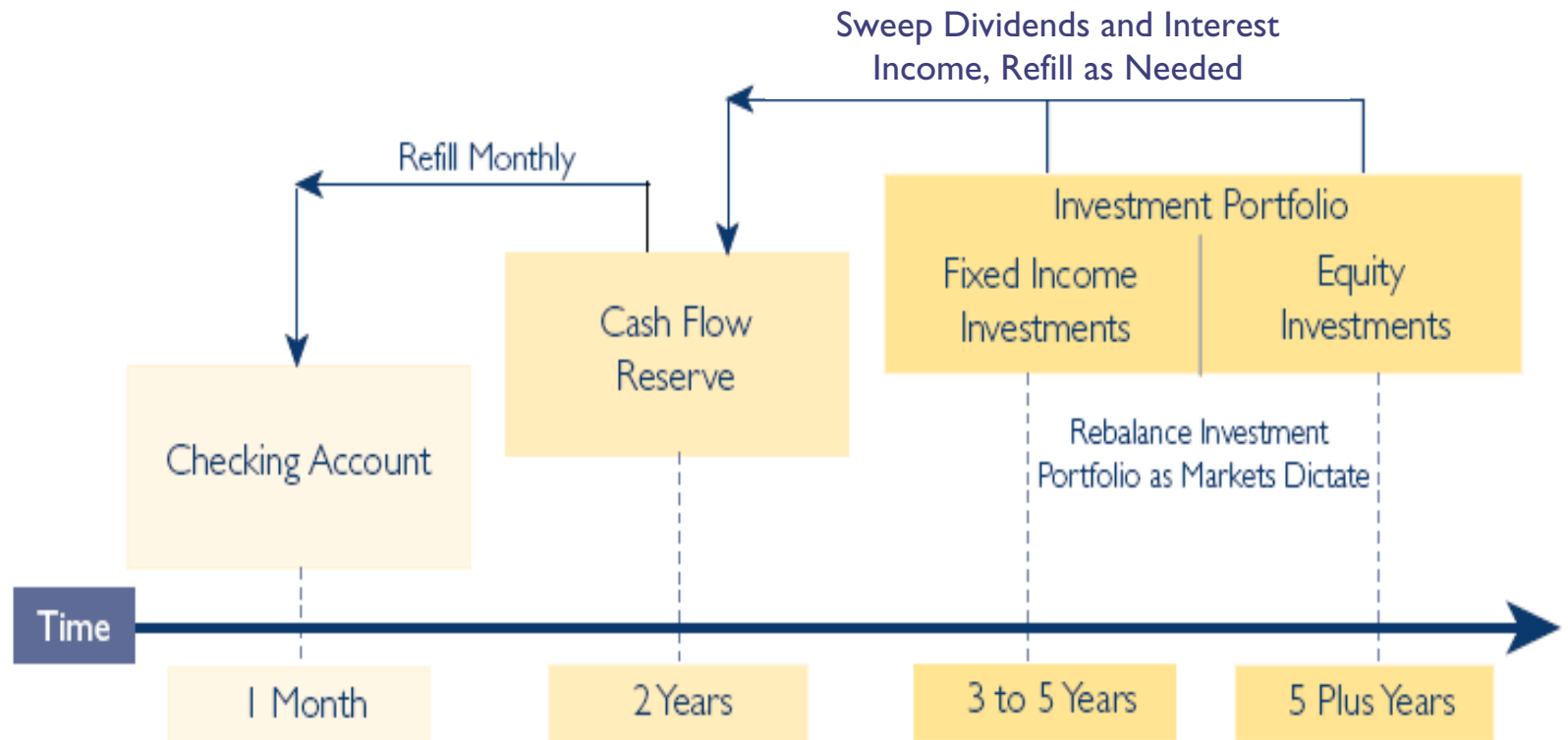
3. Cash Flow Reserve Strategy

- Strive to alleviate the adverse effects of reverse dollar cost averaging (using less than “100 cent” dollars).
- Real risk is being forced to sell at the wrong time, hence a five-year timeframe.
- Three separate accounts: Checking Account, Cash Flow Reserve (CFR) Portfolio and an Investment Portfolio (IP).
- Assuming a client has \$1 mm and needs 5% initially (\$4,167 per month) to live on. As follows, CFR is funded for \$100,000 and IP for \$900,000.

Source: Harold Evensky CFP® co-editor of *Retirement Income Redesigned - Master Plans for Distribution*

3. Cash Flow Reserve Strategy

FIGURE 2. HYPOTHETICAL CASH FLOW RESERVE LADDER



Source: Thornburg Investment Management

3. Cash Flow Reserve Strategy

Cash Flow Reserve

Money Market Account⁽¹⁾ \$ 50,000

Limited Term Muni Fund⁽²⁾ \$ 50,000

Subtotal \$ 100,000

Investment Portfolio

Intermediate Term Muni Fund⁽³⁾ \$ 250,000

Top 100 Dividend Payers in S&P 500 Index \$ 650,000

Subtotal \$ 900,000

Total Portfolio \$1,000,000

(1) Used Morningstar Municipal Money Market Index Returns

(2) Barclays 5-Year Municipal Bond Index

(3) Barclays 10-Year Municipal Bond Index

Source: Thornburg Investment Management

3. Cash Flow Reserve Strategy

- From the CFR, client writes a check monthly for \$4,167, deposits into checking account to cover expenses.
- Use endowment spending policy at 90/10.
- CFR should contain very high quality municipal funds.
- CFR can provide income for up to two years.
- Advisor opportunistically refills CFR back to \$100,000 and rebalances.
- Stock portfolio set at 65% of total portfolio in an attempt to offset opportunity cost of a two-year cash reserve.
- Stock portfolio has a five-year investment horizon and has the potential to provide growth necessary to offset effects of inflation.
- Worse case scenario – bond funds in the IP should provide an additional four–five years of cash flow.

Source: Harold Evensky CFP® co-editor of *Retirement Income Redesigned - Master Plans for Distribution*

3. CFR Strategy 2000-2009 Back-Test

| January | Checking Account | CFR | Investment Portfolio | Total | Cumulative Spent Since Retirement | Current Year Spending Policy |
|-------------|------------------|------------------|----------------------|--------------------|-----------------------------------|------------------------------|
| 2000 | \$4,167 | \$95,833 | \$900,000 | \$1,000,000 | | 5.0 % |
| 2003 | \$4,528 | \$114,044 | \$936,211 | \$1,054,783 | \$155,296 | 5.2 % |
| 2006 | \$5,139 | \$126,556 | \$1,215,670 | \$1,347,365 | \$324,619 | 4.6 % |
| 2008 | \$5,674 | \$140,279 | \$1,368,713 | \$1,514,666 | \$451,266 | 4.5 % |
| 2009 | \$5,748 | \$77,052 | \$955,613 | \$1,038,413 | \$519,358 | 6.6 % |
| 2010 | \$5,852 | \$141,451 | \$1,146,779 | \$1,294,083 | \$594,188 | 5.4% |

Assumes a \$1 million investment; 65% S&P Top 100 dividend paying stocks, 25% Barclays 10-year municipal Index, 5% Barclays 5-year municipal Index and 5% Morningstar municipal MMF with an endowment spending policy with 5% spending rate and actual inflation per CPI.

Source: Thornburg Investment Management

Past performance does not guarantee future results.

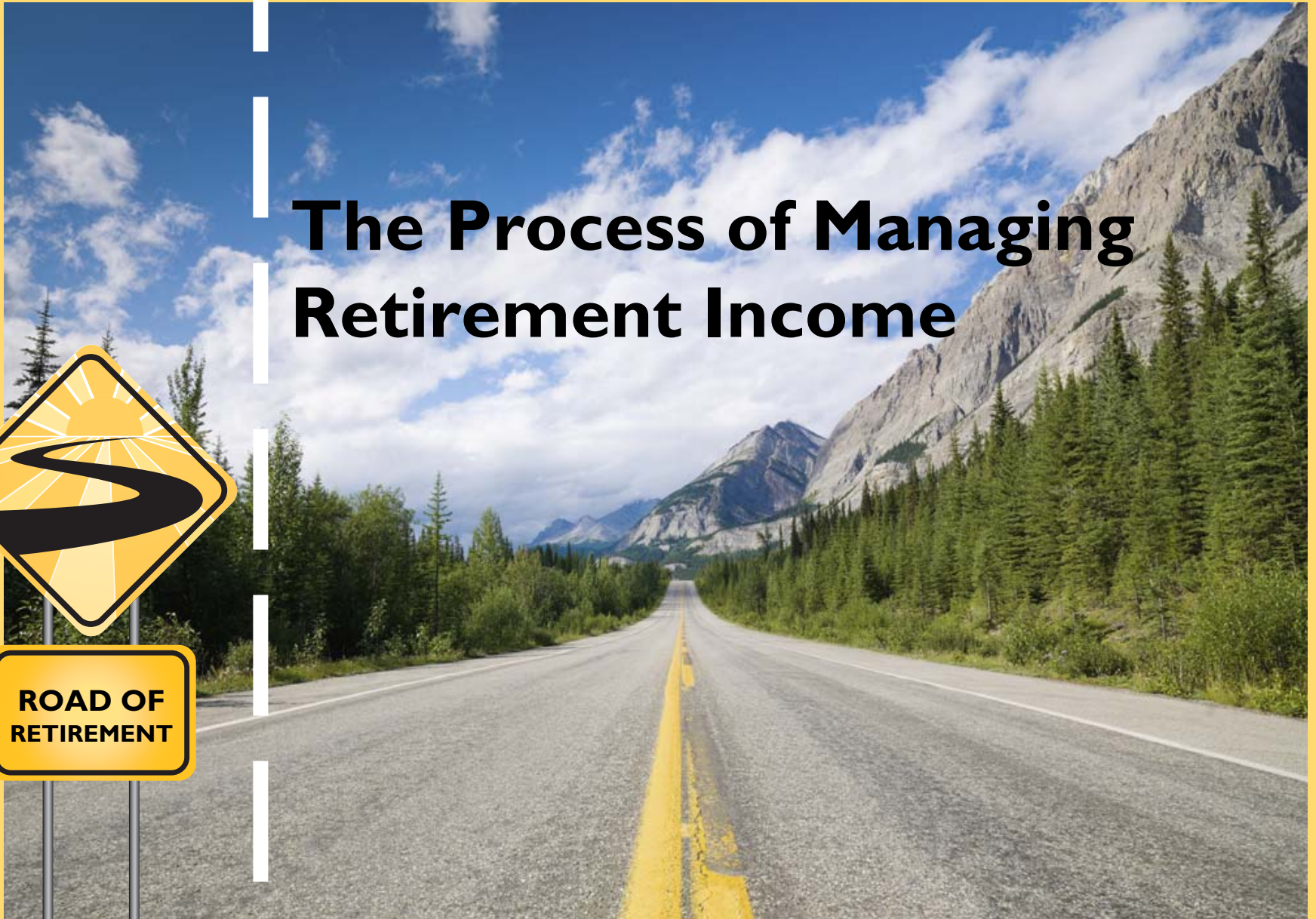
Recommended Readings

- Retirement Income Redesigned - Master Plans for Distribution – Edited by Harold Evensky & Deanna Katz
- Conserving Client Portfolios in Retirement – by William P. Bengen, CFP®
- In the Presence of Taxes: Applications of After-tax Asset Valuations – William Reichenstein, PhD, CFA®

The Process of Managing Retirement Income



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