

# Thrivent Small-Mid Cap ESG ETF

## Q4 2022 Commentary

TSME • December 30, 2022

### Management



**Chad Miller, CFA**  
Senior Portfolio Manager

Industry since: 2010  
Thrivent since: 2013  
Fund since: 2022



**Matthew Finn, CFA**  
VP, Head of Equity Funds

Industry since: 1985  
Thrivent since: 2004  
Fund since: 2022

### Key personnel

**Simon Bizien, CFA**  
Portfolio Manager

Industry since: 2013  
Thrivent since: 2022  
Fund since: 2022

### Executive Summary

- Thrivent Small-Mid Cap ESG ETF outperformed the Russell 2500<sup>®</sup> Index from inception (October 5, 2022) to year end.
- Strong stock selection in Consumer Discretionary, Materials, and Financials drove Fund outperformance during the period.
- Poor stock selection in Industrials, Health Care, and Consumer Staples were a partial offset Fund outperformance during the period.
- The Fund is taking advantage of market volatility to find companies that could create value for primary stakeholders, address financially material Environmental, Social, and Governance (ESG) topics, and have a strategy to outperform their peers that may benefit shareholders in the Fund over the long term.

### Performance factors

Consumer Discretionary, Materials, and Financials generated significant positive performance in the quarter due primarily to strong stock selection. Consumer Discretionary returns were driven by Burlington Stores, Tractor Supply, and Wyndham Hotels & Resorts. During the period Burlington Stores started to see increased inventory availability, declining costs, and better store traffic, which bodes well for the extreme value offering the company provides to customers in the year ahead. Tractor Supply continued a string of strong operating performance capitalizing on resilient customer demand for their non-discretionary offerings. Wyndham Hotels & Resorts continued to see increased interest from a return to normal travel patterns post covid and strong value proposition for affordable stays that appeals to a large portion of consumers. Steel Dynamics and Berry Global drove positive performance in Materials. Steel Dynamics continues to capitalize on strong demand from construction verticals combined with a positive update on their new manufacturing facility. Berry Global benefited from improved execution and signaling of positive capital allocation intentions to come. Financials were boosted by Arch Capital and Ameriprise. Arch Capital is one of only several companies that are positioned to capitalize on the hard market in property & casualty insurance. While Ameriprise demonstrated the value of their client relationships with strong performance in their Advice & Wealth management division.

Stock selection in Industrials, Healthcare, and Consumer Staples were a partial offset to positive performance in the period. The Industrial sector experienced negative contributions from Regal Rexnord, Advanced Drainage Systems, and Carlisle. Regal Rexnord announced an acquisition that increased leverage during a time of economic uncertainty which concerned investors. Advanced Drainage Systems experienced a larger than expected decline in their residential exposed business. Carlisle faced a larger than expected slowdown in construction verticals combined with future margin uncertainty. Healthcare returns were dragged down by R1 RCM, Omnicell, and Progeny. R1 RCM experienced execution issues in existing contracts combined with labor headwinds which impacted revenue collection. Omnicell experienced a dramatic slowdown in customer capex due to increased uncertainty in the economic outlook. Progeny reported strong results, but investors debated how the business may perform in an economic slowdown. Consumer Staples experienced a negative contribution from Darling Ingredients. Negative performance was driven by uncertain biofuel credit recommendations from the Environmental Protection Agency (EPA), and increased acquisition spending that creates integration risks.

### Portfolio outlook

The Fund continues to focus on identifying long term investment opportunities that are uncovered by our proprietary investment process. The Fund looks for companies that have the ability to sustainably and successfully serve primary stakeholders in their business ecosystem, can address financially material ESG topics, and have a strategy to outperform their peers. Currently the Fund is finding opportunities in the Industrial and Materials sectors. Many of these companies are positioned to benefit from increased spending in the coming years due to significant stimulus investments, energy efficiency, supply chain redesign, and years of underinvestment. The economic outlook is uncertain driven by elevated inflation and higher interest rates. During uncertain times we lean on our process and our long-term investment outlook to let the market provide opportunities for our investors.

## Performance

For the period ending December 30, 2022 • Periods less than one year are not annualized.

Average annualized returns (%)	3 months	YTD	1 year	3 years	5 years	10 years	Since Inception
Thrivent Small-Mid Cap ESG ETF (NAV)	N/A	N/A	N/A	N/A	N/A	N/A	2.00
- Expense ratio: 0.65%; Incept. date 10/5/2022							
TSME Market Price	N/A	N/A	N/A	N/A	N/A	N/A	2.03
S&P MidCap 400 ESG Index	11.18	-11.45	-11.45	8.54	7.85	12.10	N/A
Russell 2500 Index	7.43	-18.37	-18.37	5.00	5.89	10.03	N/A
Morningstar Mid-Cap Blend Avg	9.63	-14.01	-14.01	6.15	6.29	9.81	N/A

**Top 10 Holdings** (excluding derivatives and cash) 24.66% of Fund, as of Nov 30 2022: Burlington Stores, Inc.: 3.24%, Steel Dynamics, Inc.: 2.91%, Arch Capital Grp, Ltd.: 2.65%, Wyndham Hotels & Resorts Inc: 2.39%, Timken Co: 2.39%, IAA, Inc.: 2.32%, Darling Ingredients Inc: 2.30%, Quanta Svcs, Inc.: 2.20%, Raymond James Fin Inc: 2.15%, Littelfuse, Inc.: 2.11%

**Learn more:** [thriventETFs.com](http://thriventETFs.com) • Advisors: 800-521-5308 | [sales@thriventfunds.com](mailto:sales@thriventfunds.com) • Investors: 800-847-4836 | contact your advisor

**This ETF is different from traditional ETFs.** Traditional ETFs tell the public what assets they hold each day. This ETF will not. This may **create additional risks** for your investment. For example, you may have to pay more money to trade the ETF's shares. This ETF will provide less information to traders, who tend to charge more for trades when they have less information. The price you pay to buy ETF shares on an exchange may not match the value of the ETF's portfolio. The same is true when you sell shares. These price differences may be greater for this ETF compared to other ETFs because it provides less information to traders. These additional risks may be even greater in bad or uncertain market conditions. The ETF will publish on its website each day a "Proxy Portfolio" designed to help trading in shares of the ETF. While the Proxy Portfolio includes some of the ETF's holdings, it is not the ETF's actual portfolio. The differences between this ETF and other ETFs may also have advantages. By keeping certain information about the ETF secret, this ETF may face less risk that other traders can predict or copy its investment strategy. This may improve the ETF's performance. If other traders are able to copy or predict the ETF's investment strategy, however, this may hurt the ETF's performance. For additional information regarding the unique attributes and risks of the ETF, see the Principal Risks section of the prospectus.

**Risks: The ETF is newly formed and does not have any operating history.** Small and medium-sized companies often have greater price volatility, lower trading volume, and less liquidity than larger, more established companies. The ETF's value is influenced by a number of factors, including the performance of the broader market, and risks specific to the Fund's asset classes, investment styles, and issuers. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. ESG strategies may result in investment returns that may be lower than if decisions were based solely on investment considerations. Because ESG criteria exclude certain securities/products for non-financial reasons, investors may forego some market opportunities available to those who do not use these criteria. ETFs trade like stocks, are subject to investment risk, and will fluctuate in market value. Unlike mutual funds, ETF shares are not individually redeemable directly with the Fund, and are bought and sold on the secondary market at market price, which may be higher or lower than the ETF's net asset value (NAV). Transactions in shares of ETFs will result in brokerage commissions, which will reduce returns. The Adviser's assessment of investments and ESG considerations may prove incorrect, resulting in losses, poor performance, or failure to achieve ESG objectives. The Adviser is also subject to actual or potential conflicts of interest. These and other risks are described in the prospectus.

Any indexes shown are unmanaged and do not reflect the typical costs of investing. Investors cannot invest directly in an index.

**S&P MidCap 400<sup>®</sup> ESG Index** is a market-cap-weighted index designed to measure the performance of securities meeting sustainability criteria, while maintaining similar weights as the S&P MidCap 400 Index.

**Russell 2500<sup>®</sup> Index** is a market-cap-weighted stock market index featuring US small-and mid-cap stocks.

The Morningstar average represents the average total return annualized when greater than one year for all reported funds in the category. Morningstar averages do not include sales charges/fees. If included, returns would have been lower. ©2023 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

This commentary refers to specific securities which Thrivent ETFs may own. Additional information about the holdings of the ETFs is available on [thriventETFs.com](http://thriventETFs.com).

*All data represents past performance. Past performance does not guarantee future results. The investment return and principal value of the investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. A fund's performance for very short time periods may not be indicative of future performance. Market returns are based on the midpoint of the bid/ask spread at market close (typically, 4 p.m. ET) and do not represent returns an investor would receive if shares were traded at other times. Current performance may be lower or higher than the performance data quoted. Call 800-847-4836 or visit [thriventETFs.com](http://thriventETFs.com) for performance results current to the most recent month-end.*

Investing involves risks, including the possible loss of principal. The prospectus and summary prospectus contain more complete information on the investment objectives, risks, charges and expenses of the fund, and other information, which investors should read and consider carefully before investing. Prospectuses and summary prospectuses are available at [thriventETFs.com](http://thriventETFs.com) or by calling 800-847-5836.

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