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Mutual Funds

Thrivent Mid Cap Value Fund

Q2 2021 Commentary

TMCVX (Class S) • June 30, 2021

Management

Graham Wong, CFA
Senior Portfolio Manager
Industry since: 2001
Thrivent since: 2013
Fund since: 2020

Executive summary

- The Fund underperformed the Russell Midcap® Value index in the quarter. Underperformance in the quarter was driven by poor stock selection in Financials, Consumer Discretionary, and Communication Services, partly offset by strong selection in Utilities and Technology.
- The Fund outperformed on a trailing 12-month period with stock selection was positive in 9 out of 11 sectors.
- With the sharp economic and market recovery, the Fund is being very selective in looking for relative value companies with the potential for improving operating performance in the future.

Performance factors

Thrivent Mid Cap Value Fund's underperformance in the quarter was driven by poor stock selection, particularly in Financials, Consumer Discretionary, and Communication Services.

In Financials, stock selection was poor in regional banks. While the banks that the Fund owns are executing well, their stock performances lagged the higher valuation and higher growth peers in the benchmark. While none of our banks were sold during the quarter, our bottom-up stock selection led us to buy Enterprise Financial Service, which is a higher growth bank and will help with mitigating risk in this area.

In Consumer Discretionary, Dollar Tree was hurt by freight cost inflation and fears over wage inflation. Throughout its history, Dollar Tree has been able to navigate through high inflation periods through its ability to change merchandise and packaging sizes. In addition, inflation pressures could accelerate the company's rollout of its multi-price point strategy to more stores, which would be margin accretive. We continue to hold this name.

In Communication Services, Discovery underperformed as its announced merger with WarnerMedia (which is not owned in the Fund) was viewed negatively by the Street. We continue to own Discovery but are reviewing our thesis and evaluating the WarnerMedia assets.

On the positive side, stock selection was strong in Utilities and Technology. In Utilities, CenterPoint Energy outperformed as the thesis of transitioning to a fully regulated utility continues to progress with the sale of its Arkansas and Oklahoma gas assets. In Technology, NCR outperformed on strong results driven by a rebound in demand for retail and hospitality point-of-sale terminals.

Enterprise Financial Service, a regional bank focused on small business lending, was added to the portfolio during the quarter. Enterprise Financial Service is an attractive franchise focused on higher return niche segments such as SBA (Small Business Administration) Lending, life insurance premium financing, tax credit lending, and sponsor financing. The bank has also improved the quality of its franchise over the last 5 years with an improved funding base. Lastly, we like that the bank did acquisitions at attractive multiples around the trough of the recession last year.

Trailing 12-month outperformance was driven by both sector allocation and stock selection. For sector allocation, the Fund benefited from underweighting Utilities and REITs, and overweighting Financials and Materials. Stock selection was positive in 9 out of 11 sectors, led by Health Care and Industrials.

Portfolio outlook

The Fund's process is bottom-up stock selection based on ranking companies on valuation, operating performance, and sentiment. Our valuation work shows that market's valuation is balanced on a reward-to-risk basis. In addition, with the sharp economic recovery tied to re-opening of businesses, operating performance of many companies have roared back, and sentiment is very positive. Given the built-in optimism in equities, the Fund is selectively looking for relatively attractive companies on valuation where we still have a path to further operating performance improvement. A good example of this would be the Fund added to Crane (CR) during the quarter. Crane is trading at a discount to the market and its industrial peers while the company's aerospace and industrial businesses are still in early stages of recovery.

Thrivent Mid Cap Value Fund performance

Class S shares | For the period ending June 30, 2021

Average annualized returns (%) Periods less than one year are not annualized.	3 months	YTD	1 year	Since Inception Feb. 28, 2020
Thrivent Mid Cap Value Fund Class S share; Expense ratio: 0.90% net[1], 3.54% gross	3.07	22.04	58.44	39.08
Russell Midcap® Value Index[2]	5.66	19.45	53.06	—
Lipper Mid Cap Value Median	4.93	20.52	53.01	—
Lipper rank %	99 (183 of 185)	33 (61 of 185)	34 (61 of 181)	—

[1]The Adviser has contractually agreed, for a period of one year from the date of the most recent prospectus, to waive certain fees and/or reimburse certain expenses associated with the Fund. Refer to the Fees & Expenses table in the Fund's prospectus. If this waiver had not been in effect, performance would have been lower.

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

[2]Russell Midcap® Value Index measures the performance of U.S. medium-capitalization value-oriented equities.

Risks: Medium-sized companies often have greater price volatility, lower trading volume, and less liquidity than larger, more established companies. The Fund's value is influenced by factors impacting the overall market, certain asset classes, certain investment styles, and specific issuers. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. These and other risks are described in the prospectus.

This commentary may refer to specific securities which the Fund(s) may own. This information should not be considered investment advice or a recommendation of any particular security, strategy or product. A complete listing of the holdings for each of the Thrivent Mutual Funds is available on thriventfunds.com.

The Lipper median represents the median annualized total return for all reported funds in the classification. Lipper medians do not include sales charges/fees. If included, returns would have been lower. All rankings are based on total return and do not reflect sales charges. The lower the Lipper percentile ranking, the better the fund performed against its peers. Source for ranking is Lipper, Inc., a Thomson Reuters company.

Lipper assigns each fund to a category after scrutinizing its portfolio and assessing the fund manager's flexibility and aggressiveness. Once return figures have been determined, Lipper ranks the relative performance of all funds in a particular category against their respective peer group.

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. Current performance may be lower or higher than the performance data quoted. Call 800-847-4836 or visit thriventfunds.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 thriventfunds.com or by calling 800-847-4836.

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