

# Thrivent High Income Municipal Bond Fund

## Q2 2021 Commentary

THMBX (Class S) • June 30, 2021

### Management



**Janet I. Grangaard, CFA**  
Senior Portfolio Manager

Industry since: 1984  
Thrivent since: 1988  
Fund since: 2018



**Johan Akesson, CFA**  
Senior Portfolio Manager

Industry since: 1993  
Thrivent since: 1993  
Fund since: 2018

### Performance factors

Thrivent High Income Municipal Bond Fund outperformed the Bloomberg Barclays High Yield Municipal Bond Index by 43 basis points and the Morningstar High Yield Municipal category average by 93 basis points for the quarter. The Fund's duration was longer than that of the Index, meaning it had higher sensitivity to changes in interest rates, with a higher credit quality mix. The portfolio's longer duration propelled its outperformance when the yield curve flattened in a rallying market. Credit spreads continued to tighten. The Fund benefited from strong performance in specific credits in the Industrial Development sector - specifically the resolution of a bankruptcy in a Pennsylvania recycling plant. The short position on the 30-year treasury futures contract offset some of our gains for the quarter.

### Executive summary

Thrivent High Income Municipal Bond Fund had a strong quarter with 4.34% return, outperforming the Bloomberg Barclays High Yield Municipal Bond Index by 43 basis points. The Fund was propelled by its longer duration as the municipal yield curve rallied and flattened. The favorable resolution to the bankruptcy in a Pennsylvania recycling plant also provided a boost to the Fund's performance.

By design, the Fund is not a pure high yield product. The listed Bloomberg Barclays High Yield Municipal Index contains only non-rated and below investment grade securities whereas the Fund allocates a significant percentage to investment grade securities.

The Fund sold its position in an Ohio convention center bond that had a strong post-pandemic recovery. We also sold bonds in a senior living facility in New Jersey due to concerns regarding lack of timely financial disclosure. We continued to add bonds in many sectors: Charter Schools, Senior Living, Higher Education, Industrial Revenue, Airports, Tobacco and Special Tax revenue bonds. The additions to the Charter School and Higher Education sectors added to our overall weight in those sectors.

The Fund had a 13.25% return for the past 12 months, underperforming the Index by 109 basis points, but outperforming the Morningstar category average by 239 basis points. The flattening of the municipal yield curve and the Fund's long duration drove performance. Senior living was the strongest sector for the fund and our significant overweight was a benefit. The favorable resolution to the bankruptcy of a PA recycling facility also had a strong positive impact. In addition, the Fund benefited from a short on the U.S. treasury futures contract as treasury yields rose over the longer time frame. Our underexposure to the Tax-Supported

and Tobacco sectors hampered our performance versus the Index, as did our underexposure to the non-rated category.

### Portfolio outlook

The Municipal High Yield sector has benefited greatly from the strengthening of the U.S. economy. There are still many risks to be cognizant of going forward. Should higher inflation become less "transitory" (using the Fed's terminology) and/or D.C. policy makers prove unable to pass legislation raising tax rates to expected levels, the municipal market could experience some turbulence. Rates, not credit, should be the big driver for the rest of the year. As the move back to the new normalcy continues, changes in consumer behavior brought about by the pandemic could modify the outlook for certain sectors. Our experienced analysts will continue to closely monitor the environment for transportation, senior living, higher education, and big city general obligations for any signs of durable change.

**Thrivent High Income Municipal Bond 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	3 years	Since Inception Feb. 28, 2018
<b>Thrivent High Income Municipal Bond Fund</b> Class S share; Expense ratio: net 0.60%, <sup>1</sup> gross 1.62%	4.34	5.57	13.25	6.23	6.45
<b>Bloomberg Barclays High Yield Municipal Index<sup>2</sup></b>	3.93	6.13	14.34	7.58	—
<b>Morningstar High Yield Municipal Average<sup>3</sup></b>	3.41	4.57	10.86	5.90	—

<sup>1</sup>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.

**Financial professionals:** contact us at [sales@thriventfunds.com](mailto:sales@thriventfunds.com) or call 800-521-5308

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

<sup>2</sup>Bloomberg Barclays High Yield Municipal Bond Index is a market value-weighted index composed of non-investment-grade or unrated bonds.

<sup>3</sup>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.

Risks: Municipal bonds may be affected by political or economic conditions at the state, regional or federal level. Debt securities are subject to risks such as declining prices during periods of rising interest rates and credit risk, or the risk that an issuer not pay its debt. High yield securities are subject to increased credit risk as well as liquidity risk. Changes in federal income tax laws or rates may affect both the net asset value of the Fund and the taxable equivalent interest generated from securities in the fund. Some issues may be subject to state and local taxes and/or the federal and state alternative minimum tax (AMT). Consult a tax advisor for more information about your specific situation, including state/local tax treatment. The use of futures contracts involves additional risks such as a loss in value in the underlying instrument, which could decrease the Fund's value. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. 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. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. In unusual circumstances, the Fund could

experience a loss when selling portfolio securities to meet redemption requests for a variety of reasons. The Fund may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. 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](http://thriventfunds.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. Current performance may be lower or higher than the performance data quoted. Call 800-847-4836 or visit [thriventfunds.com](http://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](http://thriventfunds.com) or by calling 800-847-4836.**

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