

Thrivent High Income Municipal Bond Fund

Q1 2025 Commentary

THMBX (Class S) • March 31, 2025

Management



Johan Åkesson, CFA
Senior Portfolio Manager

Industry: 1993
Firm: 1993
Fund: 2018



Stephanie Woeppel
Senior Portfolio Manager

Industry: 2004
Firm: 2022
Fund: 2023

Executive Summary

- Thrivent High Income Municipal Bond Fund underperformed the Bloomberg 65% High Grade/35% High Yield Municipal Bond Composite Index during the first quarter of 2025 by 57 basis points; the Fund outperformed the Index by 106 basis points for the trailing 12-month period.
- The Fund maintains an overweight to longer-dated municipal bonds which underperformed in the quarter, despite a comparable rally in Treasury rates.
- BBB and high yield bonds outperformed investment grade bonds for the quarter.

Performance factors

During the first quarter of 2025, the Fund underperformed the Bloomberg 65% High Grade/35% High Yield Municipal Bond Composite Index, returning -.43% vs .14%. Trailing 12-month performance outperformed with a 3.79% return for the Fund vs 2.73% for the Index. Underperformance for the quarter was due to a sharp twist effect in the municipal curve, where long end rates widened and the short end rallied.

The Federal Reserve (Fed) has paused acting on rates so far this year and stated that the pace of qualitative tightening would slow, indicating concern about economic uncertainty. This is particularly so for tariff policies and the path of inflation. Rates ended the quarter lower and the Treasury curve remains inverted in the short end. The market is pricing between two and three 25 basis points (bps) rate cuts this year, largely projected to come late into the year.

The municipal yield curve, having mostly moved in line with Treasuries for the last several years, diverted from the Treasury path in early January and this diversion continued through the quarter. While Treasuries rallied, the municipal curve widened by as much as 37 basis points in the long end. This movement in the municipal curve was the result of weaker demand amidst elevated supply, concern around a slowing economy, and nervousness about Federal encroachment to municipal bond tax exemption. Short dated municipal bonds produced positive returns around 1.00% for the quarter while long bonds returned -1.46%.

BBB and high yield bonds outperformed their higher rated counterparts, but not enough to outweigh the sharp moves in the municipal curve, which had a greater impact on the Fund. Education underperformed in the high yield sector, where the Fund continues to maintain an overweight. Trailing 12-month outperformance is largely still attributable to BBB and long-dated overweight positions.

Bonds with longer dated maturities often exhibit higher market price volatility, which can impact the Fund's returns. The Fund currently uses Treasury futures contracts to limit some duration risk, though Treasury futures are not a perfect hedge.

Portfolio outlook

Municipal bonds are offering historically attractive absolute yields. After the backup in longer-dated bonds, they look even more attractive versus corporate alternatives.

Uncertainty, largely with respect to the impacts of D.C. policy changes, will drive volatility in the short-to-medium term. Economic slowing is likely as these policy shifts play out. Interest rates may trend lower because of economic slowdown.

The municipal bond market is facing its own uncertainty as limitations or adjustments on the tax exemption are explored under the new administration. Once a decision is made providing clarity, a positive demand boost could result. Certain sectors within the municipal sphere could see the tax exemption on future bonds limited or adjusted in some way, particularly for higher education, hospitals, or private activity bonds. However, we expect that the exemption on existing bonds will remain intact.

The credit strengths inherent to most municipal issuers provide a high level of confidence in the return of investment principal for municipal bond investors. The Fund continues to seek out bonds that offer sustainable fiscal profiles and strong security packages. Ultimately, the Fund is well positioned to potentially benefit from expected performance in the municipal market, given its increased level of tax-exempt coupon income and the potential for price appreciation.

Performance

For the period ending March 31, 2025 • 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 High Income Municipal Bond Fund — S share	-0.43	-0.43	3.79	1.53	2.80	N/A	2.61
- Expense ratio: net 0.60%, gross 1.19%; Incept. date 2/28/2018							
Bloomberg 65% HG/35% HY Index	0.14	0.14	2.73	2.00	2.21	2.88	
Morningstar High Yield Muni Avg	-0.03	-0.03	3.36	1.28	2.28	2.73	

Learn more: thriventfunds.com • Advisors: 800-521-5308 | sales@thriventfunds.com • Investors: 800-847-4836 | contact your advisor

Top 10 Holdings (excluding derivatives and cash) 59.91% of Fund, as of Feb 28 2025: Florida: 9.67%, Wisconsin: 9.26%, New York: 7.95%, Texas: 6.46%, California: 5.97%, Colorado: 5.46%, Ohio: 4.39%, Minnesota: 4.17%, Arizona: 3.46%, Utah: 3.12%

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. If not waived, returns would have been lower. Refer to the Fees & Expenses table in the prospectus.

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

Bloomberg 65% High Grade/35% High Yield Bond Index represents the US municipal bond market, composed of 65% investment grade municipal bonds with maturities of one year or more and 35% noninvestment grade or unrated bonds.

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. ©2025 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.

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 may not pay its debt. High yield securities are subject to increased credit risk as well as liquidity risk. 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 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. The Fund's value is influenced by the performance of the broader market. In unusual circumstances, the Fund could experience a loss when selling portfolio securities to meet redemption requests for a variety of reasons. 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 alternative minimum taxes (AMT). These and other risks are described in the prospectus.

This commentary may refer to specific securities which Thrivent Mutual Funds may own. A complete listing of the holdings for each of the Thrivent Mutual Funds is available on 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 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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