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Mutual Funds

Thrivent High Yield Fund

Q2 2021 Commentary

LBHIX (Class S) • June 30, 2021

Management

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Senior Portfolio Manager
Industry since: 1987
Thrivent since: 1987
Fund since: 1997

Executive summary

- Risk-taking sentiment continued in the high-yield market during the 2nd quarter with strong economic growth and accommodative fiscal and monetary policy causing spreads to tighten to near record lows of +267 basis points over Treasuries.
- The market was led higher by CCC-rated bonds, long-duration bonds, and the Energy Industry.
- The portfolio's overweight to Energy, Consumer Cyclicals, and Auto's contributed the most to relative performance.

Performance factors

Thrivent High Yield Fund returned 2.49% during the 2nd quarter, performing in-line with the Morningstar High Yield Bond category average return of 2.49% and lagging the Bloomberg Barclays U.S. Corporate High Yield Index return of 2.74%. Most of the performance difference between the Morningstar category and the Index was driven by large, long duration investment grade bonds that were downgraded into the index of which high yield mutual funds are not aggressive buyers. These long duration bonds, which are sensitive to changes in interest rates, performed well as the Treasury market rallied. The Fund's rating profile was neutral for performance as its small overweight in CCC's helped while its overweight to the call-constrained B-rated bonds hurt as interest rates rallied. The overweight to Energy, as oil rose 25%, helped performance while exposure to the Pharmaceutical and Electric industries detracted from performance.

After aggressively increasing CCC-rated exposure earlier in the year, the Fund brought its CCC-rated exposure down from a small overweight to a 1.5% underweight relative to the Index as this segment has reached historically tight trading levels relative to the rest of the high yield market. In addition, with CCC-rated bonds trading over par, the upside/downside potential is not favorable. We increased exposure to industries that should benefit the most from an economic reopening such as Gaming and Lodging.

The Fund's underweight to CCC-rated bonds hurt relative performance during the last 12-months as CCC-rated bonds produced returns of 26.48% versus the return of 12.92% of BB-rated bonds and 14.33% of B-rated bonds. In addition, credit selection in the Energy industry detracted from performance as well as being more conservative in industries with strong returns such as Retail and Airlines. Holding low levels of cash helped performance during the year as well as credit selection in Chemicals and Media.

Portfolio outlook

We expect the high yield market to remain healthy as the global economy recovers, the Federal Reserve (Fed) remains accommodative, and credit fundamentals continue to improve. Distress in the market is nearly non-existent and default rates are expected to decline to well below historical averages. With most of the total return expected to come from yields rather than capital appreciation going forward, we are carrying near zero percent net cash levels. The portfolio is yielding slightly more than the Morningstar peer group and we are duration neutral. We see opportunity to capture some performance in a number of high-yield credits that are expected to upgrade to investment grade over the next 12-18 months. Risks to our outlook include a disorderly transition into Fed tapering, inflation that is not transitory (using the Fed's terminology), and additional corporate taxes and regulation.

Thrivent High Yield 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	5 years	10 years
Thrivent High Yield Fund Class S share; Expense ratio: 0.53%	2.49	2.80	13.29	5.58	5.85	5.70
Bloomberg Barclays U.S. Corporate High Yield Bond Index[1]	2.74	3.62	15.37	7.45	7.48	6.66
Morningstar High Yield Bond Average[2]	2.49	3.61	14.48	6.02	6.07	5.29

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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.

[1]Bloomberg Barclays US Corporate High Yield Bond Index measures the performance of fixed-rate non-investment grade bonds.

[2]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: 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. Convertible securities are subject to additional risks such as interest rate and market risk. Leveraged loans are subject to numerous risks, including liquidity, credit, declines in the value of collateral underlying them, and detrimental legal actions against them. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. When interest rates fall, certain obligations will be paid off more quickly and proceeds may have to be invested in securities with lower yields. The Fund's value is influenced by factors impacting the overall market, certain asset classes, certain investment styles, and specific issuers. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. The use of derivatives such as futures involves additional risks and transaction costs. These and other risks are described in the prospectus.

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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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