

Thrivent Balanced Income Plus Fund

Q2 2024 Commentary

IBBFX (Class S) • June 28, 2024

Management



Stephen Lowe, CFA

Chief Investment Strategist

Industry: 1996
Firm: 1997
Fund: 2013



David Spangler, CFA

Head of Mixed Assets & Market Strategies

Industry: 1989
Firm: 2002
Fund: 2019



Theron Whitehorn, CFA

Senior Portfolio Manager

Industry: 2002
Firm: 2018
Fund: 2021

Executive Summary

- Thrivent Balanced Income Plus Fund outperformed its Morningstar peer group in the 2nd quarter; equity detracted from relative performance.
- The Fund strongly outperformed for the trailing 1-year; equity detracted from relative performance overall, due to structural underweighting to equity vs fixed income. Equity managers added to performance.

Performance factors

The Fund outperformed its Morningstar peer average in the latest quarter by 0.06%. The approximate 1% underweight to equity detracted from performance as equity outperformed fixed income for the period by approximately 3% to 4%. The approximate 1% overweight to domestic equity modestly added to performance with domestic outperforming developed international by about 4% but underperforming Emerging Markets by about 1.5%. Overweighted mid caps detracted from performance with mid caps trailing large caps by about 8% while a 1% underweighting to small caps modestly added to performance. Managers in aggregate modestly outperformed their respective benchmarks.

The Fund outperformed the peer average in the latest 1-year by 0.80%. The approximate 1% underweight to equity detracted from performance as equity outperformed fixed income for the period by approximately 19%. The approximate 1% overweight to domestic equity modestly added to performance. Modest overweight to small and mid (SMID) Caps detracted from performance. Managers in aggregate outperformed their respective benchmarks. Within market factors, the overweight to growth strongly added to performance. In late June, we reduced equity to 1% underweighted target, as market appreciation and Fund redemptions had increased equity weight.

In the second quarter fixed-income returns in the Fund moderately outperformed the estimated Morningstar peer group fixed-income holdings with a gross return of 0.42%. Interest rates rose moderately across most of the Treasury yield curve in response to expectations the Federal Reserve (Fed) would hold its target rate higher for longer. Credit spreads narrowed slightly in the quarter and remained very tight versus long-term averages.

Fixed income was positioned overweight credit risk and moderately long interest rate exposure. The largest contributor to relative performance in the quarter was strong selection within securitized assets, including overweight positions in non-agency mortgages, collateralized loan obligations (CLOs), and asset-back securities (ABS). Negatives included interest rate positioning and an underweighting to leveraged loans.

For the trailing twelve months, positive contributors to relative performance were overweighted selections in securitized assets, including agency and non-agency mortgage-backed securities (MBS) and CLOs. Other positives included overweighted positions in high yield corporates, preferred securities, closed-end funds and emerging markets (EM) debt, and strong selection within EM debt. Negatives included underweighted positions in leveraged loans and investment-grade corporates, high yield selection, and overweighted positions in securitized assets and convertibles.

In the quarter relative positioning changed little with a small increase in securitized assets. Over the last twelve months, we decreased risk as credit spreads tightened to very rich levels. We significantly lowered leveraged loans while increasing agency and non-agency mortgages, investment-grade corporates, and Treasuries. The strategy is to control duration with Treasury futures while holding high yield bonds, essentially replicating floating-rate loans but with more liquidity. Additionally, we increased duration over the trailing twelve months.

Portfolio outlook

U.S. equity markets through June 30 continue to exceed expectations. However, there remains significant market concentration and indeed, mid and small caps underperformed large caps by more than 10% and 13% respectively. The dominate themes continue to be large cap and growth, quality

and momentum. While there are pockets of weakness in the US economy, including housing, manufacturing and somewhat weaker employment, the economy remains reasonably strong and inflation measures continue a downward trend. As a result, we maintain a modest equity overweight, though less than our long-term strategic. We maintain our long-term strategic underweight to international primarily in Europe and emerging markets. Domestically, we are overweighting both large caps and mid caps, while maintaining a modest underweight in small caps.

We expect the Federal Reserve to keep rates high with the first rate cut in the fall. While we expect inflation to continue to moderate toward the Fed's 2% target, the path is likely to be uneven due to stickier services inflation. Treasury rates should follow the Fed Funds rate lower, especially short-maturity bonds, but over time long maturity bonds face pressure from deficit spending and election uncertainty. Credit spreads remain very rich versus history with limited room to tighten further. We lean toward high-quality fixed income such as investment-grade corporates and securitized assets but are close to neutral across corporate credit quality segments and emerging markets debt. We expect income to be an important driver of returns. While we are cautious at current levels, we are watching for opportunities to add credit risk should spreads widen materially.

Performance

For the period ending June 28, 2024 • 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 Balanced Income Plus Fund — S share - Expense ratio: 0.78%; Incept. date 12/29/1997	0.81	4.37	9.94	1.66	5.42	5.17	5.87
MSCI World Index - USD NR	2.63	11.75	20.19	6.86	11.78	9.16	
Bloomberg MBS Index	0.07	-0.98	2.12	-2.92	-0.76	0.89	
Bloomberg U.S. Hi Yld Ba/B 2% Issuer Capped Index	1.19	2.46	10.01	1.60	3.94	4.34	
Morningstar Moderately Conservative Allocation Avg	0.75	4.05	9.14	0.70	4.25	4.06	

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) 19.99% of Fund, as of May 31 2024: Thrivent Core Int'l Eq Fd: 6.91%, Thrivent Core EMD Fd: 4.95%, FNMA 15-Yr Pass-Thru: 1.30%, Microsoft Corp: 1.29%, NVIDIA Corp: 1.20%, Apple, Inc.: 0.98%, U.S. Treasury Bds: 0.91%, U.S. Treasury Notes: 0.84%, Alphabet, Inc., Class C: 0.81%, Amazon.com, Inc.: 0.80%

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

MSCI World Index - USD Net Returns represents large- and mid-cap stocks in 23 developed-market countries.

Bloomberg Mortgage-Backed Securities Index represents the performance of securities backed by pools of mortgages.

Bloomberg US High Yield Ba/B 2% Issuer Capped Index represents the performance of Ba or B-rated corporate bond market. Issuers are constrained to a maximum 2% weighting.

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. ©2024 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: The Fund's value is influenced by a number of factors, including the performance of the broader market, the effectiveness of the Adviser's allocation strategy, and risks specific to the Fund's asset classes, market cap groups, investment styles, and issuers. 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. The Adviser is also subject to actual or potential conflicts of interest. The use of derivatives (such as futures) involves additional risks and transaction costs. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. High yield securities are subject to increased credit risk as well as liquidity risk. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. Sovereign debt and mortgage-related and other asset-backed securities are subject to additional risks. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. The Fund invests in other funds; therefore, the Fund is dependent upon the performance of the other funds and is subject to the risks, additional fees and expenses of the other funds. When interest rates fall, certain obligations are paid off more quickly and proceeds may have to be invested in securities with lower yields. The use of quantitative investing techniques also involves risk. 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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