Thrivent Diversified Income Plus Fund

Q2 2021 Commentary

THYFX (Class S) • June 30, 2021

Executive summary

- The key drivers of performance for the fixed income portion of the Fund were convertible and preferred securities, and other alternative asset classes offset by an overweight to securitized assets and interest rate positioning.
- Equity performance detracted from performance for both the quarter and 1-year periods, while aggregate manager performance has been strong for the quarter and 1-year period.
- The Fund was also reclassified into the Morningstar Fund Allocation 15% to 30% Equity category at the start of the third quarter.

Management

Stephen D. Lowe, CFA
Chief Investment Strategist
Industry since: 1996
Thrivent since: 1997
Fund since: 2015

Gregory R. Anderson, CFA
Senior Portfolio Manager
Industry since: 1993
Thrivent since: 1997
Fund since: 2018

Theron G. Whitehorn, CFA
Senior Portfolio Manager
Industry since: 2002
Thrivent since: 2018
Fund since: 2021

Performance factors

Thrivent Diversified Income Plus Fund returned 2.88% for the quarter which underperformed the Morningstar Fund Allocation 30% to 50% Equity category average return of 3.99%. Note that the Fund was also reclassified into the Morningstar Fund Allocation 15% to 30% Equity category at the start of the third quarter.

Fixed income within the Fund outperformed because interest rates were mixed in the second quarter, with longer term rates falling from highs in the first quarter as markets priced in a moderate decrease in inflation expectations while short-term rates rose on expectations the Federal Reserve would hike rates earlier than expected. As a result, the Treasury curve flattened. Credit spreads, a form of risk premium, continued to compress. Total returns were solid across fixed income propelled by lower rates and tighter credit spreads, with high-quality and interest-rate sensitive segments performing well along with lower-quality segments, such as high yield bonds and leveraged loans. Alternative fixed-income assets, which tend to be more equity sensitive, performed well. Closed End Funds, Business Development Companies (BDCs) and other alternatives posted a combined return of 7.94%, but totaled only 1.1% of the portfolio. Other positive contributors to relative performance included convertible securities, with a 2.97% return, emerging markets debt at 4.08% and high yield with a 2.76% return. Corporate selection also helped relative performance. The main negative contributors to relative performance were an overweight to securitized assets, which returned 0.63%, and interest rate positioning. The Fund was moderately short duration, which negatively impacted relative performance slightly as longer rates fell in the quarter. Corporate bonds, including high yield, investment-grade bonds and leveraged loans, make up about half of the fixed income portion. The Fund's corporate bond holdings returned 2.28%, which outperformed for the quarter.

Equity performance detracted from performance for the quarter due to the Fund's strategic underweight to equity of approximately 4%. For the quarter, negative attribution came from an overweight to value. Additionally, equity manager performance has been strong, especially by the large-cap value and growth managers, however the quantitative multi-cap domestic equity manager has underperformed.

The Fund (fixed income and equities) finished repositioning at the start of the third quarter to its new Morningstar category benchmark, which included a reduction to equity to its current target of 18%. This target is approximately 4% underweight its Morningstar category peers. The new strategy resulted in increases in emerging markets debt, Treasuries and agency mortgage-backed securities (MBS), and a reduction in equities and other securitized, such as non-agency mortgages. Additionally, we adopted new indices for high yield, emerging markets debt and leveraged loans, moving away from custom indices to published indices. We also changed the investment-grade corporate index from a one-year to five-year maturity index to an index including one-year to 10-year maturities.

Thrivent Diversified Income Plus Fund returned 15.70% for the 12-month period, which underperformed the Morningstar Fund Allocation 30% to 50% Equity category average return of 18.19%. Over the last twelve months the Fund's fixed income returned 9.63%. Alternative assets including convertible securities, closed-end funds and preferred securities helped drive the performance. Securitized assets strongly outperformed mainly due to an underweight in agency mortgages along with selection. Corporate bond and leveraged loan selection also were positive. Interest rate and Treasury curve positioning was a modest negative.

Over the trailing year, equity detracted from performance as the fund was underweight equity. Within equity, the Fund benefited from an overweight to domestic versus international, but within international an overweight to developed versus emerging markets detracted from relative performance. For the period, positive attribution came from an overweight to value, despite growth's more recent leadership. Additionally, equity manager performance has been strong, especially by the small and mid-cap managers in 2020 and more recently by the large-cap value and growth managers.

Portfolio outlook

The Fund is underweight corporates including high yield and leveraged loans and overweight convertible and preferred securities. Corporate valuations have richened below long-term averages and have less upside. Management will continue to maintain a risk overweight and seek to add risk on significant market dips. We also expect interest rates to rise by the end of the year but expect near-term choppiness. We will be tactical near-term on rates but expect to shift to a more significant short duration position toward the end of the third quarter.

We remain underweight equity relative to fixed income by approximately 4% and, consistent with the first quarter, we favor domestic over international. Internationally, we favor developed over emerging markets. In aggregate, the Fund is overweight more defensive areas of the market including growth, momentum and technology.

Thrivent Diversified Income Plus 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 Diversified Income Plus Fund Class S share; Expense ratio: 0.72%	2.88	4.39	15.70	6.78	6.86	6.37
Morningstar Allocation--30% to 50% Equity Category Average[1]	3.99	5.91	18.19	7.98	6.98	5.46
Bloomberg Barclays U.S. Aggregate Bond Index[2]	1.83	-1.60	-0.33	5.34	3.03	3.39

Financial professionals: Contact us at 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.

[1]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.

[2]Bloomberg Barclays US Aggregate Bond Index measures the performance of U.S. investment grade bonds.

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, 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 not pay its debt. When interest rates fall, certain obligations will be paid off more quickly and proceeds may have to be invested in securities with lower yields. Leveraged loans, preferred securities, sovereign debt, and mortgage-related and other asset-backed securities are subject to additional risks. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. 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 Fund invests in other funds managed by the Adviser or an affiliate and in directly-held equity and debt instruments. The Fund is dependent upon the performance of the other funds and is subject to the risks and additional fees and expenses of the other funds. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. The Adviser is also subject to actual or potential conflicts of interest. The use of quantitative investing techniques and derivatives such as futures also involve risks. The Fund may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. 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.

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Investing in a mutual fund 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, which investors should read and consider carefully before investing. Prospectuses are available at thriventfunds.com or by calling 800-847-4836.

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