

Thrivent Diversified Income Plus Fund

Q2 2024 Commentary

THYFX (Class S) • June 28, 2024

Management



Stephen Lowe, CFA

Chief Investment Strategist

Industry: 1996
Firm: 1997
Fund: 2015



Theron Whitehorn, CFA

Senior Portfolio Manager

Industry: 2002
Firm: 2018
Fund: 2021



David Spangler, CFA

Head of Mixed Assets & Market Strategies

Industry: 1989
Firm: 2002
Fund: 2022

Executive Summary

- Thrivent Diversified Income Plus Fund outperformed its peer group in both the the 2nd quarter and trailing 1-year.
- In both periods, 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 group in the latest quarter by 0.21%. The approximate 4% underweight to equity detracted from performance as equity outperformed fixed income for the period by approximately 3% to 4%. Modest underweight to small and mid (SMID) Caps added somewhat to performance. Managers in aggregate modestly outperformed their respective benchmarks. Outperformance came from strong Small Cap Stock, quantitative multi-cap core and developed international managers. Mid Cap Stock underperformed.

The Fund outperformed in the latest 1-year. The approximate 4% underweight to equity detracted from performance as equity outperformed fixed income for the period by approximately 19%. The approximate 1% underweight to domestic equity modestly detracted from performance with domestic outperforming developed international by about 11%. Managers in aggregate outperformed their respective benchmarks. In mid-May, the Fund decreased developed international and added to domestic equity. In late June, we reduced equity to 4% underweight target.

In the second quarter fixed-income returns in the Fund performed in line with the estimated Morningstar peer group fixed-income holdings with a gross return of 0.63%. 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 in the Fund 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. Negatives included interest rate positioning and an overweight to convertible securities.

For the trailing twelve months, positive contributors to relative performance were overweight positions in and very strong selection within securitized assets, including agency and non-agency mortgages and collateralized loan obligations (CLOs). Other positives included overweight positions in high yield corporates, leveraged loans, emerging markets (EM) debt, preferred securities, and closed-end funds. Additionally, a large underweight to U.S. Treasuries aided relative performance. Negatives included underweight positions in investment-grade corporates and high yield selection, and overweight positions in securitized assets and convertible securities. Interest rate positioning and Treasury yield curve positioning also detracted from relative performance for the full year.

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. We maintain a modest equity overweight, though less than our long-term strategy. We maintain our long-term strategic underweight to international primarily in Europe and emerging markets. Domestically, we are overweight in both large caps and mid 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. 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 are watching for opportunities to add credit risk should spreads widen materially. We also would add to alternative positions such as convertible and preferred securities with a material selloff.

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 Diversified Income Plus Fund — S share - Expense ratio: 0.70%; Incept. date 12/29/1997	0.76	2.82	7.70	0.33	3.22	3.73	4.64
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	
MSCI World Index - USD NR	2.63	11.75	20.19	6.86	11.78	9.16	
Morningstar Conservative Allocation Avg	0.55	2.39	6.69	-0.24	2.40	2.67	

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) 18.51% of Fund, as of May 31 2024: Thrivent Core EMD Fd: 7.81%, FNMA 30-Yr Pass-Thru: 1.63%, U.S. Treasury Notes: 1.55%, U.S. Treasury Bds: 1.36%, Thrivent Core Int'l Eq Fd: 1.30%, U.S. Treasury Notes: 1.15%, FNMA 30-Yr Pass-Thru: 0.95%, U.S. Treasury Bds: 0.95%, FNMA 30-Yr Pass-Thru: 0.91%, FHLMC 30-Yr. Pass-Thru: 0.90%

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

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.

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

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: 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 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 and issuers. 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. Preferred securities, 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 risks. These and other risks are described in the prospectus.

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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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