thrivent

Mutual Funds

Thrivent Diversified Income Plus Fund

Q3 2024 Commentary

THYFX (Class S) • September 30, 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 the category average in the third quarter. However, a structural underweight to overall equity detracted from relative performance. Equity managers modestly detracted from performance.
- The Fund outperformed for the trailing 1-year. However, a structural underweight to overall equity detracted from relative performance.
- Interest-rate and Treasury curve positioning along with positioning with credit were positive factors.

Performance factors

In the latest quarter, the approximate 4% underweight equity detracted from performance very modestly with equity market performance nearly identical to fixed income markets for the quarter. The Fund is underweight both domestic and international equity, but with somewhat more of the underweight in developed international. Taken together, this positioning detracted from performance modestly as international outperformed domestic. Managers in aggregate modestly underperformed their respective benchmarks. Outperformance came from Large Cap Growth and quantitative multi-cap core managers. Within market factors, the overweight to growth detracted.

In the latest 1-year, the approximate 4% underweight to equity detracted from performance as equity outperformed fixed income for the period by a significant amount. The approximate 1% underweight to domestic equity modestly detracted from performance with domestic outperforming developed international by about 10%. Modest overweight to mid-caps detracted from performance with mid-caps trailing large caps by about 6%. Outperformance came from strong Large Cap Growth returns, however Mid Cap Stock significantly underperformed. Within market factors, the overweight to growth added to performance with growth outperforming value by 10%.

In the third quarter, interest rates declined significantly across the Treasury curve as the Federal Reserve began to lower its target rate. Short-term rates, which are most influenced by the Federal Funds rate, fell the most. Credit spreads were volatile but narrowed slightly and remained very tight.

Fixed income was positioned overweight credit risk and moderately long interest rate exposure. The largest contributor to relative performance in the quarter was interest rate and Treasury curve positioning, as the Fund was long duration versus the peer group . Other positives included selection within investment-grade corporates, overweight positions in convertible and preferred securities, and solid selection within securitized assets.

For the trailing twelve months, positive contributors to relative performance were interest rate and Treasury curve positioning, overweight positions in high yield corporates and emerging markets debt, and an underweight in Treasuries. Securitized selection also was strong due to overweight positions in non-agency mortgages and collateralized loan obligations (CLOs). High yield selection and investment-grade corporates overweight detracted.

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. We lowered loans due to weakening fundamentals and lower liquidity. 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 decreased duration modestly over the trailing twelve months but remained long duration.

Portfolio outlook

The economy appears to be at a tipping point, with a soft landing the base case but with the potential for a sharp slowdown or recession. Overall, economic growth remains solid and lower interest rates should help support growth. We expect inflation to continue its descent, but the path is likely to be bumpy with setbacks. Lower inflation has allowed the Federal Reserve to pivot from a primary focus on fighting inflation to lowering its target interest rates to support the labor market. We expect the Fed to continue to lower the Fed Funds rate. Treasury rates should follow Fed Funds. Credit spreads remain rich versus history with limited room to materially tighten further. We lean toward high-quality fixed income such as investment-grade corporates. While we are cautious at current valuations, we are watching for opportunities to add credit risk should spreads widen materially.

We maintain our long-term strategic underweight to international primarily in Europe and emerging markets. China's recent stimulus announcements brings the 2024 YTD total to almost $1.1 trillion (~6% of GDP) if fully implemented. Equity markets in China have responded very strongly, contributing to recent strength in the emerging markets index vs domestic markets. However, the recent stimulus in China remains relatively small versus GDP and even if stimulus is increased, very significant current and longer-term structural issues remain. These include a material decline in working age population, massive oversupply of housing, and negative foreign direct investment as the predictability of doing business in China has declined. Europe continues to struggle, with weak GDP growth, declining Industrial Production, and declining employment growth. Domestically, we are overweight large and mid caps, and modestly underweight in small caps. In the absence of a strong catalyst that can support renewed economic growth, large caps will likely maintain investor preference given superior earnings growth and materially higher quality.

Performance

For the period ending September 30, 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	5.32	8.29	16.21	1.99	4.15	4.40	4.80
- Expense ratio: 0.70%; Incept. date 12/29/1997							
Bloomberg MBS Index	5.53	4.50	12.32	-1.20	0.04	1.41	
Bloomberg U.S. Hi Yld Ba/B 2% Issuer Capped Index	4.36	6.93	14.62	2.74	4.45	4.95	
MSCI World Index - USD NR	6.36	18.86	32.43	9.08	13.04	10.07	
Morningstar Conservative Allocation Avg	4.87	7.38	14.39	1.45	3.14	3.26	

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) 19.48% of Fund, as of Aug 30 2024: Thrivent Core EMD Fd: 7.93%, U.S. Treasury Notes: 2.23%, FNMA 30-Yr Pass-Thru: 1.63%, U.S. Treasury Notes: 1.54%, Thrivent Core Int'l Eq Fd: 1.34%, U.S. Treasury Notes: 1.16%, FNMA 30-Yr Pass-Thru: 0.97%, FNMA 30-Yr Pass-Thru: 0.91%, FNMA 30-Yr Pass-Thru: 0.90%, FHLMC 30-Yr. Pass-Thru: 0.87%

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.

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.

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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