

Thrivent Small Cap Growth Fund

Q1 2024 Commentary

TSCGX (Class S) • March 28, 2024

Management



Michael Hubbard
Senior Portfolio Manager

Industry: 2007
Firm: 2018
Fund: 2022



Patrick Farley
Portfolio Manager

Industry: 2018
Firm: 2018
Fund: 2024

Executive Summary

- The Fund outperformed the Russell 2000 Growth Index during the quarter. The primary driver of outperformance in the quarter was stock selection in the Health Care, Consumer Staples, Financials, and Consumer Discretionary sectors.
- The Fund underperformed the Russell 2000 Growth Index during the last year. The primary driver of underperformance in the trailing twelve-month period was stock selection in the Health Care and Technology sectors.
- From a sector standpoint, the biggest changes were in the following: Health Care underweight decreased, Communications Services overweight decreased, and Consumer Staples overweight decreased. These changes are more a product of new idea timing rather than a tactical change.

Performance factors

Thrivent Small Cap Growth Fund outperformed the Russell 2000 Growth Index during the first quarter of 2024. The outperformance was driven primarily by stock selection in the Health Care, Consumer Staples, Financials, and Consumer Discretionary sectors as well as the underweight to biotech.

Kinsale Capital Group, an Excess and Surplus specialty insurance carrier, with a proprietary technology infrastructure and differentiated underwriting model contributed to the Fund's outperformance as the company's premium growth re-accelerated and the company continues to outperform expectations for loss cost and expenses. In Health Care, Shockwave Medical, a medical device manufacturer, continued to post strong growth, and saw acceleration in the company's key market of Coronary. Additionally, the company announced several new products which should support future growth. Vericel Corporation, a biotechnology company, continued to see market share growth in its main end market of knee cartilage repair. Natera, a diagnostics company, also outperformed as the company's tests continued to gain marketing share. In Consumer Staples, energy drink manufacturer Celsius Holdings continued to gain market share and expand its addressable market with new products. e.l.f. Beauty, an innovative and low-cost producer of cosmetics, continued to gain significant market share, which drove growth ahead of expectations.

Partially offsetting these positives was negative stock selection in the Technology sector, which was primarily driven by the outperformance of two companies the fund does not own. These two names were reviewed and do not fit our investment process at this time.

For the last 12 months, the Fund underperformed the Russell 2000 Growth Index with most of the underperformance driven by poor stock selection in Health Care and Technology. Maravai Lifesciences, is a life sciences and tools company, that manufactures key components of mRNA. Much weaker than expected demand led capacity utilization to fall from above 80% to ~20%, which led to significant earnings deleverage. It has since been sold. Silk Road Medical, a medical device manufacturer, was negatively impacted by a CMS review of a competitive procedure, where the coverage for this procedure was expanded, thus reducing the addressable market for the company. It has since been sold. Agiliti Inc, a healthcare services company had a CEO transition, and the new CEO changed the strategy and approach of the company. It has since been sold. InMode, is a manufacturer of bipolar radio frequency medical equipment used by dermatologists, plastic surgeons, and other doctors across a variety of use cases. The company started seeing higher interest rates, impacting their customers' ability to finance machines which coincided with the escalating conflict in Gaza and Israel, where roughly 70% of the company's manufacturing base is located. It has since been sold. As discussed above, the underperformance in Technology was largely driven by two unowned names. Partially offsetting the negative performance was strong relative performance in Consumer Staples, driven by e.l.f. Beauty and Celsius Holdings as discussed above.

While sector positioning of the Thrivent Small Cap Growth Fund is a by-product of our stock selection process, relative sector weights are monitored and managed in the context of a rigorous approach to risk management. In the quarter, the underweight to Health Care was reduced as new names were added and the Communication Services overweight declined as a name with a broken thesis was sold.

Portfolio outlook

With the current level of business uncertainty and the Federal Funds rate remaining at elevated levels, it is unclear how much and how long the economy will be impacted. However, investor sentiment about the economy fluctuates much more rapidly and with greater amplitude than actual changes in economic activity. These swings in sentiment often present opportunities. As a result, positions were added to or initiated in Health Care, Information Technology, Industrials and Consumer Discretionary while other positions were reduced or sold as investment theses played out or proved no longer valid (Communication Services). Our focus remains on finding quality growth companies with significant opportunities for growth in sales, income, and free cash flow.

Performance

For the period ending March 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 Small Cap Growth Fund — S share	9.68	9.68	14.49	0.16	11.60	N/A	11.49
- Expense ratio: net 0.95%, gross 1.14%; Incept. date 2/28/2018							
Russell 2000 Growth Index	7.58	7.58	20.35	-2.68	7.38	7.89	
S&P SmallCap 600 Grwth Index	4.77	4.77	20.12	1.88	9.19	9.46	
Morningstar Small Growth Avg	7.49	7.49	18.05	-1.95	9.06	8.83	

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Top 10 Holdings (excluding derivatives and cash) 18.43% of Fund, as of Feb 29 2024: e.l.f. Beauty, Inc.: 2.72%, Varonis Syst, Inc.: 2.04%, Houlihan Lokey, Inc.: 1.80%, Guidewire Software Inc: 1.78%, Fabrinet: 1.71%, ExlService Holdings Inc: 1.71%, Sprout Social, Inc.: 1.70%, Nova, Ltd.: 1.67%, Kinsale Capital Grp Inc: 1.67%, Hamilton Lane, Inc.: 1.63%

The Adviser has contractually agreed, for a period of one year from the date of the most recent prospectus, to waive certain fees and/or reimburse certain expenses associated with the Fund. If not waived, returns would have been lower. Refer to the Fees & Expenses table in the prospectus.

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

Russell 2000® Growth Index measures the performance of U.S. small-capitalization growth-oriented equities.

S&P Small Cap 600 Growth Index is a marketcap weighted index that represents the average performance of a group of 600 small-capitalization U.S. stocks.

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: Smaller, less seasoned companies often have greater price volatility, lower trading volume, and less liquidity than larger, more established companies. The Fund's value is influenced by a number of factors, including the performance of the broader market, and risks specific to the Fund's asset classes, investment styles, and issuers. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. Common stocks of companies that rely extensively on technology, science or communications in their product development or operations may be more volatile than the overall stock market and may or may not move in tandem with the overall stock market. 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](https://www.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](https://www.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](https://www.thriventfunds.com) or by calling 800-847-4836.

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