Thrivent High Yield Fund

Q1 2024 Commentary

LBHIX (Class S) • March 28, 2024

Management

Paul Ocenasek, CFA
Senior Portfolio Manager

Industry: 1987
Firm: 1987
Fund: 1997

Paul Tommerdahl, CFA
Research Director

Industry: 2008
Firm: 2016
Fund: 2023

Executive Summary

- The Bloomberg US Corporate High Yield Bond Index provided a solid return of 1.47% during the first quarter.
- Improving capital markets, a supportive earnings season, and a Fed that appears intent on cutting rates this year continued to encourage risk-taking in the high-yield market.
- With spreads (the additional yield over risk-free Treasuries) of the high-yield market inside 300 basis points, the market is trading in the top fifth percentile of its historical long-term trading range.

Performance factors

The negative impact of the 5-year Treasury rate increasing by 0.36% was offset by the positive impact of spreads tightening 24 basis points during the first quarter. Strong economic growth and declining inflation propelled the market higher with the lowest quality (CCC and lower-rated) bonds having returns of 3.12%, significantly above higher quality (BB-rated) bond returns of 1.13%. The retail industry led the market higher during the quarter with a return near 5%, while Health Care and Energy were other sizable solid performing industries. The wireless industry posted a significant negative return of over -7.0% caused by Altice France making a surprise announcement of its intent to restructure its balance sheet. Cable and media were also other large industries posting negative returns. Thrivent High Yield Fund underperformed during the quarter. The largest negative contribution to performance was credit selection in the CCC-rated segment. The largest positive contributor to performance was the duration which was about ¼ year shorter than the index. The 3.5% exposure to floating-rate bank loans performed well in a rising rate environment. Overall, industry weightings had a neutral effect with an underweight to retail having the largest negative impact, while an underweight to cable and wireless had the largest positive impact. A short credit default swap index (CDX) position had a negative impact as the market continued to climb higher.

For one year, Thrivent High Yield Fund's more conservative risk profile was the largest contributor to underperformance when compared to the Bloomberg US Corporate High Yield Bond Index. The riskiest CCC-rated and distressed segments of the market returned 16.43% and 36.71%, respectively. Being short duration was a positive contributor as the 5-year Treasury increased 0.63% in yield. Positioning in retail and a short CDX position were the largest negative contributors, while credit selection in independent energy and cable were the biggest positive contributors.

With the economy remaining resilient, inflation continuing to moderate, and central banks on the verge of cutting interest rates, we have brought the portfolio to a more neutral risk stance. The portfolio's yield and spread have increased about sixty basis points on a relative basis and are now in line with the Morningstar peer group and just slightly behind the index. In addition, the duration remains slightly long to the Morningstar peer group and slightly short to the index. Overall, the actively managed mutual funds are more conservative and have shorter duration than the index. We have lightened exposure to defensive industries such as food/beverage and supermarkets while adding exposure to some industries that have experienced some volatility such as healthcare, cable, and media.

Portfolio outlook

The high-yield market has been in favor with investors during the first quarter. The $2.6 billion that has flowed into high-yield mutual funds during the first quarter vs. the -$14 billion of outflows for the same period last year is evidence of this. New issuance was $87.4 billion vs. $11.8 billion for the first quarter of 2023. Eighty percent of the new issuance was to refinance debt and extend maturities in the market. Default rates have been stable, but the number of distressed exchanges has started to increase as higher interest rates and nearing maturities are putting pressure on some highly leveraged capital structures. Healthcare, media, and telecommunications have been the more troubled industries.

Spreads inside of 300 basis points are in the top fifth percentile of the market's historical long-term trading range and thus do not paint an optimistic picture for further capital gains caused by spreads declining. However, current yields in the market are still quite wide of historical averages and can produce attractive returns without spreads declining. In addition, if the Fed starts cutting interest rates this year as the market currently expects, this will help boost returns.

Despite lingering concerns over the impact that tighter lending standards and higher interest rates may still have on the economy, we have positioned the portfolio with a more neutral risk profile as economic growth and employment remain resilient and inflation continues to moderate. While much of the high-yield market is trading near historically rich spread levels, there are pockets in the non-distressed CCC-rated segment that are still trading at attractive levels.

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 High Yield Fund — S share	1.01	1.01	8.99	1.78	3.03	3.43	4.62
- Expense ratio: 0.55%; Incept. date 10/31/1997							
Bloomberg U.S. Corp Hi Yld Bd Index	1.47	1.47	11.15	2.19	4.21	4.44	
Morningstar High Yield Bond Avg	1.67	1.67	10.40	2.07	3.76	3.60	

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Top 10 Holdings (excluding derivatives and cash) 7.26% of Fund, as of Feb 29 2024: SPDR Bloomberg Sh-Tm HY Bd ETF: 2.21%, H&E Eqpmt Srvcs, Inc.: 0.60%, Caesars Entertain. Inc: 0.60%, SS&C Tech, Inc.: 0.57%, DIRECTV Financing LLC/DIRECTV Financing Co-Obligor Inc: 0.57%, Tenet Healthcare Corp: 0.57%, 1011778 B.C., ULC/New Red Finance Inc: 0.56%, Teva Pharma Fin Netherlands III BV: 0.54%, GFL Environmental, Inc.: 0.53%, EQM Midstream Prtrs LP: 0.51%

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

Bloomberg US Corporate High Yield Bond Index measures the performance of fixed-rate non-investment grade bonds.

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. 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: High yield securities are subject to increased credit risk as well as liquidity risk. 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. Convertible securities are subject to additional risks and may also be forced to convert at an inopportune time which may decrease returns. 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. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. Leveraged loans also known as bank loans are subject to numerous 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's value is influenced by the performance of the broader market. When interest rates fall, certain obligations are paid off more quickly and proceeds may have to be invested in securities with lower yields. In unusual circumstances, the Fund could experience a loss when selling portfolio securities to meet redemption requests for a variety of reasons. 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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