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Mutual Funds

Thrivent Balanced Income Plus Fund

Q1 2024 Commentary

IBBFX (Class S) • March 28, 2024

Management

Stephen Lowe, CFA
Chief Investment Strategist

Industry: 1996
Firm: 1997
Fund: 2013

David Spangler, CFA
Head of Mixed Assets & Market Strategies

Industry: 1989
Firm: 2002
Fund: 2019

Theron Whitehorn, CFA
Senior Portfolio Manager

Industry: 2002
Firm: 2018
Fund: 2021

Executive Summary

• The Fund strongly outperformed its Morningstar category average for the trailing 1-year. Equity added to relative performance, with underweight total equity and overweight small and mid (SMID) caps detracting but positive.
• The Fund is underweight equity by approximately 1%, with the primary underweight to international and a modest underweight to domestic small caps.

Performance factors

The Fund outperformed its Morningstar peer average in the latest quarter by 0.29%. The 1% to 2% underweight to equity detracted from performance as equity outperformed fixed income for the period by more than 8% to 10%. Domestic equity is modestly overweight while international is modestly underweight, which added to performance with domestic outperforming by approximately 8%. Modest overweighting to SMID Caps detracted somewhat from performance. Managers in aggregate modestly outperformed their respective benchmarks. Outperformance came from strong Mid Cap Stock performance, followed by Large Cap Growth and Small Cap Stock. The International Core manager underperformed modestly. The Fund's fixed income outperformed estimated Morningstar peer group fixed-income holdings. Interest rates rose across the Treasury curve in response to higher-than-expected inflation and expectations the Federal Reserve (Fed) would hold its target rate higher for longer. Fixed income was positioned overweight credit risk and modestly long interest rate exposure. The largest contributors to relative performance in the quarter were overweight positions in high-yield corporates, emerging markets debt, convertible securities, and non-agency mortgages.

The approximate 1% underweight to equity detracted from 1-year performance as equity outperformed fixed income for the period by more than 18% to 20%. Modest overweight to SMID Caps detracted from performance. Managers in aggregate outperformed their respective benchmarks. Outperformance came from very strong Large Cap Growth outperformance, followed by Large Cap Value and International Core managers. Underperforming managers included Small Cap Stock, quantitative multi-cap core and Mid Cap Stock managers. Within market factors, the overweight to growth added to performance with growth outperforming value.

For the trailing twelve months, the Fund's fixed income returned 5.36% gross of fees. Positive contributors to performance were overweight positions in convertible securities, emerging markets debt, leveraged loans, and high yield. Another strong positive was a large underweight to Treasuries. Also, selection was strong within emerging markets debt and securitized assets, including overweight positions in Collateralized Loan Obligations (CLOs) and non-agency mortgages. Negatives included an underweight to investment-grade corporates, and selection within high-yield and leveraged loans. Interest rate positioning and Treasury curve positioning also detracted from relative performance for the full year. To manage overall Fund risk, as the equity markets rose, we reduced equity twice to target an underweighting of approximately 1% to 2%.

Portfolio outlook

Thus far, in equity 2024 has exceeded expectations. Not only have U.S. large cap equities managed to extend the rally that began in Q4 2023, but they have done so in historic fashion, with a move that marks the largest "low volatility" rally in more than 75 years. Although this type of strength instinctively raises concerns regarding a material drawdown, history suggests otherwise. Typically, a rally of this form is associated with a recent and meaningful drawdown (such as 2022), an improving economic landscape, and a dovish pivot in monetary policy. At present, all three conditions are met. Moreover, the prospects for artificial intelligence (AI)-related productivity gains have added to a sense of market optimism. In the Income Plus Funds, we maintain a structural underweight to equity, however, we remain poised to raise the equity weight in the event of near-term weakness.

We expect inflation to continue to decline but on a bumpy, uneven path given stickier core service inflation. We also expect the Fed to begin cuts in the Fed Funds rate around mid-year, but to proceed on a deliberate, measured pace to ensure inflation does not reignite. Treasury rates should follow

Fed Funds lower. 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 levels, we are watching for opportunities to add credit risk should spreads widen materially. We also would add to alternatives such as convertible and preferred securities with a material selloff.

Fixed income is positioned moderately overweight credit risk and duration versus our strategy. In the quarter we increased securitized assets including agency and non-agency mortgage-backed securities (MBS) while decreasing Treasuries and cash. Over the last twelve months, we decreased risk as credit spreads tightened to very rich levels. We significantly lowered leveraged loans while increasing 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 increased securitized assets, primarily through mortgages, both non-agency and agency. We also increased duration over the trailing twelve months.

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 Balanced Income Plus Fund — S share	3.53	3.53	11.82	2.93	5.81	5.41	5.90
- Expense ratio: 0.78%; Incept. date 12/29/1997							
MSCI World Index - USD NR	8.88	8.88	25.11	8.60	12.07	9.39	
Bloomberg MBS Index	-1.04	-1.04	1.39	-2.84	-0.39	1.12	
Bloomberg U.S. Hi Yld Ba/B 2% Issuer Capped Index	1.25	1.25	10.19	2.05	4.29	4.47	
Morningstar Moderately Conservative Allocation Avg	3.24	3.24	10.10	1.76	4.65	4.30	

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) 20.17% of Fund, as of Feb 29 2024: Thrivent Core Int'l Eq Fd: 7.16%, Thrivent Core EMD Fd: 4.97%, FNMA 15-Yr Pass-Thru: 1.31%, Microsoft Corp: 1.30%, FNMA 30-Yr Pass-Thru: 1.03%, U.S. Treasury Bds: 0.93%, NVIDIA Corp: 0.90%, Amazon.com, Inc.: 0.88%, U.S. Treasury Notes: 0.85%, Apple, Inc.: 0.84%

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

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

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.

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: 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, 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 may not pay its debt. 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. 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 risk. 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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