Thrivent Opportunity Income Plus Fund

Q1 2024 Commentary

IIINX (Class S) • March 28, 2024

Management

Kent White, CFA
VP, Fixed Income Mutual Funds
Industry: 1999
Firm: 1999
Fund: 2015

Stephen Lowe, CFA
Chief Investment Strategist
Industry: 1996
Firm: 1997
Fund: 2018

Theron Whitehorn, CFA
Senior Portfolio Manager
Industry: 2002
Firm: 2018
Fund: 2021

Executive Summary

• Thrivent Opportunity Income Plus Fund had a net return of 0.85% in the first quarter, which underperformed Morningstar's Multisector Bond category average by 0.44%.
• The Fund underperformed the Morningstar Multisector Bond category average in the quarter due to interest rate positioning, an overweight to Agency mortgage-backed securities (MBS) and selection within high-yield bonds.
• We expect rates to decline in the second half of 2024 as inflation eventually approaches the Federal Reserve's (Fed) target and policy normalization begins.
• We favor high-quality bonds such as investment-grade corporates and agency MBS as current pricing levels don't offer as much spread for taking additional credit risk as compared to historical averages.

Performance factors

In the first quarter of 2024, the Fund underperformed Morningstar's Multisector Bond category average with a net return of 0.85% versus 1.31% for the category. Absolute returns were positive due to tighter credit spreads and coupon payments, while higher interest rates were a drag on returns. The Federal Reserve held its target rate steady in the quarter to assess the lagged impact of higher rates. Treasury interest rates rose across the curve, as the market pushed expectations for rate cuts further out. Credit spreads fell and remained tight versus long-term averages.

The Fund maintains a lower duration exposure as compared to broad fixed income indexes but was modestly long duration versus estimates for the Morningstar Multisector Bond category average, which was a drag on relative performance as rates increased in the quarter. The Fund had moved to modestly long-duration positioning in anticipation of the Federal Reserve stopping rate hikes and eventually cutting rates.

The strongest positive contributors to relative performance were underweightings to Treasuries and positive selection within securitized assets due to holdings of Collateralized Loan Obligations (CLOs) and asset-backed securities (ABS). An overweight to emerging markets debt also helped along with strong selection within that asset class. Negative contributors included an overweight to agency mortgages, which underperformed, along with negative high-yield bond selection.

For the trailing twelve months, the Fund underperformed Morningstar's Multisector Bond category average with a net return of 6.76% versus 7.09%. Absolute returns were positive due to coupon income from fixed-income holdings and lower credit spreads across corporate bonds. Key positive factors helping relative performance included an underweighting to Treasuries and a very strong selection within securitized holdings due to positioning in CLOs, ABS, and agency mortgage-backed securities (MBS). Other positives were an overweight position in emerging markets debt and bond selection within that asset class. Alternative holdings also helped, including preferred and convertible securities, and small positions in closed-end funds. Negative contributors to performance included overweighted positions in cash and MBS and poor selection in high-yield bonds. Additionally, overall duration exposure and yield curve positioning were detractors from performance.

Over the trailing twelve months we substantially lowered holdings of leveraged loans in part to reduce risk. Also, we prefer the better liquidity and credit quality of fixed-rate high-yield bonds versus floating-rate leveraged loans. While fixed-rate bonds have more duration risk, we prefer reducing overall duration with Treasury futures versus using floating rate loan exposure to shorten duration. Additionally, we decreased risk and added higher-quality fixed income by lowering emerging market debt, high-yield bonds, non-agency mortgages and preferred securities while adding to agency mortgages, Treasuries and investment-grade corporate bonds. The moves were made to better position relative to the Morningstar peer group and to dampen potential credit spread volatility. We also moderately lengthened duration over the past year in anticipation of the Fed pausing rate hikes.

Portfolio outlook

We expect interest rates to remain elevated in the near term given the Federal Reserve's intention to maintain high short-term borrowing rates, the risk of sticky core inflation, elevated Treasury supply to Fund deficits, and continued strength in corporate earnings. Potential downward pressures on rates include buying from investors looking to lock in higher yields and the lagged impacts of higher rates eventually driving growth and inflation lower. We expect rates to decline in the second half of 2024 as inflation eventually approaches the Fed's target and policy normalization begins. We expect the Treasury curve to steepen in 2024 as the market prices in the expected cuts in the Fed Funds rate. We favor high-quality bonds such as investment-grade corporates and agency MBS as current pricing levels don't offer as much spread for taking additional credit risk as compared to historical averages. While we are cautious at current pricing levels, we are watching for opportunities to add credit risk should spreads widen substantially.

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 Opportunity Income Plus Fund — S share	0.85	0.85	6.76	0.28	1.68	2.47	4.14
- Expense ratio: 0.67%; Incept. date 12/29/1997							
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 Multisector Bond Avg	1.31	1.31	7.09	0.48	2.39	2.72	

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) 18.96% of Fund, as of Feb 29 2024: Thrivent Core EMD Fd: 8.86%, U.S. Treasury Notes: 2.20%, FNMA 30-Yr Pass-Thru: 2.11%, SPDR Bloomberg High Yield Bd ETF: 1.36%, U.S. Treasury Bds: 0.98%, Vanguard Intrmdt-Tm Corp Bd ETF: 0.96%, U.S. Treasury Bds: 0.79%, FNMA 30-Yr Pass-Thru: 0.58%, FNMA 30-Yr Pass-Thru: 0.57%, FNMA 30-Yr Pass-Thru: 0.55%

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.

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. Sovereign debt and mortgage-related and other asset-backed securities are subject to additional 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 issuers. The Adviser is also subject to actual or potential conflicts of interest. The use of derivatives (such as futures) involves additional risks. 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. 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 lower-yielding securities with lower yields. 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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