Thrivent Government Bond Fund

Q1 2025 Commentary

TBFIX (Class S) • March 31, 2025

Management

Kent White, CFA
VP, Fixed Income Mutual Funds
Industry: 1999
Firm: 1999
Fund: 2023

Jon-Paul (JP) Gagne
Senior Portfolio Manager
Industry: 2004
Firm: 2018
Fund: 2022

Executive Summary

- We maintained our MBS overweight throughout the 1st quarter, which strongly contributed to our annual performance. However, for the 1st quarter, our overweight to MBS slightly underperformed US Treasuries.
- On an annualized basis, Thrivent Government Bond Fund has outperformed the Bloomberg US Treasury Index by 59bps due to an allocation to MBS and strong duration risk management.

Performance factors

During the quarter, the Fund underperformed the Bloomberg US Treasury Index by 8 bps. Our allocation to Mortgage-Backed Securities (MBS), which saw spreads widen into lower rates and higher rate volatility, had a negative impact on performance. Generically MBS spreads struggle into heighten uncertainty, so although we are comfortable with our current allocation, we remain neutral in the near-term until the tariff noise subsides.

Rates rallied during the quarter, with the 10-year rate closing down 36 bps, and although rates were volatile in the 1st quarter, the 2-year vs 10-year US Treasuries curve movement was nearly flat, ending the quarter with a positive 31 bps basis. We expect rates to continue to steepen over time and will continue to bias the portfolio in that manner.

Over the last twelve months, the Fund outperformed the Bloomberg US Treasury Index by 59 bps. Positive performance throughout 2024 led to the annual performance, with our allocation to MBS and timing of our duration positioning driving the outperformance. The portfolio was positioned with neutral duration versus Index coming into the year, and we remained mostly neutral through most of the 1st quarter, picking our spots to add duration and to our steepening bias. With no end in sight to the volatility and uncertainty around US Treasury rates, we will have to remain nimble with our duration positioning as we head further into 2025.

Like our duration positioning, we took down our MBS position in the 4th quarter and entered 2025 with a slight overweight. MBS comprise 60% of the Fund's assets, but zero percent of the Index's assets. During this quarter, it was a negative contributor having a mix of MBS in the portfolio, but over the past year, it has been a strong positive contributor.

Portfolio outlook

Interest rates had a volatile 2024 and there doesn't appear to be an end in sight for the volatility as we wait for the latest tariff announcements. With the most recent year-over-year Consumer Price Index (CPI) reading at 2.8%, still above the Federal Reserve (Fed)'s 2% target for inflation, and unemployment still only 4.1%, The Fed is within its mandate to keep rates higher for longer if necessary. However, we have started to see some cracks in the economy, and along with the potential tariffs, have led the market to increase the probability of a recession going forward. Thus, the market is pricing in close to three Fed rate cuts for the remainder of 2025, but there is plenty of uncertainty around this prediction.

Although the market doesn't appear to have conviction on where rates go from here, we do expect the yield curve to continue steepening whether the Fed cuts or we see inflation edge higher. There are two scenarios we see for rates, with both scenarios leading to steeper curves in 2025. Either the Fed continues to cut rates into a weakening economy, bringing down front-end rates, or we see inflation return to the market, causing the Fed to remain on hold but long-end rates rising. Short-term interest rates are more affected by Fed policy moves than long-term interest rates, which are more impacted by long-term inflation expectations and economic growth. We have positioned the portfolio with a yield curve steepening bias to reflect this view.

We will continue to see this push and pull in the markets with the strength of the current economic indications challenging the future uncertainty around the tariff impact on inflation and employment. There is no doubt volatility of the forward path of rates will continue. Thus, we are cognizant of the risks. Furthermore, we feel the best way to position into higher uncertainty is with higher liquidity and a nimble portfolio.

Performance

For the period ending March 31, 2025 • 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 Government Bond Fund — S share	2.84	2.84	5.10	0.64	-0.70	1.11	1.98
- Expense ratio: net 0.50%, gross 0.92%; Incept. date 2/26/2010							
Bloomberg U.S. Treasury Index	2.92	2.92	4.51	-0.05	-1.67	0.95	
Bloomberg U.S. Agency Index	2.11	2.11	5.25	2.12	0.39	1.65	
Morningstar Intermediate Government Avg	2.96	2.96	4.99	0.35	-0.91	0.80	

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) 47.61% of Fund, as of Feb 28 2025: U.S. Treasury Notes: 13.67%, U.S. Treasury Notes: 7.39%, U.S. Treasury Notes: 6.79%, FNMA 30-Yr Pass-Thru: 4.12%, U.S. Treasury Bds: 3.31%, FNMA 30-Yr Pass-Thru: 3.24%, FNMA 30-Yr Pass-Thru: 3.24%, FHL Bank: 2.32%, FHLM Corp - REMIC: 1.81%, FNMA Conventional 40-Yr. Pass-Thru: 1.72%

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.

Bloomberg US Treasury Index measures the performance of the public debt obligations of the U.S. Treasury with remaining maturities of one year or more.

Bloomberg US Agency Index measures the performance of the publicly issued debt of U.S. Government agencies (e.g. Fannie Mae, Freddie Mac) and the Federal Home Loan Bank System.

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: U.S. government securities may not be fully guaranteed by the U.S government and issues may not have the funds to meet their payment obligations. The value of U.S. government securities may be affected by changes in credit ratings, which may be negatively impacted by rising national debt. The value of mortgage-related and other asset-backed securities will be influenced by the factors affecting the housing market and the assets underlying such securities. Debt securities are subject to risks such as declining prices during periods of rising interest rates. The use of derivatives (such as futures) involves additional risks and transaction costs. Inflation-linked debt securities, such as TIPS, are subject to the effects of changes in market interest rates caused by factors other than inflation (real interest rates). 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's value is influenced by the performance of the broader market. The Fund may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. In unusual circumstances, the Fund could experience a loss when selling portfolio securities to meet redemption requests for a variety of reasons. Sovereign debt securities are subject to additional 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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thrivent Asset Management