thrivent Asset Management

Mutual Funds

Thrivent High Yield Fund

Q1 2025 Commentary

LBHIX (Class S) • March 31, 2025

Management

Paul Ocenasek, CFA
Senior Portfolio Manager

Industry: 1987
Firm: 1987
Fund: 1997

Paul Tommerdahl, CFA
Senior Portfolio Manager

Industry: 2008
Firm: 2016
Fund: 2023

Executive Summary

- With the high-yield market trading at decade low spread levels, tariff uncertainty caused sentiment to change dramatically and spreads to widen ninety basis points from the low levels reached in January.
- Being underweight the CCC-rated and distressed segment was the largest contributor to Thrivent High Yield Fund's outperformance for the first quarter of 2025.
- We are cautious about the outlook for the high-yield market until we have more clarity on what the tariff impact will be on the economy and inflation expectations.

Performance factors

Tariffs took the spotlight during the first quarter creating significant uncertainty regarding inflation prospects and economic growth. This uncertainty led spreads (the additional yield over risk-free Treasuries) to increase sixty basis points during the quarter and ninety basis points from the low point reached in January as economic growth estimates declined, and inflation expectations rose. Higher-risk, CCC-rated bonds returned -0.44% for the quarter while higher-quality, BB-rated bonds returned 1.49% for the quarter. Industries most exposed to tariffs and/or the consumer, such as retail and automotive, have underperformed. Industries less exposed and more service oriented, such as financials and food & beverage, have outperformed.

The Bloomberg US Corporate High Yield Bond Index posted a 1.00% return for the quarter as the 43-basis point drop in 5-year Treasury rates helped offset the negative impact of spreads widening. Thrivent High Yield Fund outperformed the index during the quarter. The Fund's underweight to higher-risk, underperforming CCC-rated bonds helped performance. The Fund also has less duration risk than the index which helped performance as spreads widened. The Fund's exposure to metals & mining which are beneficiaries of tariffs helped performance as did credit selection in the packaging and midstream industries. Credit selection in the retail and cable industries were the largest detractors from performance.

For the 1-year period ending March 31, 2025, the Bloomberg US Corporate High Yield Bond Index posted a 7.69% return. The high-yield market was much stronger until tariff consternation caused riskier investments to trade off in the first quarter of 2025. CCC-rated bonds outperformed with a 12.18% return while distressed Ca/D rated bonds returned 33.08% for the 1-year period. Being underweight CCC-rated bonds, which helped performance during the first quarter, hurt performance for the 1-year period. The pharmaceutical and wireline industries were the best performing with returns of 23.82% and 17.10%, respectively. Bausch Health Companies liability management exercises drove the pharmaceutical industry return. Verizon's $20 billion acquisition of Frontier and Lumen's announcement of a $5 billion contract with Meta for AI caused a dramatic positive change in investor sentiment for the wireline industry.

Year-to-date we have reduced exposure to the oils & gas and auto industry in anticipation of the impact of a slowing economy and tariffs. We have reinvested the proceeds into the healthcare and pipeline companies, which should be less impacted by the above concerns.

Portfolio outlook

The high-yield market is experiencing a risk-off correction as investors digest the economic impact that tariffs will have on the economy. Although spreads have widened ninety basis points from their decade tight levels, we would expect pressure on spreads to continue in a slowing economy, particularly if a recession develops. There are several positive factors that will help dampen the impact that a slowing economy will have on the high-yield market. First, debt burdens of high-yield companies remain comfortably below long-term averages and credit ratings have crept higher over the past decade. Second, companies have still been able to access the high-yield market and issue new debt to refinance their debt maturities. While down -22% from the first quarter of 2024, $68.3 billion of high-yield debt was issued during the first quarter of 2025. High-yield mutual fund inflows have totaled $7.6 billion in 2025 and have been positive ten out of the last 12 months.

Consumer sentiment is declining, inflation expectations are increasing, and the chances of an economic recession have increased markedly. We have become more cautious about the near-term outlook and expect further pressure on the market. We are underweight the most vulnerable CCC-rated segment and have started to decrease duration with the recent swift decline in interest rates. The Fund is underweight the more cyclical building material, chemical, and retail industries. The Fund's largest overweight is in the finance, healthcare, and cable industries.

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 High Yield Fund — S share	1.08	1.08	6.81	4.12	6.17	3.95	4.70
- Expense ratio: 0.55%; Incept. date 10/31/1997							
Bloomberg U.S. Corp Hi Yld Bd Index	1.00	1.00	7.69	4.98	7.29	5.01	
Morningstar High Yield Bond Avg	0.82	0.82	6.72	4.41	6.80	4.20	

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Top 10 Holdings (excluding derivatives and cash) 6.91% of Fund, as of Feb 28 2025: iShares Broad USD High Yld Corp Bd ETF: 2.01%, Caesars Entertainment Inc: 0.66%, DIRECTV Fin LLC/DIRECTV Fin Co-Obligor Inc: 0.64%, CCO Holdings, LLC/CCO Holdings Capital Corp: 0.55%, GFL Environmental, Inc.: 0.55%, Tenet Healthcare Corp: 0.54%, Iron Mountain, Inc.: 0.54%, Viking Cruises, Ltd.: 0.49%, Drawbridge Special Opp Fd LP: 0.47%, Venture Global LNG Inc: 0.46%

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.

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.

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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