MARCH 31, 2018

# THRIVENT ASSET ALLOCATION FUNDS

**Class S Shares** | *A Quarterly Update from the Portfolio Management Team*

Q1 2018 COMMENTARY

This commentary from the Funds' portfolio management team summarizes the performance of the Thrivent Asset Allocation Funds. The managers explain the impact of economic factors, offer their outlook, and outline the Funds' positioning for the future.


**MANAGEMENT**

**Mark L. Simenstad, CFA**
Chief Investment Strategist

Industry Since: 1983
Fund Since: 2005

**David Francis, CFA**
Head of Equities

Industry Since: 1978
Fund Since: 2005

**Stephen D. Lowe, CFA**
Head of Fixed Income

Industry Since: 1996
Fund Since: 2016

**Darren Bagwell, CFA**
Senior Portfolio Manager

Industry Since: 1991
Fund Since: 2016


## Performance Factors

The equity portion of the Funds outperformed the S&P 500 with stock selection leading the way. Both Large-cap and Small-cap managers provided material outperformance, with International and Mid-cap managers also providing a modest positive contribution. On a sector basis, Information Technology was a significant outperformer, followed by Consumer Staples, Materials and Utilities. The only sector to negatively contribute was Health Care. At a macro level, the Fund's short position to the NASDAQ 100 was a negative contributor, though has more recently recovered with the Technology sector showing relative weakness in the face of increased market volatility.

Returns for fixed income in the Asset Allocation funds were moderately negative in the first quarter of 2018, as interest rates rose and credit spreads widened, working to push bond prices down. Fixed income slightly outperformed the Bloomberg Barclays U.S. Aggregate Bond Index in the first quarter, returning -1.41% versus the benchmark return of -1.46%. In the first quarter, short and intermediate rates rose significantly while long rates increased less, flattening the Treasury curve. Duration and curve positioning aided the Funds' performance, as the portfolio was moderately short duration and positioned for a flatter curve. In addition to duration, the fixed-income portion of the Funds outperformed due to an overweight in TIPS (Treasury Inflation Protected Securities). An overweight in non-agency mortgages also helped. Overall corporate bond performance was neutral, with negative selection in high yield offsetting positive performance in investment-grade corporates. Approximate gross returns for the fixed-income portions of the Funds were: leveraged loans, 1.4%; securitized assets, -1.0%; Treasuries, -1.2%, high yield, -1.4%; investment-grade corporates, -2.1%; and emerging markets debt, -2.5%. EM debt underperformed due to greater interest rate sensitivity and spread widening.

## Portfolio Outlook

At the end of 2017 the markets were significantly overbought and valuations were high. In the first few weeks of 2018 the markets became even more overbought and overvalued. This is no longer the case. In fact, volatility has returned to more normal levels and with it the markets are now significantly oversold and valuations have returned to more reasonable levels, though on some measures they remain somewhat above average. We share the market's more recent concerns that equities could remain under pressure due to increased realized volatility, geopolitical risk and a potential trade war. The Funds therefore remain underweight equity. Additionally, the Funds maintain a short position in the NASDAQ 100 as technology stocks significantly outperformed the broader market over the last year and investor crowding remains, thus the sector remains more vulnerable should market volatility continue.

The fixed-income portion of the Asset Allocation funds currently has a roughly neutral weighting in corporate bonds but is moderately underweight credit risk. Compared to strategic targets, each Fund is overweight securitized assets, including non-agency mortgages, floating-rate bonds and collateralized loan obligations (CLOs). Additionally, the funds are underweight Treasuries and emerging-market debt. The funds had been underweighted duration but moved to neutral late in the quarter, as rates appeared oversold along with signs of softening in global growth and increased uncertainly, including trade protectionism. The funds likely would move back to an underweight duration position should the above concerns subside and inflation show signs of increasing on a sustainable basis. Looking ahead, we expect the Fed to continue to raise rates in addition to reducing its balance sheet. We also expect solid economic growth, even if it moderates some. Over time we expect higher inflation as the labor market tightens. Valuation has improved across corporates and other fixed-income asset classes. We look to take advantage of any significant dislocation to add credit risk. We believe a key risk is if central banks around the globe tighten monetary policy too quickly, leading to restrictive financial conditions, reduced demand for corporates and wider spreads.

## Thrivent Asset Allocation Funds Performance

**Class S Shares** | For the period ending March 31, 2018

| Trailing Returns | 3-Month | YTD | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|---|
| **Thrivent Aggressive Allocation Fund** | 0.32 | 0.32 | 14.60 | 8.91 | 10.83 | 7.55 |
| **Thrivent Moderately Aggressive Allocation Fund** | -0.54 | -0.54 | 10.77 | 7.20 | 8.95 | 6.85 |
| **Thrivent Moderate Allocation Fund** | -0.86 | -0.86 | 7.88 | 5.57 | 7.06 | 6.14 |
| **Thrivent Moderately Conservative Allocation Fund** | -1.18 | -1.18 | 5.44 | 4.09 | 5.16 | 5.16 |

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**Risks:** The Fund invests in other funds managed by the Adviser and in directly-held equity and debt instruments. The Fund is subject to its own fees and expenses and the expenses of the other funds in which it invests, as well as the risks of the other funds in which it invests. The value of the Fund is influenced by factors impacting the overall market, certain asset classes, certain investment styles, and specific issuers. The Fund may incur losses due to investments that do not perform as anticipated by the investment adviser. Foreign investments involve additional risks, including currency fluctuations, liquidity, political, economic and market instability, and different legal and accounting standards. Bond prices may decline during periods of rising interest rates. Credit risk is the risk that an issuer of a debt security may not pay its debt, and high yield securities are subject to increased credit risk as well as liquidity risk. The use of derivatives (such as futures and swaps) involves additional risks and transaction costs, which could leave the Fund in a worse position than if it had not used these instruments. The Fund may engage in active and frequent trading of portfolio securities in implementing its principal investment strategies, which may result in higher transaction costs and higher taxes.

***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 in a mutual fund involves risks, including the possible loss of principal. The prospectus contains more complete information on the investment objectives, risks, charges and expenses of the fund, which investors should read and consider carefully before investing. Prospectuses are available at ThriventFunds.com or by calling 800-847-4836.***

The principal underwriter for the Thrivent Mutual Funds is Thrivent Distributors, LLC. Thrivent Distributors, LLC is a registered broker/dealer and member of FINRA with its principal place of business at 625 Fourth Avenue South, Minneapolis, MN 55415. Asset management services provided by Thrivent Asset Management, LLC. Both entities are wholly owned subsidiaries of Thrivent Financial for Lutherans.

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