

# Thrivent Small-Mid Cap ESG ETF

## Q4 2023 Commentary

TSME • December 29, 2023

### Management



**Charles (Chad) Miller, CFA**  
Senior Portfolio Manager

Industry: 2010  
Firm: 2013  
Fund: 2022



**Matthew Finn, CFA**  
VP, Head of Equity Funds

Industry: 1985  
Firm: 2004  
Fund: 2022



**Simon Bizien, CFA**  
Portfolio Manager

Industry: 2013  
Firm: 2022  
Fund: 2023

## Executive Summary

- Over the past year the Fund outperformed the Russell 2500 Index.
- Outperformance over the past year was driven by strong stock selection in the Health Care and Information Technology sectors.
- During the fourth quarter the Fund underperformed the Russell 2500 Index.
- Underperformance during the fourth quarter was driven by poor stock selection in the Financials and Health Care sectors as the Fund was overweight cyclical sub-industries within each sector.

## Performance factors

Over the past year, outperformance was driven by strong stock selection in the Health Care and Information Technology sectors. Within Information Technology Fair Isaac was one of the largest contributors to outperformance. Fair Isaac continues to provide trusted advice to the lending industry with enhanced product pricing and software initiatives to expand credit and minimize losses. Health Care outperformance was driven by Icon PLC. Icon PLC benefited from strong partnerships with existing clients in the contract clinical research services offering and the realization of synergies from past acquisitions. Other top contributors included Modine Manufacturing. Modine continues to focus investment on core products where they have a strong solution to help solve customer challenges including HVAC, data center, and electric vehicles.

Fourth quarter underperformance was driven by the Financials and Health Care sectors. Entering the quarter, the Fund was overweight the insurance sub-industry due to strong company-specific outlooks for Kinsale Capital and Arch Capital Group. As the market gained confidence the pace of interest rates will start to decline the relative outlook for stable insurance companies was weaker when compared to the more pro-cyclical businesses within the Financials sector. As a result, Kinsale and Arch Capital Group significantly lagged the Financials sector benchmark late in the quarter. The Fund has taken measures to address this situation. Similarly in the Health Care sector as the outlook for the general economy improved late in the quarter biopharma stocks rapidly appreciated. As the Fund is underweight biopharma this was a significant negative contributor to performance. The Fund has taken measures to address this situation. Significant positive contributions during the quarter came from Fair Isaac, Core & Main, Modine Manufacturing, and REIT holdings in self-storage. Self-storage companies Extra Space Storage and National Storage affiliates benefited from the outlook for lower interest rates that should help increase housing turnover. The Fund recently exited its position in Ally Financial, due to excessive management turnover creating corporate governance uncertainties. The Fund initiated a new position in Zebra Technologies due to the belief that the company's offering in supply chain and logistics hardware is set to improve after a difficult destocking period after the covid-inflated investment wave in supply chains.

**This fund is different from traditional ETFs.** Traditional ETFs tell the public what assets they hold each day. This fund will not. This may **create additional risks** for your investment. For example:

- You may have to pay more money to trade the fund's shares. This fund provides less information to traders, who tend to charge more for trades when they have less information.
- The price you pay to buy fund shares on an exchange may not match the value of the fund's portfolio. The same is true when you sell shares. These price differences may be greater for this fund compared to other ETFs because it provides less information to traders.
- These additional risks may be even greater in bad or uncertain market conditions.
- The fund publishes on its website each day a "Proxy Portfolio" designed to help trading in shares of the fund. While the Proxy Portfolio includes some of the fund's holdings, it is not the fund's actual portfolio. The differences between this fund and other ETFs may also have advantages. By keeping certain information about the fund nontransparent, this fund may face less risk that other traders can predict or copy its investment strategy. This may improve the fund's performance. If other traders are able to copy or predict the fund's investment strategy, however, this may hurt the fund's performance. For additional information regarding the unique attributes and risks of the fund, see the Principal Risks in the prospectus.

## Portfolio outlook

The Fund continues to focus on identifying long-term investment opportunities that are uncovered by our proprietary investment process. The Fund looks for companies that can sustainably and successfully serve primary stakeholders, address financially material topics, and have a strategy to outperform their peers. Currently, the Fund is finding opportunities in the Industrials, Materials, and Information Technology sectors. Many of these Industrial and Material companies are positioned to benefit from increased spending in the coming years due to significant stimulus investments, energy efficiency, supply chain redesign, and years of underinvestment. Opportunities in Information Technology include companies offering products and services benefitting from culture flywheels where a proactive focus on employee empowerment, inclusion, and client outcomes, attracts top-technical talent, leading to higher quality products and services, driving market share gains, further reinforcing the company's attractiveness as an employer. The economic outlook is uncertain driven by elevated inflation and higher interest rates. During uncertain times we rely on our process and our long-term investment outlook to let the market provide opportunities for our shareholders.

## Performance

For the period ending December 29, 2023 • 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 Small-Mid Cap ESG ETF (NAV)	11.68	17.87	17.87	N/A	N/A	N/A	16.07
- Expense ratio: 0.65%; Incept. date 10/5/2022							
TSME Market Price	11.69	17.89	17.89	N/A	N/A	N/A	16.12
S&P MidCap 400 ESG Index	11.64	15.18	15.18	8.72	13.35	10.39	
Russell 2500 Index	13.35	17.42	17.42	4.24	11.67	8.36	
Morningstar Mid-Cap Blend Avg	11.48	16.00	16.00	6.83	11.96	8.28	

**Top 10 Holdings** (excluding derivatives and cash) 24.28% of Fund, as of Nov 30 2023: Celestica, Inc.: 3.05%, Fair Isaac Corp: 2.89%, Arch Capital Grp, Ltd.: 2.65%, Wyndham Hotels & Resorts Inc: 2.49%, Quanta Srvcs, Inc.: 2.49%, Modine Mfg Co: 2.36%, Timken Co: 2.25%, Ameriprise Fin, Inc.: 2.07%, Lab Corp of America Holdings: 2.02%, Saia, Inc.: 2.01%

**Learn more:** [thriventETFs.com](https://thriventETFs.com) • Advisors: 800-521-5308 | [sales@thriventfunds.com](mailto:sales@thriventfunds.com) • Investors: 800-847-4836 | contact your advisor

**Risks:** Securities markets generally tend to move in cycles with periods when security prices rise and periods when security prices decline. The Fund's value is influenced by a number of factors, including the performance of the broader market and risks specific to the Fund's asset classes, investment styles, and issuers. ESG strategies may result in investment returns that may be lower than if decisions were based solely on investment considerations. Because ESG criteria exclude certain securities for non-investment reasons, investors may forgo some market opportunities available to those who do not screen for ESG attributes. The Adviser's assessment of investments may prove incorrect, resulting in losses, poor performance, or failure to achieve ESG objectives. Small- and mid-sized companies often have greater price volatility, lower trading volume, and less liquidity than larger, more established companies. The Fund is newly formed and has a limited operating history. Transactions in shares of ETFs may result in brokerage commissions, which will reduce returns. These and other risks are described in the prospectus.

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

**S&P MidCap 400® ESG Index** is a market-cap-weighted index designed to measure the performance of securities meeting sustainability criteria, while maintaining similar weights as the S&P MidCap 400 Index.

**Russell 2500™ Index** is a market-cap-weighted stock market index featuring US small-and mid-cap stocks.

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. ©2023 Morningstar, Inc. All rights reserved. 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.

This commentary refers to specific securities which Thrivent ETFs may own. Additional information about the holdings of the ETFs is available on [thriventETFs.com](https://thriventETFs.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. A fund's performance for very short time periods may not be indicative of future performance. Market returns are based on the midpoint of the bid/ask spread at market close (typically, 4 p.m. ET) and do not represent returns an investor would receive if shares were traded at other times. Current performance may be lower or higher than the performance data quoted. Call 800-847-4836 or visit [thriventETFs.com](https://thriventETFs.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 [thriventETFs.com](https://thriventETFs.com) or by calling 800-847-5836.

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