thrivent

Mutual Funds

Thrivent Asset Allocation Funds

Q4 2023 Commentary

TAAIX, TMAFX, TMAIX, TCAIX (Class S) • December 29, 2023

Management

Stephen Lowe, CFA
Chief Investment Strategist
Industry: 1996
Firm: 1997
Fund: 2016

David Royal
Chief Investment Officer
Industry: 1997
Firm: 2006
Fund: 2018

David Spangler, CFA
Head of Mixed Assets & Market Strategies
Industry: 1989
Firm: 2002
Fund: 2019

Executive Summary

- For the fourth quarter, an overweighting to total equity, domestic equity and small- and mid- (SMID) caps all added to relative performance. Equity managers in aggregate underperformed.
- For the 1-year, overweightings to total equity added to relative performance, however, overweighted SMID caps detracted.
- Fixed Income within the Funds slightly trailed estimated peer group holdings in the fourth quarter and outperformed for the year.

Performance factors

For the latest quarter, Moderately Conservative, Moderate and Moderately Aggressive outperformed while Aggressive slightly underperformed, ranging from 0.54% to -0.09%. The 1.5% overweighting to equity added to performance with equity markets strongly positive. The 5% overweighting to domestic equity modestly added to performance. Overweighted SMID caps modestly added to performance. Managers in aggregate underperformed their respective benchmarks, due primarily to SMID manager underperformance.

In the fourth quarter fixed-income returns were modestly less than estimated Morningstar peer group fixed-income holdings with a gross return of 6.90%. The Federal Reserve (Fed) held its target rate steady in the quarter to assess the lagged impact of higher rates. Treasury interest rates fell across the Treasury yield curve, which inverted further slightly. Credit spreads fell and remain tight.

Fixed income was modestly overweighted to credit risk and roughly neutral interest rate duration in the quarter. The largest positive factors contributing to relative performance included overweighted positions and selection in investment-grade corporates and emerging markets debt. Negative factors included selection within high yield and securitized assets.

For the trailing 1-year, relative performance was strong. The 4% overweighting to domestic equity added to performance. Managers in aggregate outperformed their respective benchmarks. The largest outperformance by far came from Large Cap Growth, followed by Large Cap Value, quantitative Small Cap Value, and International. Material underperformance came from SMID managers.

In early October, the overweighting to equity was moderately increased in Moderately Aggressive and Aggressive by 0.5% and 1.0%. In December equity was reduced between 0.5% and 1.4% to approximately 1.5%. Thrivent Asset Allocation Funds are in the process of removing the Low Volatility strategy, which will be complete in early January 2024, in favor of broader public and private equity exposures.

For the trailing twelve months, fixed income outperformed estimated Morningstar peer group fixed-income holdings, returning 7.48%. An underweighting in Treasuries aided performance. Also, selection was strong within securitized assets due in part to Collateralized Loan Obligations (CLOs). Selection also was positive in investment-grade corporates and emerging markets debt, offset in part by negative selection in leveraged loans and high yield bonds. Over the last twelve months, we significantly decreased leveraged loans and Treasuries while increasing investment-grade corporates along with high yield bonds. Duration increased in the quarter.

Portfolio outlook

We expect lower inflation and slower but positive economic growth to enable the Federal Reserve to cut the Fed Funds rates around mid-2024. Treasury interest rates should follow lower, although we expect continued volatility with periods of rising rates. We also expect the Treasury yield curve to steepen in 2024 as the Fed cuts rates. Credit spreads have limited room to tighten further as spreads are below average entering 2024. Yields, however, remain attractive which should attract buyers and limit spread widening along with still solid fundamentals. Defaults should rise but remain lower than recessionary levels. Additionally, we lean toward high-quality fixed income such as investment-grade corporates as high-yield corporates could be stressed by slowing growth and tighter credit standards.

While it's not unusual to string back-to-back years of above-average performance together, the feat does not come without challenges. Risks exist, particularly in the near-term. Nevertheless, we suspect the general trend will persist, albeit less aggressively. As such, we continue to hold a small equity bias in the Funds.

We favor domestic over international for a variety of reasons including peak globalization, a higher degree of innovation domestically, greater demographic issues internationally, and a more favorable climate for businesses (e.g., regulation) domestically. While there is a possibility international may outperform in the short term, we retain the capacity to add to our international underweighting if that occurs.

Large Cap's prior outperformance combined with lower rates while avoiding a recession (i.e., a soft landing) may provide an environment conducive for SMID caps to make up some ground. All things considered, an overweighting to domestic spread between large- and mid-caps gives us the flexibility to take advantage of a higher-probability opportunity.

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	Expense ratio Gross	Expense ratio Net
Thrivent Aggressive Allocation Fund (TAAIX)	10.44	18.99	18.99	5.33	11.20	8.40	1.20%	1.01%
Thrivent Moderately Aggressive Allocation Fund (TMAFX)	9.72	17.25	17.25	3.87	9.30	7.07	1.12%	0.89%
Thrivent Moderate Allocation Fund (TMAIX)	9.30	15.97	15.97	2.93	7.97	6.07	0.97%	0.79%
Thrivent Moderately Conservative Allocation Fund (TCAIX)	8.33	11.91	11.91	0.64	5.28	4.36	0.91%	0.77%

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The Adviser has contractually agreed, for as long as the current fee structure is in place, to waive certain investment advisory fees associated with the Fund. If not waived, returns would have been lower. Refer to the Fees & Expenses table in the prospectus.

Risks: The value of the Funds 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 Funds' asset classes, market cap groups, investment styles, and issuers. Securities markets generally tend to move in cycles with periods when security prices rise and periods when security prices decline. 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. The Funds invest in other funds; therefore, the Funds are dependent upon the performance of the other funds and are subject to the risks, additional fees and expenses of the other funds. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. The Adviser is also subject to actual or potential conflicts of interest. The use of quantitative investing techniques and derivatives such as futures also involve risks. High yield securities are subject to increased credit risk as well as liquidity risk. Leveraged loans, U.S. Government securities and mortgage-related and other asset-backed securities are subject to additional risk. The Funds may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. When interest rates fall, certain obligations will be paid off more quickly and proceeds may have to be invested in 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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