thrivent

Mutual Funds

Thrivent Mid Cap Stock Fund

Q3 2021 Commentary

TMSIX (Class S) • September 30, 2021

Management

Brian J. Flanagan, CFA
Senior Portfolio Manager
Industry since: 1993
Thrivent since: 1994
Fund since: 2004

Key personnel

Brett Schwiesow, CFA
Senior Portfolio Manager
Industry since: 1995
Thrivent since: 1996
Fund since: 2008

Chad Miller, CFA
Senior Portfolio Manager
Industry since: 2010
Thrivent since: 2013
Fund since: 2015

Executive summary

- Stock selection powered Thrivent Mid Cap Stock Fund outperformance for the previous three and 12 months. Three-month relative returns were led by the Industrials, Materials, Consumer Discretionary, and Information Technology sectors.
- The Industrials, Financials, and Information Technology sectors lifted the 12-month relative returns and were only slightly offset by the real estate and communication services sector returns.
- Focusing on companies with pricing power and efficiency improvements are key enablers to outperformance moving forward.

Performance factors

Well balanced returns across Thrivent Mid Cap Stock Fund resulted in positive absolute and relative performance during the third quarter of 2021. Strong stock selection within the Industrials, Materials, Consumer Discretionary, and Information Technology sectors led the quarterly outperformance vs the Russell Mid Cap Index. There were no sectors that significantly detracted from overall returns. Quanta Services led a long list of strong Industrial sector performers with the astute acquisition of Blattner Holding Company (which is not owned in the Fund). Ball Corporation elevated the Materials sector returns as the company was able to meet increasing aluminum can demand with new capacity. Consumer Discretionary returns were lifted by Chipotle Mexican Grill and Lululemon Athletica. Both companies continued to execute on their growth strategies and recorded exceptional sales growth, expanded margins, and delivered excellent return-on-invested-capital (ROIC). Within the Information Technology sector, payments company Bill.com Holdings continued to execute their “land and expand” strategy across the small- and mid-size company universe to widen their competitive moat.

The Fund had minor changes during the quarter including the following:

1. Sold Domino’s Pizza which was swapped into Chipotle
2. Sold Nuance Communications as it was purchased by Microsoft
3. Sold KeyCorp to lower exposure to regional banks after decent returns within a still competitive industry
4. Sold Host Hotels which saw solid returns after domestic travel rebounded
5. Purchased Insulet Corporation which possesses a significant product portfolio within the diabetes market

Thrivent Mid Cap Stock Fund significantly outperformed the Russell Mid Cap Index over the last 12 months. The Fund returned 46.29% vs the Index return of 38.11%. Relative performance was led by security selection within the Industrials, Financials, and Information Technology sectors which was only slightly offset by the Real Estate and Communication Services sectors. The Fund’s Industrial outperformance was spread across multiple industries and led by United Rentals, which benefited from increasing infrastructure demand for the company’s aerial work platforms and specialty services. Regional banks Western Alliance Bancorp and Zions Bancorporations buoyed the Financial sector performance as attractive valuations, exceptional credit performance, and strong capital levels provided a potent combination for investors. Bill.com and Nuance Communications, which was acquired by Microsoft, boosted returns within the Information Technology sector. Digital Realty Trust underperformed the REIT universe as investors worried too much data center capacity was being built which would potentially lower future returns for the company. Investors questioned Zillow Group’s ability to make a return above their cost of capital in their home buying business and battered the stock as a result.

Portfolio outlook

Managing a portfolio in the current environment is analogous to navigating an obstacle course that is fraught with risks and opportunities. Let’s begin with the risks. First, the Delta variant has once again caused worldwide COVID-19 cases to increase and economic growth to slow. Second, the Federal Reserve is preparing to taper asset purchases which will further slow money growth and create a headwind to market liquidity. Third, China's economic growth is slowing as the government increases regulations, attempts to limit pollution for the upcoming Olympic games, and faces a potential real-estate investment crisis. As China's growth has fueled many economies around the world, any slowdown there will reverberate elsewhere. Fourth, logistical challenges – everything from a lack of capacity, a lack of labor, and COVID-19 outbreaks shutting down production – are causing widespread product shipment delays. Fifth, the labor shortfall is resulting in extraordinary increases in wages. It is not all doom and gloom however, as many factors are providing offsetting opportunities. To begin, vaccination rates continue to increase which is helping COVID-19 infection rates to peak and begin a descent. Next, fiscal policy is expected to increase spending which will offset some of the monetary slowdown. Additionally, logistical challenges are causing many companies to find or pull forward efficiency improvements that will create long-lasting productivity gains. Finally, the plethora of job openings are lowering the unemployment rate, significantly raising wages, and increasing consumer purchasing power. Just as you need to be prepared to successfully complete an obstacle course, a clearly defined investment process is required to be successful in this environment. Our process focuses on valuation, operating performance, and a proprietary view to find those companies that can maintain a high ROIC or increase their current ROIC above their weighted-average-cost-of-capital. The current landscape calls for a particular focus on operating performance to discover those companies that have pricing power and are investing in efficiency improvements to offset cost challenges and increase their ROIC.

Thrivent Mid Cap Stock Fund performance

Class S shares | For the period ending September 30, 2021

Average annualized returns (%) Periods less than one year are not annualized.	3 months	YTD	1 year	3 years	5 years	10 years
Thrivent Mid Cap Stock Fund Class S share; Expense ratio: 0.76%	1.53	18.94	46.29	15.46	16.67	17.32
Russell Midcap® Index[1]	-0.93	15.17	38.11	14.21	14.39	15.52
S&P MidCap 400® Index[2]	-1.76	15.52	43.68	11.08	12.97	14.72
Lipper Mid Cap Core Median	-0.92	14.84	37.63	11.65	11.25	13.29
Lipper rank %	3 (7 of 321)	19 (57 of 315)	15 (45 of 314)	3 (6 of 286)	2 (4 of 248)	1 (1 of 157)

Financial professionals: Contact us at sales@thriventfunds.com or call 800-521-5308

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

[1]Russell Midcap® Index measures the performance of U.S. medium-capitalization equities.

[2]S&P MidCap 400® Index represents the average performance of a group of 400 medium capitalization stocks.

Risks: Medium-sized companies often have greater price volatility, lower trading volume, and less liquidity than larger, more established companies. 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. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. These and other risks are described in the prospectus.

This commentary may refer to specific securities which the Fund(s) may own. This information should not be considered investment advice or a recommendation of any particular security, strategy or product. A complete listing of the holdings for each of the Thrivent Mutual Funds is available on thriventfunds.com.

The Lipper median represents the median annualized total return for all reported funds in the classification. Lipper medians do not include sales charges/fees. If included, returns would have been lower. All rankings are based on total return and do not reflect sales charges. The lower the Lipper percentile ranking, the better the fund performed against its peers. Source for ranking is Lipper, Inc., a Thomson Reuters company. Lipper assigns each fund to a category after scrutinizing its portfolio and assessing the fund manager's flexibility and aggressiveness. Once return figures have been determined, Lipper ranks the relative performance of all funds in a particular category against their respective peer group.

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.

The distributor for Thrivent Mutual Funds is Thrivent Distributors, LLC, a registered broker/dealer and member FINRA/SIPC. Thrivent Asset Management, LLC, an SEC-registered investment adviser, serves as the investment adviser for the Thrivent Mutual Funds. Both entities are subsidiaries of Thrivent, the marketing name for Thrivent Financial for Lutherans.

thrivent

thriventfunds.com • 800-847-4836