

Thrivent Small Cap Growth Fund

Q4 2023 Commentary

TSCGX (Class S) • December 29, 2023

Management



Michael Hubbard
Senior Portfolio Manager

Industry: 2007
Firm: 2018
Fund: 2022



Siddharth Sinha, CFA
Senior Portfolio Manager

Industry: 2012
Firm: 2015
Fund: 2022



Mark Militello, CFA
Senior Portfolio Manager

Industry: 1996
Firm: 2022
Fund: 2023

Executive Summary

- The Fund underperformed the Russell 2000 Growth Index during the fourth quarter. The primary driver of underperformance in the quarter was an underweight to, and stock selection within the Health Care sector.
- The Fund underperformed the Russell 2000 Growth Index during the last 12 months. The primary driver of underperformance in the trailing twelve-month period was stock selection in the Health Care sector.
- From a sector standpoint, the biggest changes were the following: Health Care underweighting increased, Industrials underweighting flipped to overweighting. These changes are more a product of new idea timing rather than a tactical change.

Performance factors

Thrivent Small Cap Growth Fund underperformed the Russell 2000 Growth Index in the quarter. The underperformance was driven primarily by stock selection in the Health Care sector as well as the underweight to biotech.

Maravai Lifesciences is a life sciences and tools company that manufactures key components of mRNA. The company benefitted significantly from the production of the COVID vaccine and dramatically expanded capacity to meet expected demand from mRNA vaccines as well as support the mRNA research and development pipeline. Vaccine demand was much weaker than expected, and a prolonged funding shortage in research and development led capacity utilization to fall from above 80% to ~20%, which led to significant earnings deleverage. Argenx, a biotech company, had two negative trial readouts in the quarter. InMode, no longer held in the Fund, manufactures bi-polar radio frequency medical equipment used by dermatologists, plastic surgeons, and other doctors across a variety of use cases. The company started seeing higher interest rates impact their customers' ability to finance machines which coincided with the escalating conflict in Gaza and Israel, where roughly 70% of the company's manufacturing base is located, further amplifying the negative stock reaction.

Partially offsetting these negatives were positive contributions from Varonis Systems, a security software company, and Point Biopharma, a biotech company focused on radiopharmaceuticals was acquired, but is no longer held in the Fund.

For the last 12 months, the Fund underperformed the Russell 2000 Growth Index, with approximately two-thirds of the underperformance driven by poor stock selection in Health Care. Silk Road Medical, no longer held, a medical device manufacturer, was negatively impacted by a CMS review of a competitive procedure, where the coverage for this procedure was expanded, thus reducing the addressable market for the company. Agiliti Inc, no longer held, a healthcare services company had a CEO transition, and the new CEO changed the strategy and approach of the company. Inspire Medical, a medical device company targeting sleep apnea, was impacted by negative sentiment around new data on obesity drugs. As discussed above, Maravai and InMode were both negative contributors for the year as well.

Partially offsetting the negative performance in Health Care was the positive stock selection in Consumer Staples, Energy, and Financials. Strong relative performance in Consumer Staples was driven by e.l.f. Beauty, a value cosmetics brand that is disrupting the personal care products market with its innovation platform. Celsius Holdings contributed positively as the company's new distribution agreement with Pepsi (not held in Fund) accelerated door and shelf space gains. In Energy, TechnipFMC—an oilfield services and equipment company developing new products for offshore rigs and subsea systems that reduce production costs—saw orders accelerate.

While sector positioning of the Fund is a by-product of our stock selection process, relative sector weights are monitored and managed in the context of a rigorous approach to risk management. In the quarter, Industrials flipped from an underweight to overweight as new names were added to the Fund. Consumer Discretionary flipped from a slight overweight to a slight underweight as two names with broken theses were sold.

Portfolio outlook

With the current level of business uncertainty and the Federal Funds rate remaining at elevated levels, it is unclear by how much and how long the economy will be impacted. However, investor sentiment about the economy fluctuates much more rapidly and with greater amplitude than actual changes in economic activity. These swings in sentiment often present opportunities. As a result, positions were added to or initiated in Industrials, Information Technology, and Health Care, while other positions were reduced or sold as investment theses played out or proved no longer valid (Health Care and Consumer Discretionary). Our focus remains on finding quality growth companies with significant opportunities for growth in sales, income, and free cash flow.

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 Cap Growth Fund — S share	9.02	9.90	9.90	-1.76	13.56	N/A	10.25
- Expense ratio: net 0.95%, gross 1.16%; Incept. date 2/28/2018							
Russell 2000 Growth Index	12.75	18.66	18.66	-3.50	9.22	7.16	
S&P SmallCap 600 Grwth Index	14.28	17.10	17.10	4.26	10.42	8.96	
Morningstar Small Growth Avg	11.49	16.68	16.68	-2.29	10.99	8.09	

Learn more: thriventfunds.com • Advisors: 800-521-5308 | sales@thriventfunds.com • Investors: 800-847-4836 | contact your advisor

Top 10 Holdings (excluding derivatives and cash) 19.41% of Fund, as of Nov 30 2023: e.l.f. Beauty, Inc.: 2.36%, Guidewire Software Inc: 2.11%, Sprout Social, Inc.: 2.10%, Varonis Syst, Inc.: 2.06%, Workiva, Inc.: 2.01%, Simpson Mfg Co Inc: 1.79%, Descartes Syst Grp, Inc.: 1.78%, Saia, Inc.: 1.74%, Kinsale Capital Grp Inc: 1.73%, Houlihan Lokey, Inc.: 1.73%

The Adviser has contractually agreed, for a period of one year from the date of the most recent prospectus, to waive certain fees and/or reimburse certain expenses associated with the Fund. If not waived, returns would have been lower. Refer to the Fees & Expenses table in the prospectus.

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

Russell 2000® Growth Index measures the performance of U.S. small-capitalization growth-oriented equities.

S&P Small Cap 600 Growth Index is a marketcap weighted index that represents the average performance of a group of 600 small-capitalization U.S. 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.

Risks: Smaller, less seasoned 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. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. Securities markets generally tend to move in cycles with periods when security prices rise and periods when security prices decline. Common stocks of companies that rely extensively on technology, science or communications in their product development or operations may be more volatile than the overall stock market and may or may not move in tandem with the overall stock market. 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.

Thrivent Distributors, LLC, a registered broker-dealer and member [FINRA](https://www.finra.org), is the distributor for Thrivent Mutual Funds. Asset management services are provided by Thrivent Asset Management, LLC, an SEC-registered investment adviser. Thrivent Distributors, LLC, and Thrivent Asset Management, LLC are subsidiaries of Thrivent, the marketing name for Thrivent Financial for Lutherans.

©2024 Thrivent

