Mutual Funds

Thrivent Government Bond Fund

Q3 2021 Commentary

TBFIX (Class S) • September 30, 2021

Management

Michael G. Landreville, CFA
Senior Portfolio Manager
Industry since: 1983
Thrivent since: 1983
Fund since: 2010

Gregory R. Anderson, CFA
Senior Portfolio Manager
Industry since: 1993
Thrivent since: 1997
Fund since: 2017

Executive summary

- In the third quarter of 2021, the Fund had a return of 0.10%. In this period of rising short- to medium-term rates and falling long-term rates, the Fund was positioned to take advantage of the yield curve flattening.
- For the 12-month period ending September 30, 2021, the Fund had a return of –2.04%. This outperformed the Bloomberg Barclays U.S. Treasury Index return of -3.30%. This was a period of rising rates, in the middle- to back-end of the yield curve. The Fund's shorter duration helped relative performance.
- The Index is comprised of 100% Treasury securities, whereas the Fund has a blend of Treasuries (42%, including 4% TIPS), Securitized debt (50%), U.S. Agency debt (3%) and Sovereign debt (2%). It also has a small position in miscellaneous assets such as high-quality covered bonds and cash.

Performance factors

During the quarter, the yield curve flattened by 11.6 bps. Five-year rates went up 7.5 basis points from 0.890% to 0.965%. Thirty-year interest rates fell by 4.1 basis points. Because of the yield curve flattening, the Fund's overweighting of long treasuries and underweighting of 5-year Treasuries, helped performance. Agency Mortgage-Backed Securities (MBS) passthrough securities outperformed the Index, which has no MBS. Treasury Inflation-Protected Securities (TIPS) did well in Q3 due to higher inflation expectations. They returned 1.78%.

Due to anticipated Federal Reserve (Fed) tapering, we are reducing our long-duration Treasury holdings. This will help us with further yield curve steepening—which we expect to occur in the fourth quarter.

During the past 12 months, the Fund outperformed the Bloomberg Barclays U.S. Treasury Index. The main contributor to the outperformance was that the Fund's duration was shorter than that of the Index in a period of rising rates, which made it less sensitive to changes in interest rates. Duration measures a bond's price sensitivity to interest rate changes. Ten-year rates increased by 80 basis points from 0.69% to 1.49%. Duration and yield curve steepening effects added about 120 basis points to overall outperformance. Securitized holdings—including Agency MBS pass-through securities—contributed about 35 basis points to the outperformance.

Portfolio outlook

The quarter had two big changes: (1) moderating economic growth and moderating inflation, and (2) the announcement by the Fed that they are closer to tapering. They also increased their Fed Funds estimates for 2023 from 0.6% to about 1.0%.

This triggered a bear steepening of the yield curve, similar to what happened in 2013 during the taper tantrum. We believe for at least the first couple months of Q4, long-term rates will increase, and the yield curve will steepen.

Thrivent Government Bond 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 Government Bond Fund Class S share; Expense ratio: 0.73%	0.10	-1.72	-2.04	4.26	2.00	2.08
Bloomberg Barclays U.S. Agency Index[1]	0.06	-0.74	-0.70	4.15	2.37	2.11
Bloomberg Barclays U.S. Treasury Index[2]	0.09	-2.50	-3.30	4.89	2.23	2.21
Morningstar Intermediate Government Average[3]	-0.03	-1.44	-1.40	3.90	1.81	1.85

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

[1]**Bloomberg Barclays US Agency Index** measures the performance of the publicly issued debt of U.S. Government agencies (e.g. Fannie Mae, Freddie Mac) and the Federal Home Loan Bank System.

[2]**Bloomberg Barclays US Treasury Index** measures the performance of the public debt obligations of the U.S. Treasury with remaining maturities of one year or more.

[3]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.

Risks: The Fund's value is influenced by a number of factors impacting the overall market, in particular debt securities and the U.S. government. The value of U.S. government securities may be affected by changes in the credit rating of the U.S. government and may not be fully guaranteed by the U.S. government. The credit rating of the U.S. government may be negatively impacted by rising national debt. The value of mortgage-related and other asset-backed securities will be influenced by the factors affecting the housing market and the assets underlying such securities. 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 not pay its debt. Inflation-linked debt securities, such as TIPS, are subject to the effects of changes in market interest rates caused by factors other than inflation (real interest rates). The Fund may invest in sovereign debt securities issued by foreign governments, which are subject to additional risks, including the risk that the entity may delay or refuse to pay interest or principal. 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 use of derivatives (such as futures) involves additional risks and transaction costs. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. In unusual circumstances, the Fund could experience a loss when selling portfolio securities to meet redemption requests for a variety of reasons. The Fund may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. 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.

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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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