

# Thrivent High Income Municipal Bond Fund

## Q3 2021 Commentary

THMBX (Class S) • September 30, 2021

### Management



**Janet I. Grangaard, CFA**  
Senior Portfolio Manager

Industry since: 1984  
Thrivent since: 1988  
Fund since: 2018



**Johan Akesson, CFA**  
Senior Portfolio Manager

Industry since: 1993  
Thrivent since: 1993  
Fund since: 2018

### Executive summary

The Federal Reserve announced in late September that they will begin to taper their purchases of bonds causing a backup in long U.S. Treasury and municipal yields.

The surge in COVID-19 infections caused by the Delta strain together with new vaccine mandates in August and September impacted many municipal sectors. Lack of qualified labor is pressuring credits in the Senior Living and Health Care sectors.

By design, Thrivent High Income Municipal Bond Fund is not a pure High Yield product. The listed Bloomberg Barclays High Yield Municipal Bond Index contains only non-rated and below investment grade securities whereas the Fund allocates a significant percentage to investment grade securities.

### Performance factors

Thrivent High Income Municipal Bond Fund underperformed the Bloomberg Barclays High Yield Municipal Bond Index with a -0.31% return for the quarter for the Fund and a 0.38% return for the Index. The Fund's duration was longer than the Index which hurt when the municipal yield curve backed up in September. Duration measures a bond's price sensitivity to interest rate changes. At the same time our short on the 30-year U.S. Treasury futures contract boosted our performance.

We sold our position in a senior living facility with a heavy reliance on nursing. The surge in the delta strain, combined with vaccine hesitancy, has led to staffing difficulties for many senior living facilities with corresponding pressure on their operating margins. At the same time the sector has had narrowing credit spreads, not yet reflecting the changes to the sector. Our overall exposure to senior living decreased approximately 2% during the quarter, still slightly more than the Index. With strong cash flow into the Fund, we added credits in several sectors; Charter Schools, Higher Education, Land deals with incremental tax revenues, Industrial Revenue, General Obligation and Airports to name a few. To decrease the Funds duration, we added to our short on the 30-year U.S. Treasury futures contract.

The Fund had a 9.97% return for the past 12 months, underperforming the Index return of 11.33%, but outperforming the Morningstar High Yield Municipal category average return of 8.21%. Much of the underperformance can be explained by the portfolio's significant underexposure to below investment grade and non-rated credits compared to the Index. Below investment grade outperformed all the investment grade ratings as credit spreads tightened. The favorable resolution to the bankruptcy of a Pennsylvania recycling facility had a strong positive impact. In addition, the Fund benefited from a short on the U.S. Treasury futures contract as treasury yields rose over the longer time frame.

### Portfolio outlook

The large gains that the municipal high yield sector has had from the pandemic recovery are now mostly in the rear-view mirror. The market's attention is now on inflation

and how the Federal Reserve will be able to handle it in the coming quarters. We expect increased market volatility as more economic news is disseminated and the market reacts. We are keeping a close eye on the impact the pandemic has on credits, especially how the very tight labor market is affecting the bottom line of many senior living facilities and hospitals. We will continue to be selective buyers of lower grade credits. The duration of the portfolio is also being carefully monitored.

## Thrivent High Income Municipal Bond Fund performance

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

| Average annualized returns (%)<br>Periods less than one year are not annualized.                                     | 3 months | YTD  | 1 year | 3 years | Since inception<br>Feb. 28, 2018 |
|--|----------|------|--------|---------|----------------------------------|
| <b>Thrivent High Income Municipal Bond Fund</b><br>Class S share; Expense ratio: net 0.60%, <sup>1</sup> gross 1.62% | -0.31    | 5.25 | 9.97   | 6.31    | 5.89                             |
| <b>Bloomberg Barclays High Yield Municipal Index<sup>2</sup></b>   | 0.38     | 6.53 | 11.33  | 7.44    | —                                |
| <b>Morningstar High Yield Municipal Average<sup>3</sup></b>  | -0.35    | 4.21 | 8.21   | 5.67    | —                                |

<sup>1</sup>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. Refer to the Fees & Expenses table in the Fund's [prospectus](#). If this waiver had not been in effect, performance would have been lower.

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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.

<sup>2</sup>Bloomberg Barclays High Yield Municipal Bond Index is a market value-weighted index composed of non-investment-grade or unrated bonds.

<sup>3</sup>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: Municipal bonds may be affected by political or economic conditions at the state, regional or federal level. 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. High yield securities are subject to increased credit risk as well as liquidity risk. Changes in federal income tax laws or rates may affect both the net asset value of the Fund and the taxable equivalent interest generated from securities in the fund. Some issues may be subject to state and local taxes and/or the federal and state alternative minimum tax (AMT). Consult a tax advisor for more information about your specific situation, including state/local tax treatment. The use of futures contracts involves additional risks such as a loss in value in the underlying instrument, which could decrease the Fund's value. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. 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. 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](http://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](http://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](http://thriventfunds.com) or by calling 800-847-4836.**

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