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Mutual Funds

Thrivent High Income Municipal Bond Fund

Q4 2023 Commentary

THMBX (Class S) • December 29, 2023

Management

Johan Åkesson, CFA
Senior Portfolio Manager

Industry: 1993
Firm: 1993
Fund: 2018

Stephanie Woeppel
Senior Portfolio Manager

Industry: 2004
Firm: 2022
Fund: 2023

Executive Summary

• Thrivent High Income Municipal Bond Fund outperformed the Bloomberg 65% High Grade/35% High Yield Municipal Bond Composite Index by 23 basis points during the fourth quarter of 2023 and by 64 basis points for the calendar year 2023.
• Municipal bond yields generally moved corollary to Treasury rates during calendar year 2023, ultimately resulting in strong net performance for both the quarter and the year.
• Fund outperformance was primarily driven by its overweighting to longer-dated bonds and BBB-rated bonds.

Performance factors

During the fourth quarter, the Fund outperformed the Bloomberg 65% High Grade/35% High Yield Municipal Bond Composite Index, returning 8.59% vs 8.36%. The Fund's trailing one-year performance also beat the Index, returning 8.03% vs 7.39%.

Interest rate volatility was a consistent theme for fixed income markets throughout 2023. Financial markets navigated uncertainty in many areas including: declining inflation amidst strong labor and consumer markets, Federal Reserve (Fed) policy moves, outsized Treasury Bond issuance, a banking crisis, and heightened geo-political tensions. Interest rates rose consistently throughout the third quarter, before peaking in mid-October. As a result, Municipal bonds generally entered the fourth quarter with negative returns year-to-date. By the end of October, the market began a robust rally that continued through the end of the year, ultimately reversing all losses from the prior nine months. As a result, municipal bonds generally concluded 2023 with strong annual returns.

The two biggest contributors to the Fund's outperformance were its overweighted positions in longer-dated, higher-duration bonds and BBB-rated bonds. The Fund was actively buying the long end of the municipal new issue market throughout the year, capturing book yields not seen in more than a decade. Credit spreads also exhibited volatility during the year. Spreads generally started the year on wider footing as recession concerns were front of mind for many investors, but spreads then tightened in the third quarter, as the market started to picture a soft-landing scenario. BBB-rated bonds, broadly speaking, outperformed AAA and AA bonds.

Credit selection for the Fund was strong. The Fund's overweighted positions in the charter school and senior living sectors detracted from performance, while its holdings in the tobacco, tax-backed, and transportation sectors supported Fund outperformance. The absence of exposure to any new defaults, including the defaulted Puerto Rico Electric Power Authority (PREPA) bonds , also supported Fund performance.

Finally, most municipal bond funds experienced material net outflows in 2023. Meanwhile, the Fund experienced net investment inflows and increased its size at year-end.

Portfolio outlook

Calendar year 2024 could bring more volatility as markets continue to absorb the impact of the historic pace of Federal Reserve interest rate increases over the prior 18 months and the prospect of rate cuts coming into view. Inflation is expected to decline, but at a slower pace and with the potential for a month-over-month increase to grab headlines in the near term. Municipal flows may turn positive in 2024 as the Fed has signaled rate cuts in the latter half of the year and investors start to look at locking in current yields. Municipal bond issuance is also widely expected to increase in 2024 as issuer revenues moderate and Federal fiscal aid and COVID funds dry up. The upcoming presidential election and geopolitical tensions are anticipated to bring uncertainty to markets generally, but the credit strength inherent to most municipal issuers can provide investors a high level of confidence for long-term returns amid any near-term volatility. The Fund continues to seek out bonds where the obligors have a robust financial profile and provide investors with a strong security package. The Fund is well positioned going into 2024 due to its higher tax-exempt coupon income and an outlook from many that Federal Reserve rate cuts will commence in 2024.

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 High Income Municipal Bond Fund — S share	8.59	8.03	8.03	-0.79	2.10	N/A	2.26
- Expense ratio: net 0.60%, gross 1.20%; Incept. date 2/28/2018							
Bloomberg 65% HG/35% HY Index	8.36	7.39	7.39	0.01	2.71	3.74	
Bloomberg Hi Yld Muni Bd Index	9.21	9.21	9.21	0.75	3.49	5.00	
Morningstar High Yield Muni Avg	7.84	6.48	6.48	-1.01	1.92	3.72	

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Top 10 Holdings (excluding derivatives and cash) 59.03% of Fund, as of Nov 30 2023: New York: 9.84%, Texas: 7.91%, California: 7.48%, Florida: 7.09%, Wisconsin: 6.49%, Colorado: 4.94%, Minnesota: 4.88%, Arizona: 4.10%, Illinois: 3.84%, Ohio: 2.46%

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.

Bloomberg 65% High Grade/35% High Yield Bond Index represents the US municipal bond market, composed of 65% investment grade municipal bonds with maturities of one year or more and 35% noninvestment grade or unrated bonds.

Bloomberg High Yield Municipal Bond Index is a market value-weighted index composed of non-investment-grade or unrated bonds.

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 may not pay its debt. High yield securities are subject to increased credit risk as well as liquidity risk. 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 Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. Securities markets generally tend to move in cycles with periods when security prices rise and periods when security prices decline. In unusual circumstances, the Fund could experience a loss when selling portfolio securities to meet redemption requests for a variety of reasons. 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 alternative minimum taxes (AMT). 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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