Thrivent High Yield Fund

Q3 2021 Commentary

LBHIX (Class S) • September 30, 2021

Management

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Senior Portfolio Manager
Industry since: 1987
Thrivent since: 1987
Fund since: 1997

Executive summary

- The high-yield market remained firm in the face of slower economic growth and spread of the delta virus to produce a 3rd quarter return of 0.89% for the Bloomberg Barclays U.S. Corporate High Yield Index.
- The Energy sector continued to lead the market higher as oil remained above $70 a barrel, up from about $40 a barrel one-year ago. Some industries such as Gaming and Leisure that led the market higher as the economy re-opened underperformed during the 3rd quarter.
- The strong risk-taking sentiment that drove spreads lower from +521 basis points 1-year ago has moderated with spreads trading in a tight-range near historic lows of just under +300 basis points over the last several quarters.

Performance factors

Thrivent High Yield Fund returned 0.71% during the 3rd quarter, outperforming the Morningstar High Yield Bond category return of 0.58% and lagging the Bloomberg Barclays U.S. Corporate High Yield Index return of 0.89%. The Fund is overweight cyclical industries such as Home builders and Construction Machinery which outperformed during the quarter. Credit selection in Wirelines and Midstream contributed positively to performance while credit selection in Electrics and Banking detracted from performance. The BB sector return of 1.09% outperformed the B sector return of 0.65% and CCC sector return of 0.76%. The Fund's positive performance from being underweight in CCC-rated bonds was more than offset by its underweight in BB-rated bonds.

With the Energy sector total return leading the market by a wide margin during the last year (Oil Field Services +58.86% and Independent Energy +31.48%), the Fund brought its overweight down to neutral. In addition, exposure was reduced to several industries such as Leisure and Lodging as the return to normal travel activity is taking longer than anticipated. These funds were reinvested into Cable and Technology. We underweighted CCC-rated bonds by about 2% given this segment is trading rich and is most sensitive to the slowing economy.

Thrivent High Yield Fund returned 9.66% for the last 12-months versus the Morningstar peer group return of 10.39% and the Bloomberg Barclays U.S. Corporate High Yield Index return of 11.28%. The portfolio's underweight to CCC-rated bonds hurt relative performance during the last 12-months as CCC-rated bonds return of 18.71% was significantly higher than the overall market. In addition, being long duration during the 1st quarter detracted from performance, as it was more sensitive to changes in interest rates. Duration measures a bond's price sensitivity to interest rate changes.

Portfolio outlook

We expect the high yield market to remain healthy with default rates remaining well below historical averages. Higher interest rates, rising inflation, and tapering by the Fed are expected to cause a choppy and more volatile market going into year-end. Given these headwinds and with the market trading near historically tight levels, we have become a bit more defensive by bringing our CCC-rated bond exposure down from a neutral-weight earlier in the year to an underweight. We have also sold some investments in industries that have performed well such as Energy, Lodging, and Leisure. We have increased exposure to bank loans which perform well in a rising interest rate environment and are keeping duration neutral to slightly short the Bloomberg Barclays U.S. Corporate High Yield Index.

Thrivent High Yield 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 High Yield Fund Class S share; Expense ratio: 0.53%	0.71	3.53	9.66	4.98	5.12	6.49
Bloomberg Barclays U.S. Corporate High Yield Bond Index[1]	0.89	4.53	11.28	6.91	6.52	7.42
Morningstar High Yield Bond Average[2]	0.58	4.21	10.39	5.51	5.24	6.08

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]Bloomberg Barclays US Corporate High Yield Bond Index measures the performance of fixed-rate non-investment grade bonds.

[2]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: 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. Convertible securities are subject to additional risks such as interest rate and market risk. Leveraged loans are subject to numerous risks, including liquidity, credit, declines in the value of collateral underlying them, and detrimental legal actions against them. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. When interest rates fall, certain obligations will be paid off more quickly and proceeds may have to be invested in securities with lower yields. The Fund's value is influenced by factors impacting the overall market, certain asset classes, certain investment styles, and specific issuers. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. 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. These and other risks are described in the prospectus.

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