

Thrivent Income Fund

Q3 2021 Commentary

LBIX (Class S) • September 30, 2021

Management



Kent L. White, CFA
Senior Portfolio Manager
Industry since: 1999
Thrivent since: 1999
Fund since: 2017

Executive summary

- Thrivent Income Fund outperformed its benchmark during the third quarter as strong security selection within our investment-grade and high-yield corporate holdings continues to be a significant contributor to the Fund's performance.
- During the quarter the Fund continued to opportunistically add to positions in high-yield corporates, particularly those we believe have a higher likelihood of being upgraded to investment-grade ratings. We have also begun to have a slightly higher quality bias in investment-grade corporates, as it has become more difficult to find value in this market. The Fund remains positioned for higher interest rates and a steepening of the yield curve.
- Current valuations in the investment-grade credit market are now rich, with little room for excess returns and leaving little cushion against any negative market developments. However, there is still a generous amount of monetary and fiscal stimulus to support the economy's continued recovery and credit spreads in the U.S. corporate bond market could remain at these levels until this liquidity begins to be withdrawn.

Performance factors

Thrivent Income Fund outperformed the Bloomberg Barclays U.S. Corporate Bond Index during the third quarter by 0.26%. The Fund's outperformance was driven primarily by strong security selection within both our investment-grade and high-yield corporate holdings, overweight allocations to bank capital securities, potential "rising star" high-yield companies, and so called "reopening credits", which will benefit as the economy continues to reopen. The Fund's allocations to collateralized loan obligations (CLO) also benefitted performance during the quarter. Interest rate and curve positioning had a neutral effect on the Fund this quarter.

During the quarter the Fund continued to opportunistically add to positions in high-yield corporates, particularly those we believe have a higher likelihood of being upgraded to investment-grade ratings over the near-term. We have also begun to have a slightly higher quality bias in investment-grade corporates, as it has become more difficult to find value in this market. We have also added to our existing overweight in CLOs, which we continue to find attractive. The Fund remains positioned for higher interest rates and a steepening of the yield curve.

Thrivent Income Fund outperformed the Bloomberg Barclays U.S. Corporate Bond Index over the 12-month period ended September 30, 2021 by 1.69%. The Fund's performance over the last twelve months was heavily influenced by the Fund's defensive positioning prior to the Covid-19 pandemic, which allowed the Fund to aggressively add to risk at very attractive valuations after the worst of the market sell-off and the remainder of 2020. As such, the most significant driver of the Fund's outperformance during the twelve-month period was security selection within our investment-grade corporate holdings. Security selection within our high-yield corporates also contributed to outperformance during the 12-month period. The Fund's allocations to mortgage-backed securities and U.S. Treasuries were the largest negative contributors to performance during the period.

Portfolio outlook

Investment-grade credit spreads experienced increased volatility during the third quarter, but nearly returned to levels that haven't been seen in over two decades. The volatility was caused primarily by concerns over the rapid spread of the Delta Covid variant during the summer and a resultant downgrade of growth expectations. Current credit valuations remain rich in our view, with little room for excess returns and leaving little cushion against any negative market developments. As such, we are beginning to have a modestly higher-quality bias in our portfolios, though we believe it is too early to get overly defensive as there is still a generous amount of monetary and fiscal stimulus to support the economy's continued recovery and credit spreads in the U.S. corporate bond market could remain at these levels even as the Federal Reserve begins its tapering process. The global demand for yield also remains supportive for credit spreads. Finally, corporate credit fundamentals continue to improve, as earnings rebound and companies continue the process of repairing their balance sheets, reducing the debt they accumulated during 2020.

Thrivent Income 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 Income Fund Class S share; Expense ratio: 0.47%	0.26	-0.46	3.43	7.89	5.05	5.37
Bloomberg Barclays U.S. Aggregate Bond Index¹	0.05	-1.55	-0.90	5.36	2.94	3.01
Bloomberg Barclays U.S. Corporate Bond Index²	0.00	-1.27	1.74	7.45	4.61	4.87
Morningstar Corporate Bond Average³	-0.01	-0.76	2.42	6.87	4.31	4.77

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.

¹Bloomberg Barclays US Aggregate Bond Index measures the performance of U.S. investment grade bonds.

²Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed rate, US taxable corporate bond market.

³The 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, including the performance of the broader market, and risks specific to the Fund's asset classes, investment styles, and issuers. 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. 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 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. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. 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. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. To the extent that the financials sector continues to represent

a significant portion of the Fund, The Fund will be sensitive to changes in, and its performance may depend to a greater extent on, factors impacting this sector. 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. 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.

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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