thrivent

Mutual Funds

Thrivent Municipal Bond Fund

Q4 2023 Commentary

TMBIX (Class S) • December 29, 2023

Management

Johan Åkesson, CFA
Senior Portfolio Manager

Industry: 1993
Firm: 1993
Fund: 2022

Stephanie Woeppel
Senior Portfolio Manager

Industry: 2004
Firm: 2022
Fund: 2023

Executive Summary

• Thrivent Municipal Bond Fund outperformed the Bloomberg Municipal Bond Index in the fourth quarter by 89 basis points and by 73 Basis points for the calendar year 2023.
• The Fund's longer duration vs. the index was the main contributing factor to the strong performance.
• The Fund's larger holdings of lower investment grade, A- and BBB-rated, securities performed strong in the fourth quarter and were the best rating segments in 2023.

Performance factors

The Fund had a very strong fourth quarter return of 8.78%, outperforming the Index return of 7.89%. The yield curve shifted lower across all maturities. This movement also helped the Fund generate a strong 1-year return of 7.13%, compared to 6.40% for the Index. The market rally, likely fueled by economic news, took place after yield levels in mid-October had reached highs not seen for over a decade.

Duration ended up being the main factor contributing to Fund outperformance in 2023. The municipal yield curve saw a significant shift to lower yields in the last two months of the year with the largest shift occurring in the intermediate, 10-15 years, part of the curve. The shift in the long end of the curve was not far behind, producing strong returns both for the quarter and the year.

The Fund benefited from its increased holdings of longer dated BBB- and A-rated credits, as credit risk was rewarded by the market. These rating categories ended with the strongest performance in the investment grade universe. BBB-rated bonds, broadly speaking, outperformed AAA and AA bonds.

During 2023, Fund holdings decreased in sectors with typically higher credit ratings such as pre-refunded, water and sewer, and state general obligation . The hospital, airports, and tobacco bond sectors had very strong performance and the Fund benefited from larger allocations to these sectors.

Issuance in 2023 was meager, especially after interest rates rose in the early fall. This market movement was preceded by the announcement of larger Treasury bond auctions amidst a continuing strong labor market. Demand from m unicipal bond mutual funds was also weak with net redemptions and outflows continuing across the industry.

The fourth quarter, especially the early part of the quarter, was a fortuitous time to invest in municipal bonds. The Fund was able to buy bonds with yields not seen for many years. The Fund also took advantage of wide spreads offered for senior living facilities adding three smaller positions. The Fund benefited from strong credit selection in the fourth quarter and the full year with no new defaults among its holdings.

Portfolio outlook

The impact of significant rate increases over the prior 18 months and tighter lending standards will continue to slow the economy as we enter 2024. Although the Federal Reserve (Fed) is likely to hold rates steady early in the year, many expect that it will adopt an easing policy and cut rates in the second half of the year. If the Fed cuts rates, the inverted yield curve in both the Treasury and municipal bond market should abate. Our current outlook does not call for a severe recession, but markets could remain volatile until there is more clarity regarding inflation, economic activity, and interest rates. The budgets of most municipal bond issuers have held up well, and bond issuance is also widely expected to increase in 2024 as issuer revenues moderate due to Federal fiscal aid and COVID relief funds drying up. Given the current gridlock in Washington D.C., it seems unlikely that any significant legislation or tax code changes impacting the municipal bond market will be enacted during the election year of 2024.

The Fund will continue to maintain a longer duration than the benchmark and utilize interest rate futures, both long and short, on U.S. Treasuries. The Fund will continue to selectively add exposure to BBB-rated and A-rated bonds to pick up additional yield. With the possibility of an economic slowdown, if not a modest recession, the Fund will continue to seek out bonds where the obligors have a robust financial profile and provide investors with a strong security package. The Fund actively manages its credit risk exposure and tends to avoid sectors or bonds that could be more severely impacted by an economic slowdown. These include certain types of land deals, as well as state or local governments with higher leverage or dependence on one-time revenues. The Fund should be well positioned to take advantage of an outlook that calls for Federal Reserve rate cuts 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 Municipal Bond Fund — S share	8.78	7.13	7.13	-0.81	1.92	2.78	4.03
- Expense ratio: net 0.51%, gross 0.54%; Incept. date 10/31/1997							
Bloomberg Muni Bd Index	7.89	6.40	6.40	-0.40	2.25	3.03	
Morningstar Muni National Long Avg	8.57	6.97	6.97	-1.06	1.96	3.03	

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Top 10 Holdings (excluding derivatives and cash) 57.45% of Fund, as of Nov 30 2023: Texas: 11.91%, New York: 9.13%, California: 6.65%, Illinois: 5.43%, Florida: 4.90%, Ohio: 4.19%, Colorado: 4.06%, Massachusetts: 3.92%, Minnesota: 3.79%, Michigan: 3.47%

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 Municipal Bond Index is a market value-weighted index of investment grade municipal bonds with maturities of one year or more.

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. ©2024 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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. 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). 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. High yield securities are subject to increased credit risk as well as liquidity risk. 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. 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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