thrivent Asset Management

Mutual Funds

Thrivent Short-Term Bond Fund

Prior to Feb. 28, 2025, the fund was named Thrivent Limited Maturity Bond Fund.

Q1 2025 Commentary

THLIX (Class S) • March 31, 2025

Management

Cortney Swensen, CFA
Senior Portfolio Manager

Industry: 2005
Firm: 2011
Fund: 2020

Jon-Paul (JP) Gagne
Senior Portfolio Manager

Industry: 2004
Firm: 2018
Fund: 2021

Executive Summary

• During the first quarter, Thrivent Short-Term Bond Fund outperformed the Bloomberg U.S. Government/Credit 1-3 Year Bond Index by 0.03%. The quarter was marked by the Fed Funds rate holding at 4.25-4.5% and a decline in the 2-year Treasury yield as markets priced in more Fed cuts on potential for weaker growth.
• Politics dominated markets during the quarter as investors tried to determine the impact of the new administration's policies, including tariffs. Although spreads widened during the quarter on heightened uncertainty, credit markets have not priced in the possibility of a recession. We remain cautious on the potential for a correction; however, we continue to take advantage of higher-carry, shorter-maturity assets while leaving room for attractive investment opportunities that could arise with a more significant risk-off event.

Performance factors

Thrivent Short-Term Bond Fund outperformed the Bloomberg U.S. Government/Credit 1-3 Year Bond Index by 0.03% during the first quarter. This outperformance was largely attributable to longer duration as rates rallied, along with higher yield which offset wider spreads. During the quarter, the 2-year Treasury rate declined 36 basis points to end at 3.89%. 1-3 year corporate spreads initially tightened on continued post-election economic optimism, but began widening in late February as the new administration laid out tariff plans. After reducing our corporate exposure in late 2024 on rich valuation, we kept our overall corporate allocation relatively stable during 1Q due to increased economic uncertainty, although used the heavy issuance calendar to conduct opportunistic swaps. On the securitized side, we also moved up in quality by continuing to increase our allocation to higher-rated agency-backed securities (ABS) and agency mortgage-backed securities (MBS). Following five months of interest rate declines, we allowed duration in the portfolio to shorten during the quarter, which contributed to performance as it became clearer to the market that the Federal Reserve (Fed) is unlikely to cut rates as quickly as the market anticipated.

The most significant driver of the Fund's 12-month outperformance was our large overweight to risk assets, which offered higher yield over the time period despite spreads that ended the period close to where they began. In addition, our longer duration relative to the index contributed positively, as front-end rates declined significantly as the Fed cut rates by 100 basis points.

The Bloomberg U.S. Government/Credit 1-3 Year Bond Index is comprised of 71% U.S. Treasuries, 6% government-related securities and 23% investment-grade corporates. The Fund currently holds 62% of its assets in corporate bonds, and its holdings have an average ratings quality that is somewhat lower than the index, but still investment-grade rated. In addition, the Fund owns 30% in securitized debt. Over longer periods of time, overweights to these asset classes provide more yield, while the short-duration nature of the Fund's holdings offer attractive breakeven levels during spread-widening scenarios.

Portfolio outlook

The Fed Funds rate was kept unchanged in the 4.25-4.5% range during the first quarter. At the March Federal Open Market Committee (FOMC) meeting, the Fed's forecast for inflation ticked upward to 2.8% from 2.5% while growth expectations were revised downward to 1.7% from 2.1%, due to increased economic uncertainty introduced by tariffs. The Fed's dual mandate of price stability and maximum employment has the potential to be tested by the policies put forth by the current administration, as stagflationary forces could develop. However, at this time, the Fed's base case is that tariff-induced inflation will largely remain transitory. Its median projection is for two 25 basis point cuts in 2025, while the market is currently pricing in closer to three. The Fund has slightly longer duration than the Bloomberg U.S. Government/Credit 1-3 Year Bond Index, which is where we expect to remain over the near-term.

Despite some widening in the quarter, corporate spreads remain at relatively tight levels. We don't believe spreads are pricing in elevated risks of a weakening economy and the impact of tariffs to consumers and corporations, and thus will continue to favor corporate bonds with shorter duration and investment-grade ratings. On the securitized side, with the expectation of tariff included inflation, the consumer will continue to see their dollar stretched and therefore the consumer could see stress. Furthermore, although housing remains strong, we have started to see slower home starts and higher inventories while mortgage rates haven't fallen dramatically yet into lower rates. Lower mortgage rates could really support affordability, but we will have to wait and see how the economy progresses through this political driven uncertainty. We will continue to manage the Fund with the objective of maintaining sufficient carry while leaving room to add risk when markets offer better entry points.

Performance

For the period ending March 31, 2025 • 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 Short-Term Bond Fund — S share	1.66	1.66	6.27	3.90	3.21	2.38	3.26
- Expense ratio: 0.43%; Incept. date 10/29/1999							
Bloomberg Govt/Credit 1-3 Yr Bd Index	1.62	1.62	5.61	3.10	1.56	1.73	
Morningstar Short-Term Bond Avg	1.68	1.68	5.91	3.41	2.70	2.07	

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Top 10 Holdings (excluding derivatives and cash) 9.80% of Fund, as of Feb 28 2025: U.S. Treasury Notes: 3.67%, U.S. Treasury Notes: 1.89%, FNMA 30-Yr Pass-Thru: 0.80%, Avis Budget Rental Car Funding AESOP LLC: 0.57%, Pagaya AI Debt Grantor Trst: 0.56%, PPM CLO 2, Ltd.: 0.50%, AMSR Trust: 0.46%, OneMain Fin Issuance Trust: 0.46%, CAFL Issuer, LLC: 0.45%, Tricon Residential Trust: 0.44%

Any indexes shown are unmanaged and do not reflect the typical costs of investing. Investors cannot invest directly in an index.

Bloomberg Government/Credit 1-3 Year Bond Index measures the performance of U.S. government. bonds with maturities of 1-3 years.

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. ©2025 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: U.S. government securities may not be fully guaranteed by the U.S government and issues may not have the funds to meet their payment obligations. The value of U.S. government securities may be affected by changes in credit ratings, which may be negatively impacted by rising national debt. 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. In addition to typical risks associated with fixed income and asset-backed securities, collateralized debt obligations are subject to additional 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 may not pay its debt. 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 Fund's value is influenced by the performance of the broader market and by factors specific to an issuer within the Fund. 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. 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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