

Thrivent Balanced Income Plus Fund

Q4 2023 Commentary

IBBFX (Class S) • December 29, 2023

Management



Stephen Lowe, CFA

Chief Investment Strategist

Industry: 1996
Firm: 1997
Fund: 2013



David Spangler, CFA

Head of Mixed Assets & Market Strategies

Industry: 1989
Firm: 2002
Fund: 2019



Theron Whitehorn, CFA

Director, Fixed Income Quantitative Research

Industry: 2002
Firm: 2018
Fund: 2021

Executive Summary

- Thrivent Balanced Income Plus Fund outperformed its Morningstar peer group in both the fourth quarter and trailing 1-year.
- Fixed income holdings within the Fund outperformed estimated Morningstar peer group holdings for both periods.
- For the trailing 1-year, equity added to relative performance, with underweighted holdings in total equity and overweighted holding in small-mid (SMID) caps detracting.

Performance factors

Fixed income in the Fund for the fourth quarter returned 7.03% gross of fees. The Fund's fixed income outperformed estimated Morningstar peer group fixed-income holdings. In the quarter, the Federal Reserve (Fed) paused interest rate increases to assess the lagged impact of higher rates. Treasury interest rates fell across the Treasury yield curve, which inverted further slightly. Credit spreads fell and remain tight.

Fixed income was overweighted in credit risk and slightly underweighted in interest rate duration. Positive contributors to relative performance in the fourth quarter included an underweighting to Treasuries and overweighted positions in convertible securities, high yield bonds, emerging markets debt and securitized assets. Also, the selection was positive in Emerging Markets debt and Agency mortgage-backed securities (MBS). Negatives included interest rate positioning along the Treasury yield curve and selection in high-yield bonds and securitized assets.

For the trailing twelve months, the greatest positive contributors were overweighted positions in high yield, leveraged loans, and emerging markets along with strong selection within securitized assets, including an overweighting in collateralized loan obligations (CLOs) and an underweighting to agency mortgages. Negatives included an overweighted position in securitized assets and an underweighting in investment-grade corporates.

In the quarter and over the trailing year we decreased risk by lowering leveraged loans significantly along with decreasing emerging markets debt and preferred securities. We added to Treasuries, investment-grade corporates, and agency and non-agency mortgages mortgage-backed securities. Overall, we have reduced credit risk in the portfolio, although the Fund still takes greater credit risk relative to the peer group and less equity risk.

To manage overall Fund risk, we reduced equity by 0.50% in mid-October and by 1.00% in the third week of November.

Portfolio outlook

We expect interest rate volatility to remain elevated given competing pressures on rates including the Federal Reserve's intention to keep rates high for long, increased Treasury supply to fund deficits and the risk of sticky core inflation pressuring rates higher. Downward pressures on rates include expected slowing growth, decelerating inflation, and buying from yield seeking investors. We expect rates to decline into 2024. We also expect the Treasury yield curve to steepen into 2024 as the market prices in a peak in Fed Funds and subsequent cuts. Additionally, we favor high-quality fixed income such as investment-grade corporates as defaults in lower quality corporates such as high yield are rising and are likely to increase with slowing growth and tighter credit standards. While we are cautious at current levels, we are watching for opportunities to add credit risk should credit spreads widen materially in addition to adding alternative holdings such as convertibles, preferred securities and fixed-income closed-end funds.

While it's not unusual to string back-to-back years of above-average performance together, the feat does not come without challenges. Thus far, the equity market has rallied on a modestly improved economic picture, a slowing in the rate of inflation, and an expectation the Fed will soften its stance on rates. Risks exist, particularly in the near term. Nevertheless, we suspect the general trend will persist, albeit less aggressively.

We are underweighted in international, primarily in Europe and emerging markets. We favor domestic over international in the intermediate-to-long term for a variety of reasons including peak globalization, a higher degree of innovation domestically, greater demographic issues internationally, structural issues in Europe, and a more favorable climate for businesses (e.g., regulation) domestically. While there is a possibility international may outperform in the short-term, we retain the capacity to add to our international underweighting if that occurs.

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 Balanced Income Plus Fund — S share	7.99	12.34	12.34	2.80	6.73	5.23	5.81
- Expense ratio: 0.76%; Incept. date 12/29/1997							
MSCI World Index - USD NR	11.42	23.79	23.79	7.27	12.80	8.60	
Bloomberg MBS Index	7.48	5.05	5.05	-2.86	0.25	1.38	
Bloomberg U.S. Hi Yld Ba/B 2% Issuer Capped Index	7.19	12.56	12.56	1.75	5.49	4.64	
Morningstar LSTA Leveraged Loan Index	2.87	13.32	13.32	5.76	5.80	4.42	
Morningstar Moderately Conservative Allocation Avg	7.80	10.43	10.43	1.35	5.40	4.16	

Learn more: thriventfunds.com • Advisors: 800-521-5308 | sales@thriventfunds.com • Investors: 800-847-4836 | contact your advisor

Top 10 Holdings (excluding derivatives and cash) 18.97% of Fund, as of Nov 30 2023: Thrivent Core Int'l Eq Fd: 6.83%, Thrivent Core EMD Fd: 4.89%, Microsoft Corp: 1.45%, U.S. Treasury Bds: 0.93%, U.S. Treasury Notes: 0.87%, FNMA 30-Yr Pass-Thru: 0.86%, FHLMC 30-Yr. Pass-Thru: 0.80%, U.S. Treasury Notes: 0.79%, Apple, Inc.: 0.79%, Amazon.com, Inc.: 0.76%

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

MSCI World Index - USD Net Returns represents large- and mid-cap stocks in 23 developed-market countries.

Bloomberg Mortgage-Backed Securities Index represents the performance of securities backed by pools of mortgages.

Bloomberg US High Yield Ba/B 2% Issuer Capped Index represents the performance of Ba or B-rated corporate bond market. Issuers are constrained to a maximum 2% weighting.

Morningstar LSTA US Leveraged Loan Index reflects performance of the largest facilities in the leveraged loan market.

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: The Fund's value is influenced by a number of factors, including the performance of the broader market, the effectiveness of the Adviser's allocation strategy, and risks specific to the Fund's asset classes, market cap groups, 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 may not pay its debt. The Adviser is also subject to actual or potential conflicts of interest. The use of derivatives (such as futures) involves additional risks and transaction costs. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. 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. Leveraged loans, sovereign debt, and mortgage-related and other asset-backed securities are subject to additional risks. 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. The Fund invests in other funds; therefore, the Fund is dependent upon the performance of the other funds and is subject to the risks, additional fees and expenses of the other funds. The Fund may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. 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 use of quantitative investing techniques also involves risk. 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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