Thrivent Balanced Income Plus Fund

Q3 2021 Commentary

IBBFX (Class S) • September 30, 2021

Management

Stephen D. Lowe, CFA
Chief Investment Strategist
Industry since: 1996
Thrivent since: 1997
Fund since: 2013

David R. Spangler, CFA
Head, Mixed Asset & Mkt Strategies
Industry since: 1989
Thrivent since: 2002
Fund since: 2019

Theron G. Whitehorn, CFA
Senior Portfolio Manager
Industry since: 2002
Thrivent since: 2018
Fund since: 2021

Executive summary

- In the fixed-income portion of the Fund the key drivers of performance were high-yield bonds, leveraged loans and preferred securities, offset by convertible securities, securitized assets and alternative fixed income holdings.
- The Fund is overweight equity by approx. 2% versus its Morningstar peer group average.

Portfolio factors

Interest rates rose moderately in the third quarter, with intermediate rates rising the most and longer-term rates down slightly. Rates moved higher late in the quarter in response to inflation and a more hawkish outlook for the Federal Reserve, with the first interest rate hike expected at the end of 2022 or early 2023. Credit spreads, a form of risk premium, increased slightly. Total returns were muted across most of fixed- income with rates and credit spreads little changed. Yields rose but remain at low levels. Lower-quality segments such as high yield and leveraged loans outperformed with high-quality segments such as Treasuries and investment-grade corporates trailing slightly. Return differentials were compressed, driven by lower rates and tighter credit spreads. The Fund was moderately short duration, which positively impacted relative performance as intermediate rates rose in the quarter.

The Fund was overweight total equity for the quarter when the markets were negative, resulting in negative contribution. Within domestic equity, an overweight to large-caps aided performance and within international, an underweight to Emerging Markets added relative performance. Additionally, equity manager performance was strong, especially by the domestic large-cap value and mid-cap core managers, along with the international strategies.

Fixed income remains moderately overweight risk. In the third quarter corporate holdings fell by about 2% almost entirely due to lower holdings of leveraged loans. High-yield corporates increased modestly. Also, securitized assets including Agency (mortgage-backed securities) MBS and collateralized loan obligations (CLOs) increased about 3% while alternative assets such as closed-end funds and preferred securities decreased. Corporate bonds including high yield, investment-grade bonds and leveraged loans make up about 40% of fixed income. Securitized assets total about one-third of assets, emerging-markets debt about 11%, convertibles about 6% and preferred securities about 4% of the Fund.

Prior to the latest quarter, the Fund was repositioned to its new Morningstar category benchmark, US Fund Allocation—30% to 50% Equity, which included a reduction of equity to its current target of 45%. This target is approximately 3%-4% overweight the Fund's Morningstar category. In the latest quarter, total equity was reduced by 2%, leaving the Fund approximately 2% overweight equity versus its Morningstar peer group average.

Over the last twelve months, key drivers of fixed income performance included convertible securities, preferred securities, closed-end funds, and business development companies (BDCs). An underweight in Agency MBS also contributed to relative performance along with selection in investment-grade corporates and high yield. Additionally, interest rate positioning helped relative performance. An underweight to corporate bonds had a small negative impact on performance.

Over the trailing year the equity allocation added to relative performance. Within equity the Fund benefited from an overweight to domestic versus international, and within international an overweight to developed versus Emerging Markets also aided relative performance. Additionally, equity manager performance has been strong, especially by the large-cap value manager, along with the mid- and small-cap managers.

Portfolio outlook

We expect solid economic growth and rates to increase further by the end of the year as the economy further normalizes as the surge in Delta variant COVID-19 cases recedes. Monetary and fiscal policy should remain supportive. We also expect higher than normal inflation to persist into 2022. Additionally, we expect the Federal Reserve to formally announce the start of tapering of asset purchases late this year and start raising rates at the end of 2022 or early 2023. Market reaction to the Federal Reserve should remain contained unless the timeline for hikes is accelerated. We expect rates to rise through the year and will maintain short duration positioning until it appears rates have topped. Credit spreads appear rich with levels well below average. We expect spreads to be rangebound to moderately wider. Future fixed income returns will come mostly from yield versus price appreciation.

The Fund is underweight corporates including high yield and leveraged loans and overweight convertible and preferred securities. Management will continue to maintain a risk overweight, but less so given relatively expensive valuation. We favor high yield and leveraged loans over investment-grade credit, but expect periodic episodes of volatility as richer valuations make credit more susceptible to backups. Securitized assets including CLOs offer attractive valuations relative to corporates. We expect to maintain a strategic overweight to credit but will remain tactical depending on valuation. We also expect to remain overweight alternative assets including preferred securities, closed-end funds and convertibles, but intend to trim risk if markets continue to richen. We would use any material pullback to add risk.

We remain overweight Equity vs. Fixed Income by approximately 2% and consistent with the second quarter, we favor domestic over international. Within international, we favor developed over Emerging Markets. In aggregate the Funds are overweight more defensive areas of the market including growth, momentum and technology.

Thrivent Balanced Income Plus 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[1]
Thrivent Balanced Income Plus Fund Class S share; Expense ratio: 0.79%	0.44	8.38	19.37	8.26	8.00	9.31
Morningstar Allocation—30% to 50% Equity Category Average[2]	-0.47	5.42	13.29	7.18	6.37	6.07
Bloomberg Barclays U.S. Aggregate Bond Index[3]	0.05	-1.55	-0.90	5.36	2.94	3.01

[1]Effective August 16, 2013, Thrivent Balanced Income Plus Fund changed its investment strategy; 10-year peer group comparisons are less relevant than other time periods.

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

[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.

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

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 not pay its debt. When interest rates fall, certain obligations will be paid off more quickly and proceeds may have to be invested in securities with lower yields. Leveraged loans, sovereign debt, and mortgage-related and other asset-backed securities are subject to additional risks. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. 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. The Adviser is also subject to actual or potential conflicts of interest. The Fund invests in directly-held equity and debt instruments and in other funds managed by the Adviser or an affiliate. The Fund is dependent upon the performance of the other funds and is subject to the risks and additional fees and expenses of the other funds. The use of quantitative investing techniques and derivatives such as futures also involve risks. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. 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.

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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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