

# Thrivent Opportunity Income Plus Fund

## Q4 2023 Commentary

IIINX (Class S) • December 29, 2023

### Management



**Kent White, CFA**

VP, Fixed Income Mutual Funds

Industry: 1999  
Firm: 1999  
Fund: 2015



**Stephen Lowe, CFA**

Chief Investment Strategist

Industry: 1996  
Firm: 1997  
Fund: 2018



**Theron Whitehorn, CFA**

Director, Fixed Income Quantitative Research

Industry: 2002  
Firm: 2018  
Fund: 2021

### Executive Summary

- Thrivent Opportunity Income Plus Fund outperformed Morningstar's Multisector Bond category in the fourth quarter and for the full year.
- The Fund outperformed the Multisector Bond category in the quarter due to interest rate positioning, an underweighting to Treasuries and selection within securitized assets.
- The Fund outperformed for the full year due to an underweighting in Treasuries, overweighted position in emerging markets debt, and strong selection within securitized asset holdings.

### Performance factors

In the fourth quarter of 2023, the Fund outperformed Morningstar's Multisector Bond category with a net return of 6.11% versus 5.68% for the category. Absolute returns were positive due to lower interest rates and tighter credit spreads. The Federal Reserve (Fed) held its target rate steady in the quarter 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 remained tight versus long-term averages.

The Fund maintains a low duration versus broad fixed income indices but was modestly long duration versus estimates for the Multisector Bond category, which helped relative performance as rates declined in the quarter. The Fund had moved to modestly long-duration positioning in anticipation of the Fed ending rate hikes.

The strongest positive contributors to relative performance were duration positioning along with an underweighting to and selection within Treasuries. Selection also was strong within securitized assets due to holdings of Collateralized Loan Obligations (CLOs) and asset-backed securities (ABS). An overweighting to emerging markets debt also helped along with strong selection within the asset class. Additionally, overweighted positions in preferred securities and closed-end funds helped. Negatives included an overweighting in non-agency mortgages, which underperformed, along with corporate bond selection within investment-grade and high-yield bonds. An overweighting in cash also detracted from relative performance.

For the trailing twelve months, the Fund outperformed Morningstar's Multisector Bond category with a net return of 8.83% versus 8.13%. Absolute returns were positive due to income from fixed-income holdings, lower intermediate interest rates, and lower credit spreads across corporate bonds and loans. Key positive factors helping relative performance, included an underweighting to Treasuries and very strong selection within securitized holdings due to positioning in CLOs, ABS, and agency mortgage-backed securities (MBS). Other positives were overweighted positions in leveraged loans and emerging markets debt, and selection within emerging markets debt and high yield. Alternative holdings also helped, including preferred and convertible securities, and small positions in closed-end funds. Negative contributors to performance included overweighted positions in cash and MBS and poor selection in leveraged loans. Additionally, rate and yield curve positioning were negative.

In the quarter and over the trailing year we substantially lowered holdings of leveraged loans. We reduced leveraged loans in part to lower risk. Also, we preferred the better liquidity and credit quality of high-yield bonds versus loans while controlling overall portfolio duration with Treasury futures versus using loans to shorten duration. Additionally, we decreased risk and added higher-quality fixed income by lowering emerging markets debt, high yield, non-agency mortgages and preferred securities while adding to agency mortgages, Treasuries, and investment-grade corporate bonds. The moves were made to better position relative to the Morningstar peer group and dampen volatility. We also moderately lengthened duration over the past year in anticipation of the Fed pausing rates hikes.

### 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 rate include expected slowing growth, decelerating inflation, and buying from yield seeking investors. We expect rates to decline into 2024. We expect the Fed to pause in the fourth quarter and hold rates steady with rate cuts later in 2024 as inflation slows along with the economy. We 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 spreads widen substantially, including holdings such as investment-grade and high-yield corporate bonds in addition to adding alternative fixed income such as convertible and preferred securities.

## 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 Opportunity Income Plus Fund — S share	6.11	8.83	8.83	-0.25	2.30	2.57	4.15
- Expense ratio: 0.65%; Incept. date 12/29/1997							
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 Multisector Bond Avg	5.68	8.13	8.13	0.10	2.93	2.83	

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**Top 10 Holdings** (excluding derivatives and cash) 17.14% of Fund, as of Nov 30 2023: Thrivent Core EMD Fd: 9.24%, U.S. Treasury Notes: 2.22%, FNMA 30-Yr Pass-Thru: 1.09%, U.S. Treasury Bds: 1.04%, FNMA 30-Yr Pass-Thru: 0.65%, FHLMC 30-Yr. Pass-Thru: 0.65%, Vanguard Sht-Tm Corp Bd ETF: 0.62%, FNMA 30-Yr Pass-Thru: 0.57%, U.S. Treasury Notes: 0.55%, FNMA 30-Yr Pass-Thru: 0.51%

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

**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:** 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. Leveraged loans, sovereign debt, mortgage-related and other asset-backed securities are subject to additional 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, investment styles, and issuers. The Adviser is also subject to actual or potential conflicts of interest. The use of derivatives such as futures involves 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. 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. 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 securities, which may result in higher transaction costs and taxes. When interest rates fall, certain obligations will be paid off more quickly and proceeds may have to be invested in lower-yielding securities with lower yields. 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](https://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](https://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](https://thriventfunds.com) or by calling 800-847-4836.

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