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Thrivent Opportunity Income Plus Fund

Q3 2021 Commentary

IIINX (Class S) • September 30, 2021

Management

Stephen D. Lowe, CFA
Chief Investment Strategist
Industry since: 1996
Thrivent since: 1997
Fund since: 2018

Gregory R. Anderson, CFA
Senior Portfolio Manager
Industry since: 1993
Thrivent since: 1997
Fund since: 2005

Conrad E. Smith, CFA
Senior Portfolio Manager
Industry since: 1990
Thrivent since: 2004
Fund since: 2013

Kent L. White, CFA
Senior Portfolio Manager
Industry since: 1999
Thrivent since: 1999
Fund since: 2015

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

Executive summary

- The Opportunity Income Plus Fund returned 0.35% in the quarter versus 0.26% for Morningstar's Multisector Bond category.
- Positives for relative performance included an overweight to leveraged loans, Collateralized Loan Obligations (CLOs), and securitized selection. Negatives included interest rate positioning, emerging-markets bonds and alternative assets.

Performance factors

Thrivent Opportunity Income Plus Fund outperformed Morningstar's Multisector Bond category in the third quarter with a return of 0.35% net of fees versus 0.26% for the peer group average. The Fund also outperformed the Bloomberg Barclays Aggregate Bond Index, which returned 0.05%. Interest rates rose moderately in the third quarter, with intermediate rates rising the most and longer-term rates close to unchanged. Rates moved higher late in the quarter in response to inflation and a more hawkish outlook for the Federal Reserve (Fed), 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 in the second quarter began managing to the Morningstar category instead of a custom index. The Fund continues to make adjustments to optimize performance while at the same time keeping a shorter duration focus and differentiating itself from another Thrivent fund in the same category – Thrivent Multidimensional Income Fund. Positive contributors to relative performance included an overweight to leveraged loans, and strong selection within securitized assets from non-agency mortgages and CLOs. Negative contributors included interest rate positioning, as longer rates were unchanged to down and Thrivent Opportunity Income Plus Fund was positioned for the interest rate curve to steepen. Other factors included negative selection in emerging-markets debt and a slightly negative impact from alternatives, including convertible and preferred securities.

Thrivent Opportunity Income Fund has been repositioning toward Morningstar's Multisector Bond category. The new strategy was adopted at the beginning of the second quarter, resulting in increases in high yield, investment-grade corporates, and convertible securities, and decreases in securitized assets and leveraged loans. The Fund further increased high yield through the third quarter while reducing leveraged loans. Within securitized assets, the Fund reduced Agency mortgage-backed securities (MBS) as they appeared rich while adding to CLOs and non-agency mortgages. Additionally, we have increased Thrivent Opportunity Income Plus's duration to lessen the mismatch to the Morningstar category while maintaining an overall shorter duration profiles versus broader fixed-income indices, such as the Bloomberg Barclays Aggregate Index. Corporate bonds including high yield, investment-grade bonds and leveraged loans make up about 56% of the Fund's assets. Securitized assets total about 25% of assets, Emerging Markets debt about 13%, and preferred and convertible securities each comprise about 3% of the Fund. Additionally, we adopted new indices to start the second quarter for high yield, emerging-markets debt and leveraged loans, moving away from custom indices to published indices. We also changed the investment-grade corporate index from a one-year to five-year index to an index including one-year to 10-year maturities.

The Fund over the last twelve months returned 4.76% net of fees versus 6.31% for the Multisector Bond category and -0.90% for the Bloomberg Barclays Aggregate Index. The Fund did not start positioning versus the Morningstar category until the beginning of the second quarter. Over the trailing twelve months interest rate positioning was a positive as rates rose and the Fund was positioned short interest rate duration, which made it less sensitive to rising rates. Strong security selection in securitized assets also helped relative performance along with an underweight to Treasuries. Negative selection in investment-grade bonds and leveraged loans hurt performance. The Fund also had less credit risk relative to the category, especially in high yield, which negatively impacted performance as risk outperformed.

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 significantly overweight leveraged loans versus estimated peer holdings in the Morningstar Multisector Bond category. The Fund also is underweight high yield and investment-grade credit. Additionally, the Fund is overweight emerging-markets debt, slightly overweight securitized assets, and underweight Treasuries. Within securitized assets, the Fund maintains an overweight to non-agency mortgages and CLOs as we believe these assets provide attractive risk-adjusted returns. Interest-rate positioning remains short duration versus the category, but less so than earlier this year. The Fund also is overweight convertibles, preferred securities, and alternatives. Positioning continues to evolve to optimally position the Fund versus the Morningstar category, including likely further reducing leveraged loans and increasing high yield. Management will seek continue to maintain a moderate risk overweight, in addition to adding risk on significant dips.

Thrivent Opportunity 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*
Thrivent Opportunity Income Plus Fund Class S share; Expense ratio: 0.64%	0.35	1.44	4.76	3.99	3.56	3.58
Morningstar Multisector Bond Average[1]	0.26	2.20	6.31	4.99	4.06	4.57
Bloomberg Barclays U.S. Aggregate Bond Index[2]	0.05	-1.55	-0.90	5.36	2.94	3.01

*Fund was in a different category during this time. Effective August 16, 2013, Thrivent Opportunity Income Plus Fund changed 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.

[1]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.

[2]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, 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. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. The use of derivatives such as futures involves additional risks. An ETF is subject to additional fees and expenses, tracking error, and the risks of the underlying investments that it holds. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. 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 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 may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. These and other risks are described in the prospectus.

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