thrivent

Mutual Funds

Thrivent Asset Allocation Funds

Q1 2024 Commentary

TAAIX, TMAFX, TMAIX, TCAIX (Class S) • March 28, 2024

Management

Stephen Lowe, CFA
Chief Investment Strategist
Industry: 1996
Firm: 1997
Fund: 2016

David Royal
Chief Investment Officer
Industry: 1997
Firm: 2006
Fund: 2018

David Spangler, CFA
Head of Mixed Assets & Market Strategies
Industry: 1989
Firm: 2002
Fund: 2019

Executive Summary

• First quarter performance was strong with relative performance ranging from 0.26% to 1.12%. Both the top-level tactical allocation and managers in aggregate contributed to the outperformance.
• One year performance was strong with relative performance ranging from 1.15% to 2.05%. Overweighted holdings to total equity and domestic equity added to relative performance, however, overweight small and mid (SMID) Caps detracted.
• Overweight growth added to relative performance in the quarter and one year. Low Volatility strategy detracted from performance for the one year.

Performance factors

Thrivent Asset Allocation Funds outperformed their Morningstar peer groups in the latest quarter, ranging from 0.26% to 1.12%. The approximate 1.5% overweight equity added to performance with equity strongly positive and better than fixed income by more than 10%. The approximate 5% overweight to domestic equity also strongly added to performance with domestic outperforming international by about 7%-8%. Managers in aggregate outperformed their respective benchmarks, due primarily to SMID and growth managers. Top outperforming managers included Mid Cap Stock, Large Cap Growth, Small Cap Growth, Small Cap Stock and Emerging Markets. Underperforming managers included fundamental Mid Cap Value and International Core.

In the first quarter, fixed-income returns moderately outperformed the estimated Morningstar peer group fixed-income holdings with a gross return of -0.27%. Interest rates rose across the Treasury curve in response to higher-than-expected inflation and expectations the Fed would hold its target rate higher for longer. Credit spreads narrowed and remained very tight versus long-term averages.

For the trailing 1-year, relative performance was strong against the Funds' respective Morningstar peer groups, ranging from 1.15% to 2.05%. The approximate 2% overweight equity added to performance with equities up materially over fixed income by approximately 25%. The approximate 5% overweight to domestic equity strongly added to performance with domestic outperforming by 13% to 21% over developed and emerging markets. Overweight SMID Caps detracted with SMID Caps underperforming large caps by about 9%. Managers in aggregate outperformed their respective benchmarks. The largest outperformance by far came from Large Cap Growth, followed by Large Cap Value and the international manager. Material underperformance came from SMID managers, including Small Cap Stock, Mid Cap Growth, Small Cap Growth and Mid Cap Stock. Within market factors, the overweight to growth strongly added to performance with Growth outperforming by 18%, while the low volatility strategy strongly detracted.

For the trailing twelve months, fixed income outperformed estimated Morningstar peer group fixed-income holdings, returning 4.03%. The largest positive contributor to performance was selection within securitized assets, which included underweighting agency mortgages and overweighting non-agency mortgages and CLOs. Underweighted holdings in Treasuries and selection within investment-grade corporates and emerging markets debt also helped relative performance. The largest negative contributors were interest rate and Treasury curve positioning and selection within high-yield bonds. Total Equity was trimmed several times back to approximately 1.5% to 2% targets. In early January, the final sale of the Low Volatility strategy brought the strategy to a near 0% weight.

Portfolio outlook

Thus far, 2024 has exceeded expectations. Not only have U.S. large cap equities managed to extend the rally beginning in Q4 of 2023, but it has done so in historic fashion, with a move that marks the largest “low volatility” rally in more than 75 years. Although this type of strength instinctively raises concerns regarding a material drawdown, history suggests otherwise. Typically, a rally of this form is associated with a recent and meaningful drawdown (such as 2022), an improving economic landscape, and a dovish pivot in monetary policy. At present, all three conditions are met. Moreover, the prospects for artificial intelligence (AI)-related productivity gains have added to a sense of market optimism. Consequently, we maintain a modest equity overweight, and we remain poised to raise the equity weight in the event of near-term weakness.

We expect inflation to continue to decline but on a bumpy, uneven path given stickier core service inflation. We also expect the Fed to begin cuts in the Fed Funds rate around mid-year, but to proceed on a deliberate, measured pace to ensure inflation does not reignite. Treasury rates should follow Fed Funds lower. Credit spreads remain rich versus history with limited room to materially tighten further. We lean toward high-quality fixed income such as investment-grade corporates. While we are cautious at current levels, we are watching for opportunities to add credit risk should spreads widen materially.

Fixed income is positioned slightly overweight credit risk and duration. Positioning changed little in the quarter with high-yield bonds and Treasuries increasing moderately and cash declining. Over the last twelve months, we significantly decreased leveraged loans while increasing investment-grade corporates along with high-yield bonds. We lowered loans due to weakening fundamentals and lower liquidity. The strategy is to control duration with Treasury futures while holding high-yield bonds, essentially replicating floating-rate loans but with more liquidity. Other changes include increased securitized assets, primarily through agency mortgages. Duration also increased in the quarter in anticipation of lower rates.

Performance

For the period ending March 28, 2024 | Periods less than one year are not annualized.

Average annualized returns (%)	3 months	YTD	1 year	3 years	5 years	10 years	Expense ratio Gross	Expense ratio Net
Thrivent Aggressive Allocation Fund (TAAIX)	8.40	8.40	22.01	6.49	10.35	9.11	1.18%	1.00%
Thrivent Moderately Aggressive Allocation Fund (TMAFX)	7.13	7.13	19.25	5.23	8.56	7.60	1.12%	0.89%
Thrivent Moderate Allocation Fund (TMAIX)	5.99	5.99	17.21	4.34	7.41	6.48	0.99%	0.80%
Thrivent Moderately Conservative Allocation Fund (TCAIX)	3.50	3.50	11.38	1.78	4.58	4.51	0.93%	0.78%

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The Adviser has contractually agreed, for as long as the current fee structure is in place, to waive certain investment advisory fees associated with the Fund. If not waived, returns would have been lower. Refer to the Fees & Expenses table in the prospectus.

Risks: The value of the Funds 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 Funds’ 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 Funds invest in other funds; therefore, the Funds are dependent upon the performance of the other funds and are subject to the risks, additional fees and expenses of the other funds. 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 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 use of quantitative investing techniques and derivatives (such as futures) also involve risks. High yield securities are subject to increased credit risk as well as liquidity risk. Leveraged loans, U.S. government securities and mortgage-related and other asset-backed securities are subject to additional risk. When interest rates fall, certain obligations are paid off more quickly and proceeds may have to be invested in 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.

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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