



VictoryShares Short-Term Bond ETF

QUARTERLY COMMENTARY • Q4 // December 31, 2023

Executive Summary

Fixed income concluded 2023 with a bang! Fourth quarter inflation reports trended lower, and as the Federal Reserve (the Fed) kept rates stable the market regained confidence after a frustrating third quarter. Positive performance was driven by a downward swing in the Treasury curve, pushing yields down. Against this backdrop, the VictoryShares Short-Term Bond ETF was in line with its benchmark, the Bloomberg 1-3 Year Credit Index, for the quarter ended December 31, 2023.

Market Update & Commentary

Shifts in monetary policy expectations defined the fourth quarter of 2023, leading to a sense of optimism going into 2024. Unemployment slid to 3.7%, and the Consumer Confidence Index rose in December to highs not seen since 2021. All these factors, taken together, fostered greater investor confidence in a soft-landing narrative.

The Consumer Price Index, a popular measure of prices paid (and, thus, inflation), declined to 3.1% from 3.7% during the fourth quarter, indicating that the Fed continues to inch toward its target of 2% inflation. As a result of moderating inflation and a resilient economy, the Fed held rates steady during its meetings during the quarter. These factors led to positive returns within the fixed income market, with November turning out to be the best month for bonds since the 1980s. The remarkable returns can largely be attributed to the downward shift seen in Treasury yields from the 10-year Treasury's peak of 5% in October. This historic rally continued through December and was sufficient to swing fixed income's performance for the full calendar year to the black for the first time since 2020. While the dramatic shifts along the yield curve observed during the fourth quarter might give investors pause when considering fixed income, current yields still present a historically attractive opportunity, even if not at October's high of 5%.

Market expectations for rate cuts in 2024 steadily increased throughout 4Q23 on the Fed's decision to pause and a belief that the hiking cycle has reached completion. Many market participants believe rate cuts are coming soon, and this confidence was an important factor in the positive momentum that drove fixed income and equities higher. At the beginning of the quarter the market priced in two to three 25-basis-point* cuts in 2024, but the quarter ended with interest rate traders pricing federal funds futures for nearly seven cuts. Victory Income Investors, though, believes that the Fed remains data dependent, as it was reiterated at the December Federal Open Market Committee meeting that future monetary policy decisions will hinge on seeing "further evidence to build confidence that inflation is moving down sustainably." Chairman Powell also emphasized the Committee's meeting-by-meeting decision process in his reminder that should economic circumstances change, keeping rates higher for longer is not off the table entirely.

	Yield (%)	Spreads (bps)			Returns (%)	
		12/31/2023	9/30/2023	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.1	-	-	-	5.7	4.1
U.S. Aggregate	4.5	42	52	-10	6.8	5.5
U.S. Credit	5.0	93	111	-19	8.2	8.2
Corporate	5.1	98	120	-22	8.5	8.5
Aa	4.6	47	57	-10	8.3	7.0
A	4.9	84	105	-20	8.2	7.7
Baa	5.3	121	146	-25	8.8	9.5
Crossover	6.0	183	235	-52	8.0	11.2
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	7.8	323	395	-72	7.2	13.4
Ba	6.4	201	265	-64	7.4	11.6
B	7.7	317	396	-79	7.0	13.8
Caa	12.6	751	846	-94	6.9	19.8
Ca-D	19.5	1,173	1,145	-271	5.1	16.4
Structured Product						
U.S. MBS	4.7	46	66	-20	7.5	5.0
ABS	5.0	68	66	+2	3.5	5.5
CMBS	5.3	126	131	-5	5.2	5.4

Source: Bloomberg

Credit spreads tightened across fixed income asset classes apart from asset-backed securities (ABS) in the fourth quarter. Tighter credit spreads indicate lower compensation for taking on additional risk. Fixed income outperformed in the fourth quarter, driven by a falling yield curve. The decline was sufficient to swing full-year returns in the Bloomberg U.S. Aggregate Bond Index to +5.5% when the index had concluded the first nine months of 2023 at -2.1%.

*A basis point is 1/100th of a percentage point.



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Portfolio Performance & Positioning

During the quarter, we increased our allocation to asset-backed securities, Treasuries, and cash, while reducing corporate exposure.

Contributors

- > Best performers relative to the index were ABS, Treasuries, real estate investment trusts (REITs), property & casualty insurers, and commercial mortgage-backed securities (CMBS).
- > From a credit perspective, relative to the index, our allocation to BBB, AAA and high yield bonds provided the best performance.
- > Allocation and selection added 19 basis points (bps) to performance.

Detractors

- > Sectors that detracted from performance relative to the index included banking, technology, pharmaceuticals, healthcare, and midstream.
- > From a credit perspective, relative to the index, single-A and AA bonds performed the worst.
- > Duration subtracted 11 bps from performance, as the Fund's portfolio is more laddered than the index, which is concentrated in the 2-3 year maturity range.

ANNUALIZED RATE OF RETURN (%)

VictoryShares Short-Term Bond ETF (USTB)	QTR	YTD	1YR	3YR	5YR	Since Inception	Expense Ratio (%)	
						Oct 24, 2017	Gross	Net
Net Asset Value (NAV)	3.01	6.65	6.65	1.50	2.89	2.59		
Closing Market Price	3.03	6.67	6.67	1.50	2.93	2.62	0.35	0.35
Indexes								
Bloomberg 1-3 Year Credit Index	3.01	5.28	5.28	0.51	2.03	—		

Past performance does not guarantee future results. The performance data quoted represents past performance and current performance may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, visit www.victoryshares.com. ETF shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market price returns are based on the price of the last reported trade on the Fund's

primary exchange. If you trade your shares at another time, your return may differ. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which Fund performance would have been lower. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through October 31, 2024. Index performance is shown for illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index.



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SECTOR WEIGHTING (%)

Sector	USTB	Bloomberg Credit (1-3 Y)
ABS	35.3	–
CMBS	5.4	–
Finance	22.6	38.2
Government Related	1.9	18.3
Industrials	11.8	39.5
Mortgage-Backed	1.1	–
Treasury	8.2	–
Utilities	1.0	3.9
Cash	11.6	–

FUND TOP 10 HOLDINGS

	Weighting (%)
U.S. Government	9.51
Space Coast Credit Union 2023-1	0.92
Wheels Fleet Lease Funding 1 LLC	0.90
U.S. Bank Auto Credit-Linked Notes 2023-1	0.89
Evergreen Credit Card Trust 2021-1 A	0.84
Wells Fargo & Company	0.84
Hertz Vehicle Financing LLC	0.79
Ford Motor 2023-1	0.74
Oregon Community Credit Union 2023-1	0.73
Truist Financial Corp.	0.72

Carefully consider a fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus or summary prospectus containing this and other important information, visit www.vcm.com/prospectus. Read it carefully before investing.

All investing involves risk, including the potential loss of principal. The Fund has the same risks as the underlying securities traded on the exchange throughout the day. Redemptions are limited, and commissions are often charged on each trade. ETFs may trade at a premium or discount to their net asset value. Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. Bonds and bond funds will decrease in value as interest rates rise and vice versa. Credit risk refers to the possibility that debt issuers may not be able to make principal and interest payments or may have their debt downgraded by ratings agencies. High yield securities may be more volatile, be subject to greater levels of credit or default risk, and may be less liquid and more difficult to sell at an advantageous time or price than higher-rated securities of similar maturity. Mortgage-backed securities (MBS) are subject to credit, prepayment and extension risk and may react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significantly reduce the value of certain MBS. Derivatives may not work as intended and may result in losses. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies. Fund holdings and sector allocations are subject to change, may differ from the Index, and should not be considered investment advice.

Average Effective Duration is a duration calculation for bonds that have embedded options. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change and is, therefore, a measure of risk.

Beta is a measure of the volatility, or systematic risk, of a security or portfolio relative to the market or a benchmark.

Consumer Price Index (CPI), a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers.

Market Capitalization is the total dollar value of all outstanding shares computed as number of shares times current market price.

Market Price is the price of the last reported trade on a fund's primary exchange.

Net Asset Value or NAV is a fund's total assets minus its total liabilities, divided by the number of outstanding shares.

Premium/Discount % indicates whether an ETF is currently trading at a higher or lower price than the current value of the securities in that portfolio.

Yield Curve shows yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Credit Quality ratings on underlying securities of the fund reflect the highest long-term rating from S&P, Moody's, or Fitch, and are converted to the equivalent S&P major rating category. S&P rates securities in descending order as AAA, AA, A, BBB, BB, B, CCC, CC, C and D. Unrated securities do not necessarily indicate low quality. Below-investment-grade is represented by a rating of BB and below. Quality ratings are subject to change.

The Bloomberg U.S. Aggregate Bond Index measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Bloomberg 1–3 Year Credit Index measures the performance of investment grade corporate debt and sovereign, supranational, local authority and non-U.S. agency bonds that have a remaining maturity of at least one year and less than three years.

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