CORE PLUS FIXED INCOME STRATEGY QUARTERLY COMMENTARY

USAA® INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2022

Performance Summary

Fixed income had a strong fourth quarter on largely stable Treasury yields and improved credit spreads. There are still concerns over how quickly and high the Federal Reserve (the Fed) will take short-term rates, but these concerns are abating as economic data suggests inflation may finally be moderating. Now, the market is beginning to wonder if the U.S. may slip into recession, and when and to what degree the Fed might adopt a more accommodative monetary policy in response. The tug-of-war between worries over inflation and fears of a recession has been the story throughout 2022, but the year ended with the fixed income markets in better tone and with prices firmer. The Core Plus Fixed Income Strategy slightly outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter. The Strategy's overweight allocation to structured products, including Commercial Mortgage-Backed Securities (CMBS) and Asset-Backed Securities (ABS) detracted from performance which was primarily offset by its selection in Corporate and overweight allocation to Corporate credit.

Market Update & Commentary

Treasury yields, according to the Bloomberg U.S. Treasury Index, were little changed over Q4, rising 5 basis points (bps) to 4.18% from 4.13%. Credit spreads tightened as the market became incrementally more sanguine about inflation. Credit spreads are the additional compensation investors require to hold securities that aren't as safe and liquid as those issued by the U.S. Treasury. Investment grade (IG) corporate bonds returned 3.6% with almost all this performance coming from the tightening credit spreads. Corporate high yield bonds were up 4.2% on both tightening credit spreads and the perception that corporate credit risk might be lessening overall. In total, the Bloomberg U.S. Aggregate Bond Index returned a positive 1.9% during the quarter, though it was down 13.0% for the full year.

	Yield (%)	Spreads (bps) over Treasuries			Returns (%)	
		9/30/2022	12/30/2022	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.2	0	0	0	0.7	(12.5)
U.S. Aggregate	4.7	62	51	-11	1.9	(13.0)
U.S. Credit	5.3	146	121	-25	3.4	(15.3)
Corporate	5.4	156	130	-29	3.6	(15.8)
Aa	4.8	88	69	-19	2.8	(17.3)
A	5.2	133	109	-25	3.3	(15.1)
Baa	5.7	192	159	-33	4.1	(15.9)
Crossover	6.8	311	262	-49	4.1	(13.6)
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	9.0	551	468	-83	4.2	(11.2)
Ba	7.2	354	298	-56	4.3	(10.8)
B	9.2	619	495	-124	4.9	(10.3)
Caa	14.4	1,155	1,032	-123	0.5	(16.3)
Ca-D	37.2	3,959	3,060	-880	13.8	(10.4)
Structured Product						
U.S. MBS	4.7	70	51	-18	2.1	(11.8)
ABS	5.1	53	75	+22	0.8	(4.3)
CMBS	5.3	104	119	+5	1.0	(10.9)

Source: Bloomberg

In structured products, agency mortgage-backed securities (MBS) did best, returning 2.1%. Second was collateralized mortgage-backed securities (CMBS) at 1%, with asset-backed securities (ABS) trailing third, at 0.8%. Though agency MBS performed well in Q4, it was not enough to overcome lackluster performance for the full year.

Moving to spreads, IG corporate credit spreads contracted 29 bps (to 130 bps) and high yield spreads by 83 bps (to 468 bps) as trends established in the third quarter continued into the fourth. Recall that, during the third quarter, corporate IG bonds underperformed corporate high yield bonds as the market began to predict the Fed would relax its restrictive monetary policy. This is because, while high and entrenched inflation is still a market concern, economic data began to suggest inflation may be subsiding. The November Consumer Price Index (CPI), released in December, was 7.1% annualized, far better than consensus expectations of 7.3% and down by two percentage points from the peak of 9.1% in June 2022. The core CPI number declined for the second consecutive month to 6.1%, also alleviating concerns of entrenched inflation.

Even as concerns over inflation began to subside, other market watchers began to project that the U.S. economy would slip into recession later in 2023. High inflation prompts the Fed to raise rates to cool the economy; a recession prompts the Fed to lower rates to stimulate the economy. The uncertainty over where the economy was going and how fast it would get there meant that each new economic release represented a kind of further installment in an ongoing macroeconomic drama, resulting in volatility that repeatedly whipsawed markets. On one day, yields might tumble and stocks bounce on the certainty that the Fed would be forced to relent sooner and at a lower terminal rate than previously expected. But then, with the next release, yields might surge again and equities plummet as new data would suggest inflation was stubbornly persistent and further aggressive Fed action would be required after all.

It's virtually impossible to predict the path of interest rates and the economy. It's similarly impossible to guess how the market will interpret forthcoming economic statistics. We still feel confident, though, of the income and diversification fixed income may bring to portfolios. This is a strong argument for many portfolios to have at least some fixed income. Further, the sell-off in bonds has been so deep and broad that the resulting higher yields should serve portfolios well for months to come.

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Portfolio Performance & Positioning

The Core Plus Fixed Income Strategy outperformed its benchmark index, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended December 31, 2022. The Strategy returned 1.88% compared to the benchmark return of 1.87%. The largest positive contributor to relative performance was the Strategy's overweight position in Corporate Credit along with its security selection within Corporate Credit. An overweight allocation to Senior Secured Floating rate Bank Loans also aided performance. The Strategy's allocation to Commercial Mortgage Backed Securities (CMBS) and Asset-Backed Securities (ABS) detracted from performance during the quarter, as did Security selection in CMBS.

During the quarter we took advantage of some spread tightening to lighten exposure to lower rate corporate bonds and leveraged loans. With the proceeds from these sells, we increased our allocation to U.S. Treasuries while also purchasing some agency Mortgages, Asset Backed Securities (ABS) and Commercial Mortgage-Backed Securities (CMBS) given spread widening in those sectors. We increased the Fund's allocation to AAA bonds during the quarter, while decreasing exposure to below investment grade (High Yield) bonds.

Contributors

- The Strategy's overweight to Corporate Credit benefitted performance.
- The Strategy's security selection within Corporate Credit benefitted performance.
- An overweight to BBB securities and below investment grade securities added to performance.
- The Strategy's slightly shorter duration than the benchmark benefited performance as rates rose.

Detractors

- The Strategy's overweight allocation and security selection within CMBS and its overweight allocation to ABS were the largest detractors to performance.
- The Strategy's positioning in higher quality AAA, AA and A, bonds detracted slightly from performance.

Performance

Average Annual Returns (%) as of

Core Plus Fixed Income Composite	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (September 1999)
Gross of Fees	2.03	-12.15	-12.15	-0.65	1.77	2.92	5.41
Net of Fees	1.88	-12.67	-12.67	-1.23	1.16	2.28	4.74
Bloomberg U.S. Aggregate Bond Index	1.87	-13.01	-13.01	-2.71	0.02	1.06	3.97

Past performance cannot guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings.Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your particular circumstances.

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Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

The Core Plus Fixed Income Composite includes all institutional and retail portfolios invested primarily in a broad range of debt securities that have a dollar-weighted average portfolio maturity between three to ten years. The debt securities in which the composite portfolios may invest include, among others, obligations of U.S., state, and local governments, their agencies and instrumentalities; mortgage- and asset-backed securities; corporate debt securities; repurchase agreements; and other securities believed to have debt-like characteristics. The strategy aims to deliver high current income without undue risk to principal. Portfolios in the composite will invest primarily in investment-grade securities, but also may invest in below investment-grade securities, which are sometimes referred to as high-yield or "junk" bonds. High yield bonds carry increased levels of credit and default risk and are less liquid than government and investment grade bonds. Prior to 12/1/2021 , the name of the composite was USAA Intermediate-Term Bond. The composite creation date is July 2019 and the composite inception date is September 1999.

The benchmark of the composite is the **Bloomberg U.S. Aggregate Bond Index.** The Bloomberg U.S. Aggregate Bond Index measures the performance of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable rate mortgage (ARM) pass-throughs), asset-backed securities, and commercial mortgage-backed securities. The benchmark returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns have been taken from a published source and do not include any transaction fees, management fees, or other costs. Prior to 8/24/2021, the name of this benchmark is the Bloomberg Barclays Capital U.S. Aggregate Bond Index.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index. **Past performance does not guarantee future results.**

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Supplemental information. Performance prior to July 1, 2019, is that of USAA Asset Management Company prior to acquisition by Victory Capital. The prior performance information of the strategy is based on a single representative pooled fund, and managed by the same team from the previous employer. Performance composite results for the periods following June 30, 2019 have followed the performance reporting polices set forth by Victory Capital.

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