CORE PLUS FIXED INCOME STRATEGY
QUARTERLY COMMENTARY

USAA INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of March 31, 2022

Performance Summary

Fixed income fared poorly during Q1 as market dynamics were challenging due to Russia's invasion of Ukraine and the highest inflation readings in the past four decades, leading most to expect the Fed to rapidly tighten monetary policy. As a result, fixed income returns were negative, with widening spreads across the credit spectrum, rising interest rates, and a flattening Treasury curve. The Core Plus Fixed Income Strategy outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter. The Strategy's primary performance drivers were US Government Securities and floating rate commercial mortgages, banks loans and CLOs.

Market Update & Commentary

The U.S. bond market, per the Bloomberg U.S. Aggregate Bond Index, returned -5.9% over the first quarter as, overall, bond prices fell. The Aggregate has not performed this poorly over a quarter in more than four decades. The U.S. Treasury component of the Aggregate saw a yield increase of 119 basis points (bps) to 2.4% and returned -5.6%, again on falling bond prices and because yields move inversely to price. Investment grade (IG) corporate bonds returned -7.7% on higher Treasury yields and wider credit spreads. 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. Corporate high yield performed better, declining 4.8%, due to high yield's lower sensitivity to interest rates.

	Yield (%)	Spreads (bps)			Returns (%)	
		12/31/2021	3/31/2022	Δ (+/-)	3M	1YR
Investment Grade						
U.S. Treasury	2.4	0	0	0	(5.6)	(3.7)
U.S. Aggregate	2.9	36	40	+4	(5.9)	(4.2)
U.S. Credit	3.5	87	107	+20	(7.4)	(4.2)
Corporate	3.6	92	115	+22	(7.7)	(4.2)
Aa	3.1	57	68	+11	(7.9)	(4.1)
A	3.4	74	94	+19	(7.3)	(4.3)
Baa	3.9	113	140	+27	(7.9)	(4.2)
Crossover	4.7	167	203	+36	(7.1)	(2.5)
High Yield						
U.S. Corporate High Yield	6.2	283	321	+38	(4.8)	(0.7)
Ba	5.1	194	230	+36	(5.9)	(1.5)
B	6.5	312	340	+28	(3.5)	(0.0)
Caa	9.5	555	594	+39	(3.9)	0.8
Ca-D	30.8	2,660	2,752	+92	(3.8)	(5.5)
Structured Product						
U.S. MBS	3.0	32	24	-8	(5.0)	(4.9)
ABS	2.8	38	58	+20	(2.9)	(3.1)
CMBS	3.3	68	85	+17	(5.6)	(4.5)

Corporate credit spreads widened 22 bps to 115 bps, while high yield spreads widened 38 bps to 321 bps. Though corporate investment grade and high yield credit spreads widened during the quarter, both evidenced some recovery from their widest levels of mid-March. Investment-grade rated debt (rated AAA through BBB) performed similarly, regardless of rating, but lower quality (B through CCC) high yield bonds performed better than higher-rated BB bonds.

Asset-backed securities (ABS) returned -2.9% over the first quarter. Collateralized mortgage-backed securities (CMBS) returned -5.6% on 17 bps of spread widening. Agency mortgage-backed securities (MBS) returned -5.0%, as yields on the aggregate component of US Agency MBS increased 102 bps to 3%.

Rising prices—inflation—has become the top macroeconomic concern. The February Consumer Price Index (CPI) printed at 7.9% (annualized), its biggest increase since 1982. Supply chain constraints are a lingering cause, but Russia's invasion of Ukraine (and the resulting economic sanctions) is also a factor in that it promptly drove energy prices higher—West Texas Intermediate crude oil increased over 35% (to $100/barrel) over the quarter. Prices for other commodities, such as wheat (of which Ukraine is a big exporter) to aluminum and palladium (of which Russia is a global supplier), also jumped.

A surging CPI has layered further pressure on the Fed to tame prices. The Federal Reserve increased the federal strategy target rate 25 bps in its March meeting and, at quarter's end, the market was pricing in eight rate hikes in 2022. U.S. Treasury yields saw substantial increases, particularly in the front end of the curve, flattening the Treasury curve significantly. The 2-year Treasury yield increased 160 bps to 2.34%, whereas the 10-year Treasury yield increased also, but only by 83 bps, to 2.34%, the very definition of flat.

Treasury yields initially fell and credit spreads widened on a "risk-off" reaction to the invasion. But, by March 14, investment grade corporate credit spreads had peaked for the quarter and Treasury yields had resumed their climb such that, by quarter-end, they were well above yields before the invasion as inflationary concerns returned to the fore. In all likelihood, these same concerns will prove to be most important for the rest of 2022.

1The yield on the Bloomberg Credit Index vs. the Yield on the Bloomberg Treasury Index. The current multiple is higher than the 40-year average

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Portfolio Performance & Positioning

The Strategy outperformed its benchmark index, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended March 31, 2022. The Strategy returned -5.70% (net of fees) compared to the benchmark return of -5.93%. The largest contributors to relative performance were the Strategy's overweight allocation in short dated asset backed securities and floating rate Commercial Mortgage-Backed Securities (CMBS), and its underweight to residential mortgage-backed securities. The Strategy's increased exposure to US treasuries also benefitted relative performance. Our allocation to spread product (including our corporate bond, CMBS) posted weak performance as the risk markets deteriorated following Russia's invasion of Ukraine and increased energy prices. Security selection within the Strategy's off-benchmark exposure to high yield bonds was also a slight performance driver as was the Strategy's overweight allocation CLOs and floating rate CMBS. Underweight positions in residential mortgage-backed securities also contributed positively as these markets underperformed during the second quarter as the result of a flattening yield curve and falling long-duration rates. As BBB and BB corporate spreads started the quarter near cyclical tights not seen since the global financial crisis, we entered the quarter having decreased risk by reducing higher beta spread product, such as Corporate bonds and CMBS, and increasing the Strategy's allocation to Treasuries. Following Russia's invasion of Ukraine and the corresponding spread widening we slightly increased our holdings of corporate bonds during the quarter as spreads of BBB and BB-rated corporate bonds traded off and offered better value. We believe these actions have had the effect of increasing the overall ability of the strategy to generate positive excess returns in the future.

See the table below for more information on average annual returns.

Contributors

- The Strategy's allocation to asset backed securities, treasuries in the belly of the curve and an underweight to residential mortgage-backed securities and long dated treasuries added to performance.
- Security selection in corporate sectors of airlines, cable and satellite, and healthcare all contributed to the Strategy's outperformance.
- The Strategy's allocation and security selection in below investment grade holdings and an underweight in AAA-rated mortgage-backed securities were the largest credit rating position drivers of performance.
- The Strategy's Duration positioning had a positive overall effect on performance during the quarter which is expected when prices of bonds in the belly of the curve fall less than prices of longer duration ((and more convex) bonds, given the Strategy's focus on being overweight to the belly of the curve (7- to 10-year duration)

Detractors

- Corporates, fixed rate CMBS, long duration treasury holdings and treasury futures were detractors from performance.
- The Strategy's overweight to spread product (including CMBS, BBB corporate bonds and other structured products) all detracted from performance as spreads widened across all fixed income asset classes during the quarter.

Performance

Average Annual Returns (%) asof March 31, 2022

Core Plus Fixed Income Composite	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (September 1999)
Gross of Fees	-5.56	-5.56	-2.55	4.12	4.16	4.51	5.93
Net of Fees	-5.70	-5.70	-3.12	3.50	3.53	3.86	5.26
Bloomberg U.S. Aggregate Bond Index	-5.93	-5.93	-4.15	1.69	2.14	2.24	–

Past performance cannot guarantee future results. Performance returns for periods of less than one year are not annualized. Returns include reinvestment of dividends and capital gains. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. 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 equity 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 II of its Form ADV.

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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 portfolio 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 composite was USAA Intermediate-Term Bond. The composite creation date is July 2019. The benchmark of the composite is the Bloomberg U.S. Aggregate Bond Index.

The Bloomberg U.S. Aggregate Bond Index is generally considered to be representative of U.S. bond market activity. The index does not incur fees and expenses and is not available for direct investment.

Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses. One cannot invest directly in an index.

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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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