

Executive Summary

- Convertibles participated in the strong fourth quarter stock market. For the quarter the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) rose 5.83%, or about 50% as much as the S&P 500® Index return. The ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) rose 6.40% in the quarter, or about 55% of the S&P 500® Index.
- The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) underperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the fourth quarter. The Strategy outperformed both indices on a YTD basis.
- Historically, convertible returns have closely matched or even exceeded equity returns over the long term, with lower volatility.
- We believe that investment grade convertibles are well positioned in a period of economic uncertainty.

Market Review

Led by mega-cap technology-oriented companies, stocks had a very strong year in 2023. Markets began the new year rising sharply, thus providing needed relief after a miserable 2022. It was anything but a smooth ride in the first quarter, however, as a banking crisis battered markets in mid-March. After drifting higher in early March, stocks began dropping after Federal Reserve Chair Powell testified that rates may rise more than previously expected. Shortly thereafter, Silicon Valley Bank collapsed, falling victim to bond losses that triggered a run on deposits. Signature Bank soon met with a similar fate, while several other banks felt varying degrees of pressure. Fears of a full-blown financial crisis brought stocks to their low point on March 13. From there stocks began to climb back, albeit in fits and starts, after a modest cooling in CPI and hopes of a quick resolution to bank troubles. Stocks finished the first quarter on an up note as the S&P 500 Index posted a 7.48% gain. Equities rose a further 8.74% in the second quarter, bringing the first half to an impressive 16.89% total return. Most of the gains came in June, following a very strong jobs report and bolstered by still elevated but improving inflation and a pause in Fed rate hikes. Equity leadership was very narrow in the first half of 2023, with the Information Technology sector providing 65% of the S&P 500 Index return. Just three stocks – Apple, Microsoft and NVIDIA – together provided 45% of the S&P 500 Index return. After two very strong quarters, stocks fell in the third quarter partially due to pressure from higher interest rates. Investors played a tug-of-war for most of the quarter, alternating between a view that the Federal Reserve was concluding its tightening efforts to a view that rates may stay higher for longer. Surprising economic strength and hawkish Fed comments weighed on both stocks and bonds during September. A possible government shutdown and a rising dollar also concerned investors during the month. For the quarter, stocks as measured by the S&P 500 Index declined 3.27%, and bonds as measured by the Bloomberg U.S. Aggregate Total Return Index (“Bloomberg Aggregate”) declined 3.23%.

Rising interest rates in October contributed further to stock and bond declines. During the month, the 10-year Treasury briefly touched the 5.0% mark before reversing course. After a rough three-month stretch, the stock market really took off in November, with the S&P 500 Index gaining 9.13% as improving inflation and Fed commentary fostered the view that the rate-hike cycle was ending. During the month, optimism for a potential Goldilocks scenario of an economic soft landing began to emerge. The rise in stocks was accompanied by a drop in bond yields which resulted in a 4.53% gain in the Bloomberg Aggregate, its largest monthly gain in years. Markets finished the year with a strong December in which the S&P 500 Index rose a further 4.53% and the Bloomberg Aggregate returned 3.83%. Factors that drove markets higher in November continued to work in December, namely moderation in inflation, hopes for a soft landing, and an end to Fed rate hikes. For the year, the S&P 500 Index gained 26.29% and the Bloomberg Aggregate gained 5.53%.

Equity returns were quite narrow in 2023, with mega-cap technology-oriented stocks dominating S&P 500 performance. As evidence, a small group of stocks nicknamed the “Magnificent Seven” – Alphabet (Google), Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla – accounted for nearly 60% of the S&P 500 return during the year. Furthermore, the market-cap-weighted S&P 500 Index return of 26.29% nearly doubled the S&P 500 Equal Weight Index return of 13.87%.

Fourth Quarter Convertibles

Convertibles participated in the strong fourth quarter stock market. For the quarter the Constrained Convertible Index (VX5C) rose 5.83%, or about 50% as much as the S&P 500 Index return. The Unconstrained Convertible Index (VXA1) rose 6.40% in the quarter, or about 55% of the S&P 500 Index. The Utilities sector contributed the most to returns, followed by Financials and Consumer Discretionary. Energy was the largest detractor, while Health Care declined marginally. Top individual performers in the Constrained Convertible Index (VX5C) included Booking Holdings, Bank of America, and Wells Fargo. EQT Corp. was the biggest detractor, while Envista Holdings and Pioneer Natural Resources declined minimally. For the year, the Constrained Convertible Index (VX5C) rose 6.74%, while the Unconstrained Convertible Index (VXA1) rose 5.74%.

Convertible equity participation in the S&P 500 Index return was unusually low in 2023, with the Constrained Convertible Index (VX5C) return of 6.74% only participating in 26% of the S&P 500 Index return. Participation was especially low in the first half, when the Constrained Convertible Index (VX5C) participated in only 12% of the S&P 500 Index return. These low participation rates were mainly due to the extremely narrow performance of the S&P 500 Index and the lack of mega-cap technology-oriented convertibles in the investment grade convertible indices. Equity participation of investment grade convertibles improved significantly in the second half of 2023 as the S&P 500 Index return broadened out, becoming much less narrow. During the second half, the Constrained Convertible Index (VX5C) returned 4.64%, participating in a more normal 58% of the S&P 500 Index return.

New convertible issuance was quite strong in 2023, with 74 new deals raising \$48 million. While most convertible issues are unrated, fourteen of the new issues were rated investment grade.

Portfolio Performance

The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) underperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the fourth quarter. Absolute performance was led by the Financials sector, followed by Consumer Discretionary and Utilities. Energy and Health Care detracted from performance. Relative performance was helped by overweights in the Financials, Industrials, and Information Technology sectors.

Relative performance was hurt by overweights in Energy and Health Care and by an underweight in Real Estate. Top performing individual convertibles included Booking Holdings, Barclays Exchangeable into Microsoft, and Bank of America. Bottom performers included EQT Corp., Bristol-Myers Squibb, and Pioneer Natural Resources. The Strategy outperformed both indices on a YTD basis.

Portfolio Characteristics

We strive to invest in high-quality convertibles with attractive underlying common stocks. We structure our portfolios by spreading our holdings across the three types of convertibles: 1) equity-sensitive, high-delta convertibles; 2) total return, middle-of-the-road convertibles; and 3) fixed income oriented convertibles. This structure provides a balance between upside participation during good markets and downside protection during bad markets.

The holdings in the Strategy portfolio have an average current yield of 2.5%, a delta (sensitivity to common stock) of 51%, and an average credit rating of BBB. The Constrained Convertible Index (VX5C) yields 3.4%, has a delta of 46%, and an average credit rating of BBB. The holdings are diversified across all economic sectors. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Information Technology, Industrials, Health Care, and Financials sectors. We maintain an underweight in the Utilities and Real Estate sectors. We maintain approximately neutral exposure to other sectors.

Buys and Sells

During the fourth quarter, we initiated positions in Evergy, Inc. and a JP Morgan Exchangeable into Boeing common stock. Evergy is a Kansas City area electric utility which issued an investment grade convertible bond in December. The JP Morgan Exchangeable into Boeing provides exposure to an attractive industrial company. We added to three recent new issues first purchased last quarter: CenterPoint Energy, Envista Holdings, and Apollo Group. CenterPoint Energy is a Houston-based natural gas and electric utility. Envista Holdings provides dental consumables, equipment, and services to dental professionals. Apollo Group is a large alternative asset management company. Other add-on purchases included Euronet Worldwide, Ford Motor, and Welltower, Inc. We sold the mandatory convertible preferred of NiSource, Inc. as it neared maturity. We trimmed a Barclays Exchangeable into Microsoft common stock on strength. We also trimmed Ares Capital, which matures in March.

Outlook

We believe that investment grade convertibles are well positioned in a period of economic uncertainty.

The U.S. economy remains in the later stages of an economic cycle; nonetheless, economic growth surprised on the upside in 2023, with forecasts of recession continuously pushed down the road. Various indicators such as the Conference Board Leading Economic Index (LEI) and an inverted yield curve continue to point to recession. But while the risk of recession remains above average, it now appears that a soft landing and avoidance of recession has become an increasing probability. The latest Bloomberg survey of economists shows a forecast of 1.4% GDP growth in 2024, a slowdown from forecasted growth of 2.4% in 2023.

Inflation continues to be a primary concern. Despite the latest blip up in the Consumer Price Index in December, inflation had been trending lower in the latter half of 2023. With inflation getting closer to the Fed's 2.0% target, it appears that rate hikes have ended. Furthermore, the Fed has signaled that rate cuts are likely in 2024.

Stronger-than-expected economic growth has resulted in higher earnings. Bloomberg's survey of strategists indicates a median S&P

500 Index EPS forecast of \$231 in 2024, putting the S&P 500 Index at an elevated 20.6 times earnings based on its quarterly closing level of 4770. Current valuation levels may limit upside gains but are seldom a good market timing indicator.

We believe that markets will continue to be volatile, and we remain neutral on stock market prospects. Much of the strength in equity markets in 2023 was due to a relatively small number of mega-cap technology-oriented stocks. A broader market would likely be good for convertibles, acting to increase their equity participation rates like it did in the second half of 2023.

Historically, convertible returns have closely matched or even exceeded equity returns over long periods, with lower volatility. In general, convertibles have tended to underperform stocks in bull markets, outperform stocks in bear markets, and provide competitive returns in normal markets. In addition, their lack of perfect correlation to either the stock or the bond market makes them a worthy addition to balanced portfolios.

Investment Performance (%)

Average Annual Returns as of December 31, 2023

Victory Investment Grade Convertible Securities Strategy	Inception Date	Q4 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Victory Investment Grade Convertible Securities Strategy (Gross)	1/1/87	5.32	9.13	9.13	3.43	8.50	8.43	8.30
Victory Investment Grade Convertible Securities Strategy (Net)	1/1/87	5.18	8.53	8.53	2.86	7.93	7.85	7.65
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	–	5.83	6.74	6.74	4.02	8.01	8.53	
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	–	6.40	5.74	5.74	2.51	6.97	8.94	–

Past performance does not 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. The composite net-of-fees returns shown reflect gross performance less actual investment management 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.

Top 5 Contributors (%)	Contribution to Absolute Return	Top Ten Holdings	% Rep. Account
Barclays Bank Plc 0.0% 04-feb-2025	0.8	Booking Holdings Inc. 0.75% 01-may-2025	6.2
Booking Holdings Inc. 0.75% 01-may-2025	0.7	Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	5.8
Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	0.6	Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	5.7
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	0.5	Pioneer Natural Resources Company 0.25% 15-may-2025	5.6
Expedia Group, Inc. 0.0% 15-feb-2026	0.5	Southwest Airlines Co. 1.25% 01-may-2025	5.6
		Eqt Corporation 1.75% 01-may-2026	5.2
		NextEra Energy, Inc. 4.6 % Equity Units Cons of Deb 01.09.27 + 1 PC 01.09.25	4.6
		Expedia Group, Inc. 0.0% 15-feb-2026	4.2
		Barclays Bank Plc 0.0% 04-feb-2025	3.8
		Ford Motor Company 0.0% 15-mar-2026	3.7
		Total	50.5
Top 5 Detractors (%)	Contribution to Absolute Return		
Eqt Corporation 1.75% 01-may-2026	-0.2		
Bristol-Myers Squibb Company	-0.2		
Pioneer Natural Resources Company 0.25% 15-may-2025	-0.1		
Envista Holdings Corporation 1.75% 15-aug-2028	0.0		
Prospect Capital Corporation 6.375% 01-mar-2025	0.0		

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.

The Victory Investment Grade Convertible Securities Composite includes all accounts, except wrap fee paying accounts, invested in investment grade convertible securities with a minimum convertible commitment goal of 70%-90%. The composite creation date is 1Q93 and the composite inception date is January 1987.

The benchmark of the composite is the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C). Prior to 12/1/2017, the benchmark was the ICE BofA Investment Grade U.S. Convertible Index (VXA1). The ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C) is a market-capitalization-weighted index of domestic corporate convertible securities, with all positions capped at 5% of market value. Bonds and preferred stocks must be convertible only to common stock, ADRs or cash equivalent and have a market value of at least \$50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. The ICE BofA Investment Grade U.S. Convertible Index (VXA1) is a market-capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADRs or cash equivalent and have a market value of at least \$50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher.

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.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation

methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report.

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 top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

Victory Capital Management Inc. (VCM) is a diversified global investment advisor registered under the Investment Advisers Act of 1940 and comprised of multiple investment franchises: Integrity Asset Management, Munder Capital Management, NewBridge Asset Management, RS Investments, Sophus Capital, Sycamore Capital, Trivalent Investments, Victory Income Investors (formerly USAA Investments, a Victory Capital Investment Franchise); the VictoryShares & Solutions Platform, THB Asset Management and New Energy Capital Partners. Munder Capital Management and Integrity Asset Management became part of the Victory Capital GIPS firm effective November 1, 2014; RS Investments and Sophus Capital effective January 1, 2017; Victory Income Investors, effective July 1, 2019; THB Asset Management, effective March 1, 2021, and New Energy Capital effective November 1, 2021. Effective September 1, 2023, INCORE Capital Management is no longer part of the firm definition.

Request a GIPS® Report from your Institutional Relationship Manager or visit www.vcm.com.

Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

V17.041 // 4Q 2023 Victory Inv Grade Converts Strategy COM