

As of 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 Victory High Income Fund (Institutional Shares) underperformed its benchmark, the Bloomberg US High Yield 2% Issuer Capped Bond Index, for the quarter ended December 31, 2023. See next page for other share classes.

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.

Portfolio Performance & Positioning

During the quarter, we increased our allocation to cash and decreased our allocation to the following sectors: cable & satellite, technology, leisure, and midstream. At the same time, we increased our holdings in media and some select retailers. We reduced our holdings in lower-rated CCC and low-B credits.

Contributors

- Best-performing sectors were banking, media & entertainment, and wirelines.
- From a credit perspective, our security selection within B-rated credits aided performance.

- Security selection within index-eligible names added the majority to performance.

Detractors

- Sectors that detracted from performance were out-of-index sectors such as senior secured bank loans, CLOs, and short-dated structured products.
- From a credit perspective, BB-rated credits detracted from performance, largely based on changes to the yield curve.
- Our cash holdings detracted from performance.

Standardized Performance: December 31, 2023

Average Annual Returns (%)

Victory High Income Fund	Ticker	Inception Date	Q4 2023	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
								Gross	Net
Fund Shares	USHYX	08/02/99	6.62	13.06	4.53	3.71	6.03	0.80	0.79
A Shares, without sales charge	UHYOX	08/02/10	6.54	13.02	4.39	3.53	5.12	1.82	0.91
A Shares, with sales charge (max. 2.25%)	UHYOX	08/02/10	4.20	10.51	3.92	3.29	4.94	1.82	0.91
Institutional Shares	UIHIX	08/01/08	6.65	13.19	4.63	3.80	6.38	0.67	0.65
R6 Shares	URHIX	12/01/16	6.66	13.21	4.81	–	4.19	3.07	0.57
Bloomberg US High Yield 2% Issuer Capped Bond Index	–	–	7.15	13.44	5.35	4.59	–	–	–

Past performance does not guarantee future results. The performance 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.vcm.com. 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 August 31, 2024.

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.

Not all share classes are available to all investors.

All investing involves risk, including the potential loss of principal. In addition to the normal risks associated with investing, 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. Convertible securities rank senior to the issuer's common stock, but may be subordinate to senior debt obligations. In part, the total return for a convertible security may depend upon the performance of the underlying stock into which it can be converted. Synthetic convertibles may respond differently to market fluctuations than traditional convertible securities. They are also subject to counterparty risk. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The Fund is also subject to liquidity risk, which is the risk that the Adviser may not be able to sell a security at an advantageous time or price, which may adversely affect the Fund.

Large shareholders, including other funds advised by the Adviser, may own a substantial amount of the Fund's shares. The actions of large shareholders, including large inflows or outflows, may adversely affect other shareholders, including potentially increasing capital gains. 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.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

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.

The Bloomberg U.S. High Yield 2% Issuer Capped Bond Index seeks to measure fixed-rate, non-investment-grade debt securities that are dollar denominated and nonconvertible. The index limits the maximum exposure to any one issuer to 2%. **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.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance does not reflect management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

Funds distributed by Victory Capital Services, Inc., an affiliate of Victory Capital Management Inc.

©2024 Victory Capital Management Inc.

V19.126 // 4Q 2023 Victory High Income Fund COM

