

Victory INCORE Investment Grade Convertible Fund

Quarterly Commentary

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As of June 30, 2023

Executive Summary

- Equity market participation from investment grade convertibles remained low in the second quarter mostly due to the lack of index exposure to mega-cap technology companies. For the quarter the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) rose 1.77%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) rose 1.58%.
- The Victory INCORE Investment Grade Convertible Fund (the “Fund”) (Class A shares, without sales charge) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the second quarter.
- Historically, convertible returns have closely matched or even exceeded equity returns over the long term, with lower volatility.
- We believe investment grade convertibles are well positioned in the current environment to continue to provide a measure of downside support while still providing upside potential during market rallies.

Market Review

After a strong first quarter gain of 7.48%, equities rose a further 8.74% in the second quarter to bring their year-to-date total to an impressive 16.89%, as measured by the S&P 500. Stocks produced rather tepid returns early in the second quarter before regaining momentum in June. Markets tread water for most of April, although encouraging Consumer and Producer Price Index reports (CPI and PPI) provided a short-term boost mid-month. A round of strong earnings reports was needed to push April into positive territory late in the month. Stocks fell early on in May as the Federal Reserve raised rates another quarter point, extending the streak of 10 consecutive rate hikes. The downtrend was quickly reversed, however, by an upbeat jobs report and positive earnings reports, notably from Apple. Back-and-forth talks to extend the debt ceiling held sway over markets for most of the remainder of May. Stocks came out hot in June, rising sharply the first two days after a much stronger than expected jobs report. They continued higher throughout the first half of the month, bolstered by still elevated but improving inflation and a pause in Fed rate hikes. From there, stocks drifted lower for a few sessions before finishing the quarter on a strong note. In contrast to the rest of 2023, when the majority of gains came from a handful of technology stocks, all 11 S&P sectors advanced in June. Equity leadership has been very narrow so far in 2023, with the Information Technology sector providing 65% of the S&P 500 return. Just three stocks – Apple, Microsoft and NVIDIA – together provided 45% of the S&P 500 return in the first half. After rising in the first quarter, bond returns slipped in 2Q as the Bloomberg U.S. Aggregate Total Return Index fell 0.84% to bring its YTD gain to 2.09%.

Second Quarter Convertibles

Equity market participation from investment grade convertibles remained low in the second quarter, mostly due to the lack of index exposure to mega-cap technology companies. For the quarter the Constrained Convertible Index (VX5C) rose 1.77%, while the Unconstrained Convertible Index (VXA1) rose 1.58%. Sector contribution was overwhelmingly led by the Energy sector, followed by Financials. The Utilities and Consumer Discretionary sectors subtracted from returns. Top individual performers in the index included EQT Corp., KKR & Co., and Pioneer Natural Resources. Bottom performers included PPL Corp., Duke Energy, and Alliant Energy.

New convertible issuance picked up substantially from a year ago. So far 40 new convertibles have been issued in the U.S. this year, raising \$23 billion. Eight of the issues were rated investment grade, raising \$7.9 billion.

Portfolio Performance

The Victory INCORE Investment Grade Convertible Fund (the “Fund”) (Class A shares, without sales charge) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the second quarter. Absolute sector contributions were led by the Financials, Energy, and Information Technology sectors. Both the Utilities and Health Care sectors detracted from returns. Relative performance was helped by an overweight and security selection in the Financials sector and by security selection in both the Information Technology and Consumer Discretionary sectors. Relative performance was hurt by security selection in the Energy and Health Care sectors. Top performing individual convertibles included EQT Corporation, Barclays Bank (exchangeable into Microsoft), KKR & Co., and Ford Motor. Bottom performing convertibles included Bristol-Myers Squibb, Expedia Corp., PPL Corp., and Alliant Energy.

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 seeks a balance between upside participation during good markets and downside protection during bad markets.

The holdings in the Fund’s portfolio have an average current yield of 2.8%, a delta (sensitivity to common stock) of 50%, 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, Financials, and Consumer Discretionary sectors. We maintain an underweight in the Real Estate and Utilities sectors. We maintain approximately neutral sector exposure to other sectors.

Buys & Sells

During the second quarter, we initiated positions in five new investment grade convertible bond issues from Duke Energy, CMS Energy, Welltower Inc., Ventas Realty, and American Water Works. Duke Energy and CMS Energy are electric utilities; American Water Works is a water utility; Welltower and Ventas are health facility REITs.

We also initiated a position in Dexcom Inc. convertible bonds. Dexcom is a \$50 billion market capitalization medical device company specializing in glucose monitoring systems for diabetics. During the quarter, we sold our position in a JP Morgan bond exchangeable into Voya Financial prior to its maturity. We also trimmed positions in American Electric Power, Illumina and Euronet Worldwide. Finally, we trimmed a NextEra Energy mandatory convertible preferred maturing in September, replacing it with a similar NextEra mandatory convertible maturing in 2025.

Outlook

We believe investment grade convertibles are well positioned in the current environment to continue to provide a measure of downside support while still providing upside potential during market rallies.

We believe that the U.S. economy is on a slow growth path and the chances of recession later this year or early next year remain elevated. The latest revision shows that real GDP grew at a 2.0% pace in the first quarter of 2023. We expect that will prove to be the high point for the year as the latest Bloomberg survey of economists points to 1.3% GDP growth for all of 2023. Tighter economic conditions causing higher interest rates are acting to slow economic growth both domestically and worldwide. The Conference Board Leading Economic Index (LEI) remains in negative territory.

Inflation continues to be a primary concern. However, it appears that inflation has peaked, with the June CPI report showing just a 3.0% annual increase. The Federal Reserve remains diligent in its effort to curtail inflation, raising the federal funds rate 10 times this cycle for a total increase of 500 basis points. The Fed paused their rate hikes in June, but signaled a further hike or hikes were likely. With the federal funds rate already exceeding long Treasury yields, the yield curve became increasingly inverted, further pressuring economic prospects.

Earnings estimates have remained resilient in the face of weakening worldwide economies. Bloomberg's survey of strategists indicates a median S&P 500 forecast of \$213 in 2023, putting the S&P 500 at nearly 21 times earnings based on its quarterly close of 4450. Something worse than a mild recession could put earnings and valuations under pressure.

We believe that markets will continue to be volatile, and we remain neutral on stock market prospects. The rebound in equities so far this year has been primarily driven by technology-related stocks, which has made it difficult for investment grade convertibles to participate. June equity returns showed evidence of a more balanced return picture as all 11 S&P 500 sectors advanced. A continuation of more balanced returns could improve convertible participation rates. We continue to believe that investment grade convertibles are well positioned in the current environment to provide a measure of downside support while still providing upside potential during market rallies.

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 June 30, 2023

Victory INCORE Investment Grade Convertible Fund	Ticker	Inception Date	Q2 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratio	
										Gross	Net
A Shares, without sales charge	SBFCX	4/14/88	3.17	3.87	3.50	5.82	5.75	7.58	7.36	1.20	1.20
A Shares, with sales charge (max. 2.25%)	SBFCX	4/14/88	0.83	1.52	1.14	5.02	5.26	7.34	7.29	1.20	1.20
I Shares	VICIX	8/31/07	3.25	4.02	3.72	6.19	6.17	8.02	5.74	0.91	0.91
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	-	-	1.77	2.01	3.73	7.12	6.90	9.07	-	-	-
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	-	-	1.58	1.10	3.35	5.93	5.85	9.67	-	-	-

Source: Victory Capital data analyzed through Zephyr.

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. Other share classes are available. 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, 2023.

Top 5 Contributors (%)	Contribution to Absolute Return
EQT Corporation 1.75% 01-may-2026	1.2
Barclays Bank Plc 0.0% 04-feb-2025	0.7
Ford Motor Company 0.0% 15-mar-2026	0.3
KKR & Co. Inc. 6% Conv Cum Red Pfd Registered Shs 2020-15.09.23 Series C	0.3
Vishay Intertechnology, Inc. 2.25% 15-jun-2025	0.3
Top 5 Detractors (%)	Contribution to Absolute Return
Bristol-Myers Squibb Company Fm 15-sep-2023	-0.1
Expedia Group, Inc. 0.0% 15-feb-2026	-0.1
PPL Capital Funding, Inc. 2.875% 15-mar-2028	-0.1
Wells Fargo & Company 7.5% Non Cum Perp Conv Pfd Registered Shs A Series L	-0.0
Alliant Energy Corporation 3.875% 15-mar-2026	-0.0

Top Ten Holdings	% Fund
Pioneer Natural Resources Company 0.25% 15-may-2025	6.4
Southwest Airlines Co. 1.25% 01-may-2025	5.6
EQT Corporation 1.75% 01-may-2026	5.3
Wells Fargo & Company 7.5% Non Cum Perp Conv Pfd Registered Shs A Series L	5.3
Bank of America Corp. 7.25% Non Cum Perp Conv Pfd Registered Shs Series L	5.2
Booking Holdings Inc. 0.75% 01-may-2025	4.2
Western Digital Corporation 1.5% 01-feb-2024	4.8
KKR & Co. Inc. 6% Conv Cum Red Pfd Registered Shs 2020-15.09.23 Series C	4.8
Expedia Group, Inc. 0.0% 15-feb-2026	4.5
NiSource Inc. Purchase Contract 2021-01.12.23 (Exp.17.11.23) on NiSource	4.3
Total	51.3

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.

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. 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. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors. Companies in the financial services sector are subject to extensive government regulation that may affect the scope of their activities, the prices they can charge and capital maintenance. The industry is subject to severe competition and can be significantly affected by market conditions, including interest rate changes. Utilities companies may be adversely affected by supply and demand, operating costs, government regulation and environmental issues. The value of utility equity securities may have an inverse relationship to interest rate changes. 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. 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.

Contributors and Detractors Source: FactSet. 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. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

The ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C) 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. It includes Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. All positions are capped at 5% of market value. **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.

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