Victory INCORE Low Duration Bond Fund Quarterly Commentary

As of June 30, 2023

From Bank Crisis to Confidence: Q2 Economic Resilience

As we close out the second quarter of 2023, the resilience of the economy and markets has been a surprising outcome in light of the substantial tightening measures imposed by the Federal Reserve over the last year. Faced with a potential banking crisis in Q1, the Fed intervened with remarkable efficacy, protecting deposits at failing regional banks and providing short-term loans to stabilize the banking sector. This prevented a more systemic financial crisis and boosted market confidence into Q2.

Throughout the majority of the second quarter, market sentiment was clouded by two primary anxieties: apprehension about a potentially impending credit crunch due to the recent banking turbulence, and concerns about the unresolved debt ceiling. However, by the start of June, just under the wire, a consensus was reached by Congress and the president to put the debt ceiling dispute to rest, resulting in its suspension until 2025. Concurrently, Federal Reserve surveys and data indicated a deceleration in lending practices, though not severe enough to trigger a full-blown credit crunch.

Despite expectations of an imminent slowdown, the economy remained buoyant in the face of substantial hikes in interest rates over the past year. Interest rates moved higher by 20-90 basis points throughout the quarter, with the most notable increases appearing in the short end of the curve as fears subsided. Despite higher rates, the economy demonstrated few signs of the anticipated slowdown.

Fixed-income market performance was mixed, with investment grade delivering negative returns for the quarter as interest rates rebounded from the banking scare in March. Investment grade corporate bonds outperformed U.S. Treasurys, while the Bloomberg U.S. Corporate High Yield Index and the ICE BofA Investment Grade U.S. Convertible Index posted the strongest total returns, 1.75% and 1.58%, respectively. The S&P 500® Index delivered an impressive 8.74% total return for Q2, fueled by resilient economic data and excitement about the possibilities in artificial intelligence.

Continued economic strength in the face of tightening measures can be attributed in part to persistent fiscal stimulus, including the underestimated impact of the CHIPS and Inflation Reduction Acts, as well as the extended Employee Retention Tax Credit. This influx of fiscal stimulus has contributed to the surprisingly robust performance of the economy. On the inflation front, the Fed's rate hikes are beginning to show some desired moderating effects; however, core inflation continues to run above the Fed's 2% target, lingering in the 4% range, and it remains to be seen whether downward momentum will continue. Moreover, the labor market remains tight, with payroll growth averaging a pace of 244K in the second quarter, well above the Fed's goal to slow job growth to a pace closer to labor force growth.

The second quarter of 2023 demonstrated an economy that has borne the brunt of higher rates remarkably well. Moving into the second half of the year, the resilience of the economy and the proactive measures taken by the Federal Reserve provide a foundation of cautious optimism. However, we acknowledge the historical pattern that a rate-hiking cycle of this magnitude is often followed by a recession. Thus, we remain vigilant in monitoring risks and will continue to make investment decisions that reflect the complex and evolving economic landscape. We maintain a considered overweight positioning in corporate bonds with strong balance sheets and robust business models, along with well-structured and seasoned commercial mortgage-backed securities. These assets provide sufficient credit protection, reasonable loan-to-value ratios, and limited exposure to the office sector.

Performance and Attribution

Victory INCORE Low Duration Bond Fund

The Fund returned -0.13% (A shares, without sales charge) during Q2, beating the Bloomberg U.S. 1-3 Year Government Bond Index benchmark at -0.58%. For the trailing 12 months, the Fund returned 1.46%, beating the Bloomberg U.S. 1-3 Year Government Bond Index benchmark at 0.17%. The Fund's shorter relative duration position (meaning less interest rate risk than the benchmark), as well as its currency positions and overweight allocations to investment grade convertible bonds and commercial mortgage-backed securities (CMBS), contributed positively to relative performance for the quarter. We continue to maintain overweight positions in investment grade and high yield corporate bonds, as well as CMBS. Our focus is on companies with solid balance sheets where the business model can withstand higher interest costs and a slowing economy. Our focus in CMBS is on well-structured and seasoned securities that provide ample credit protection, reasonable loan-to-value ratios, and limited exposure to the office sector. Duration relative to the benchmark is close to neutral, as we think the Federal Reserve is approaching the end of its hiking cycle.

Index	YTM 06/30/23	Total Return Q2	Excess Return Q2*	Total Return YTD	Excess Return YTD*
Federal Funds Target Rate	5.00%	1.25%	n/a	2.40%	n/a
U.S. Treasury 2-year	4.90%	-0.89%	n/a	0.56%	n/a
U.S. Treasury 10-year	3.84%	-1.91%	n/a	1.78%	n/a
Bloomberg U.S. Aggregate Bond Index	4.81%	-0.84%	0.59%	2.09%	0.52%
Bloomberg U.S. Corporate Bond Index	5.48%	-0.29%	1.31%	3.21%	1.56%
Bloomberg U.S. Corporate High Yield Bond Index	8.58%	1.75%	2.79%	5.38%	4.11%
ICE BofA Investment Grade U.S. Convertible Index	3.48%	1.58%	n/a	1.10%	n/a
S&P 500® Index	4.95%**	8.74%	n/a	16.89%	n/a

Source: Bloomberg
*Excess returns are returns above or below an equivalent duration Treasury portfolio.
**Earnings yield based on one-year forward earnings estimates.

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Investment Performance (%)

Average Annual Returns as of June 30, 2023

Victory INCORE Low Duration Bond Fund	Inception Date	Q2 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
A Shares, without sales charge	7/30/03	-0.13	1.18	1.46	-0.12	1.20	1.13	2.09	0.96	0.85
A Shares, with sales charge (max. 2.25%)	7/30/03	-2.35	-1.08	-0.79	-0.87	0.73	0.90	1.97	0.96	0.85
Y Shares	5/12/09	-0.08	1.19	1.59	0.07	1.43	1.37	1.87	0.65	0.62
Bloomberg U.S. 1-3 Year Government Bond Index	–	-0.58	1.00	0.17	-1.11	0.93	0.76	1.75	–	–
Morningstar Percentile Rank	–	89	86	53	37	53	62	–	–	–
Number of Funds in Morningstar Category	–	582	582	576	525	477	347	–	–	–

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 April 30, 2024. Fund performance used for the rankings reflects certain fee waivers, without which Morningstar rankings would have been lower and Morningstar ratings may have been lower.

Source: Victory Capital data analyzed through Zephyr, and Morningstar.

Morningstar Category: Short-Term Bond.

Morningstar Percentile Rank based on A Shares.

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. Mortgage-backed securities (MBS) and asset-backed securities (ABS) 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 and ABS. The market price of the MBS in a mortgage dollar roll transaction may drop below their future purchase price. In addition, investment in mortgage dollar rolls may significantly increase the Fund's portfolio turnover rate. The market value of a security issued on a when-issued, to-be-announced (TBA) or delayed-delivery basis may change before the delivery date, which may adversely impact the Fund's net asset value. There is also the risk that a party fails to deliver the security on time or at all. 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. Derivatives may not work as intended and may result in losses. The Fund may be subject to liquidity risk, which is the risk that the Adviser, in the ordinary course of business, cannot expect to sell Fund investments within seven days at a price that is acceptable to the Adviser. 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.

The Bloomberg U.S. 1-3 Year Government Bond Index is generally considered to be representative of the average yield on U.S. government obligations having maturities between one and three years.

The Morningstar percentile ranking is based on a fund's average annual total return (excluding sales charges) relative to all funds in the same category. The highest (most favorable) percentile rank is 1%, and the lowest (least favorable) percentile rank is 100%. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

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