

Performance Summary

The municipal market experienced positive returns this quarter as a result of a historic rally in the back half of the quarter. The Bloomberg Municipal Bond Index returned 7.89% for the fourth quarter of 2023, beating quarterly returns throughout the year as well as the Bloomberg U.S. Aggregate Bond Index, which returned 6.82%. The fourth quarter's stunning performance brought the Bloomberg Municipal Bond Index returns to 6.40% for the year. Performance was largely driven by a downward shift in the Treasury curve, as the Federal Reserve kept the target range for the federal funds rate at 5.25%–5.50% throughout the quarter amidst softening inflation prints. The market narrative surrounding monetary policy shifted within the fourth quarter, moving on from “how high can policy rates go” to “how much longer will policy rates be kept at current highs.” As such, the market has begun pricing in future rate cuts and driving yields down. The yield of the Bloomberg Municipal Bond Index closed the quarter at 3.22%, compared to 4.37% at the end of the third quarter of 2023. While muni yields fell from their October highs, we continue to believe that current yield levels offer investors an attractive entry point into the muni market and are even more attractive when you consider the tax-free treatment of most municipal bonds. Against this backdrop, the Victory Tax Exempt Long-Term Fund (Fund Shares) outperformed its benchmark, the Bloomberg Municipal Bond Index, for the quarter ended December 31, 2023. See next page for other share classes.

Market Review & Outlook

The Bloomberg Municipal Bond Index returned 7.89% for the fourth quarter of 2023, which brought the YTD performance to 6.40%. The fixed income sector as a whole saw a significant rally in November and December and largely had positive returns for the year. Fourth quarter and YTD returns for the Bloomberg U.S. Aggregate Bond Index were 6.82% and 5.53%, respectively; for the Bloomberg U.S. Universal Index, 6.83% and 6.17%; and for the Bloomberg U.S. Treasury Index, 5.66% and 4.05%.

See below for an update on some of the key metrics in the muni market that we continue to monitor.

- AAA muni yields (the benchmark rate of the safest municipal securities) are lower than they were at the end of the second quarter and the close of 2022. Bloomberg AAA muni yields increased across the yield curve in the fourth quarter, in many cases to levels not seen in decades. While yields have come down from the peaks seen in October of 2023, they remain elevated. As a reminder, an increase in bond yields means that bond prices decrease and vice versa. See below for yield changes from 12/31/2022 to 12/31/2023 at several key maturities.
 - 3-year: 2.58% to 2.35%
 - 10-year: 2.64% to 2.26%
 - 30-year: 3.62% to 3.40%
- Fund flows for municipal bond mutual funds were slightly negative for the year at approximately -\$16.1 billion (according to Lipper), but remarkably improved compared to last year's record-setting outflows of roughly \$120 billion.
- Credit spreads (the difference between riskier bonds and AAA bonds) widened over the past few months, though slightly tighter than this time last year, providing pockets of opportunity. The BBB credit spread increased to 1.25% from 1.03% at the end of the third quarter of 2023.

We believe the creditworthiness of muni borrowers remains strong. In recent years, on the whole, we have observed higher levels of reserve funds than in prior economic cycles. This should provide additional cushion for potential near-term economic fluctuations.

We remain committed to our core competency of evaluating, taking, and managing credit risk in the municipal market. We continue to build our portfolios bond-by-bond, relying on our assessment of fundamental credit risk and attempting to capture and distribute incremental yield in an effort to drive higher long-term income to our investors. While there might be some volatility in the muni market in the short term, we remain confident that the right approach is to focus on what matters in the long term.

We believe municipal bonds continue to represent an attractive investment opportunity on a relative basis. At the end of the fourth quarter, the yield on the Bloomberg Municipal Bond Index was 3.22%, which is a taxable-equivalent yield of 5.43% (in the highest tax bracket). After factoring in the benefit of the tax exemption, we believe munis look attractive vs. the (taxable) Bloomberg U.S. Aggregate Bond Index, which yielded 4.53% at quarter-end.

Contributors

- Longer duration as rates fell during the quarter
- Security selection in the Tax Revenue sector
- Security selection in the A and AA ratings categories

Detractors

- Security selection in the Continuing Care Retirement Community (CCRC) sector
- Overweight to lower-rated bonds

Standardized Performance: December 31, 2023

Average Annual Returns (%)

Victory Tax Exempt Long-Term Fund	Ticker	Inception Date	Q4 2023	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
								Gross	Net
Fund Shares	USTEX	03/19/82	9.80	7.27	1.93	3.04	6.40	0.47	0.46
A Shares, without sales charge	UTELX	08/02/10	9.76	7.05	1.73	2.79	3.14	1.18	0.66
A Shares, with sales charge (max. 2.25%)	UTELX	08/02/10	7.27	4.65	1.27	2.56	2.96	1.18	0.66
Institutional Shares	ULTIX	06/29/20	9.81	7.20	–	–	0.54	0.59	0.44
Bloomberg Municipal Bond Index	–	–	7.89	6.40	2.25	3.03	–	–	–

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 June 30, 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. 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. 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. 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 Municipal Bond Index is considered to be generally

representative of investment-grade municipal issues having remaining maturities greater than one year and a national scope.

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.

The Bloomberg U.S. Universal Index is an index that represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below-investment-grade.

The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills and STRIPS are not included.

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.**

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