

## Executive Summary

- Investment grade convertibles gained in the second quarter, although participation rates to the S&P 500® Index were at the low end. For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) rose 1.55%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) gained 1.64%.
- The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) 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 that investment grade convertibles are well positioned in a period of economic uncertainty. With stock valuations at elevated levels, the yield and defensive characteristics of convertibles have increased in importance.

## Market Review

Following a miserable first quarter and an inauspicious start in April, stocks rebounded to produce stellar gains in the second quarter. The quarter began with the Trump administration’s April 2 announcement of across-the-board reciprocal tariffs, which caused the S&P 500® Index to plunge by nearly 10% over a two-day stretch. The turmoil of the sudden drop in stocks, coupled with unexpected stress in the bond market, led the administration to quickly reverse course and announce a 90-day pause in tariff rates to allow for negotiations. As a result stocks rocketed back upwards, with the Dow Jones Industrial Average rising nearly 3000 points and the Nasdaq Composite Index gaining 12% on the day of the tariff pause. Stocks pulled back again later in April when President Trump expressed displeasure with Federal Reserve Chair Powell while renewing threats to fire him. Trump later eased off on firing Powell and softened his stance on tariffs, which led to a sustained rally that ultimately carried stocks higher through the end of the quarter. Strong earnings from tech giants Meta Platforms, Microsoft, and Nvidia drove the S&P 500® Index 6.29% higher in May, moving the index back into positive territory. Stocks rallied again in June, spurred on by decisive military attacks targeting Iran’s nuclear infrastructure and a subsequent ceasefire between Israel and Iran. The S&P 500® Index finished the halfway point in the year at a record closing high, gaining 10.94% in the quarter to bring its YTD total return to 6.20%. Technology stocks dominated during the quarter, rocketing the Nasdaq Composite Index to a quarterly gain of 17.97%. Bonds as measured by the Bloomberg U.S. Aggregate Total Return Index rose 1.64% in the quarter to bring its YTD total return to 4.02%.

### Second Quarter Convertibles

Investment grade convertibles gained in the second quarter, although participation rates to the S&P 500® Index were at the low end. For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) rose 1.55%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) gained 1.64%. The Financials sector contributed the most to returns, followed by Industrials. Only the Utilities sector subtracted from returns. Top individual index performers included Uber Technologies, Ares Management, and KKR & Company. Bottom performers included Ventas Realty, WEC Energy Group, and Alliant Energy. Year-to-date convertible performance has been a tale of two quarters, where investment grade convertibles provided strong downside support during the turbulent first quarter, but only marginally participated in the technology-led stock recovery during the second quarter.

New convertible issuance picked up considerably in the second quarter, with 36 new issues raising \$31 billion. Five of the new issues were rated investment grade.

### Portfolio Performance

The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the second quarter. Absolute performance was led by the Financials and

Industrials sectors. The Utilities and Consumer Discretionary sectors subtracted most from returns. Relative performance was helped by overweights in Industrials and Information Technology, an underweight in Utilities, and positive security selection in Financials. Relative performance was hurt by negative security selection in Consumer Discretionary and Real Estate. Top performing individual convertibles included Uber Technologies, KKR & Company, and Parsons Corp. Bottom performers included Ventas Realty, Global Payments, and PPL Corp.

### 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 3.4%, a delta (sensitivity to common stock) of 48%, and an average credit rating of BBB. The Constrained Convertible Index (VX5C) yields 3.6% and has a delta of 51% 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 Health Care, Industrials, and Information Technology sectors. We maintain an underweight in the Utilities and Real Estate sectors. We maintain approximately neutral exposure to other sectors.

### Buy & Sells

During the second quarter, we initiated positions in convertible bonds from Alliant Energy Corp. and COPT Defense Properties. Alliant Energy is a Wisconsin-based regional electric utility. We already own a previous issue from Alliant. COPT is an REIT specializing in office and data center properties of the U.S. government and defense contractors. We added to existing convertibles of Akamai Technologies, Uber Technologies, Rexford Industrial Realty, and Digital Realty Corp. We swapped a portion of NextEra Energy for a different NextEra Energy issue with a later maturity date. After a long fruitful run, we sold Booking Holdings prior to maturity and allowed an Akamai Technologies convertible bond to mature at par. Finally, we took advantage of available upside liquidity to trim a portion of Kite Realty.

### Outlook

We believe that investment grade convertibles are well positioned in the current period of economic uncertainty. With stock valuations at elevated levels, the yield and defensive characteristics of convertibles have increased in importance. Investment grade convertibles provided a valuable downside cushion during the turbulent first quarter, but only marginally participated in the narrow technology-led stock recovery during the second quarter. We expect stock participation rates to improve if equity returns broaden out to include more sectors. U.S. real GDP fell 0.5% during the first quarter as a

tariff-induced pull-forward in imports led to a drop in net exports. We do not believe that this is the beginning of a recession, expecting that GDP growth will resume in the second quarter. We still believe that this year's growth will be slower than last year's 2.8% rate. The latest Bloomberg survey of economists calls for the U.S. economy to expand 1.5% in 2025 with similar growth in 2026.

The Federal Reserve held rates steady at their June meeting but indicated one to two rates cuts were likely during the remainder of the year. Inflation has been trending lower over the past several months but remains a concern. We believe that the potential for higher tariffs could put upward pressure on inflation.

Earnings are expected to continue to grow this year driven largely by robust tech results, although a slower economy and tariff uncertainty have contributed to a minor reduction in consensus earnings growth. Bloomberg's latest survey of strategists indicates a median S&P 500® Index EPS forecast of \$259 in 2025, putting the index at close to 24 times earnings based on its quarter-end closing level of 6205. Healthy earnings growth could drive returns in 2025; however, elevated valuation levels may limit potential equity upside.

Historically, convertible returns have closely matched or even exceeded equity returns over extended 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, 2025

Victory Investment Grade Convertible Securities Strategy	Inception Date	Q2 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Victory Investment Grade Convertible Securities Strategy (Gross)	1/1/87	2.25	2.44	9.28	7.81	8.10	8.15	8.32
Victory Investment Grade Convertible Securities Strategy (Net)	1/1/87	2.12	2.16	8.69	7.22	7.52	7.57	7.68
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	–	1.55	3.77	11.81	7.92	8.29	8.35	–
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	–	1.64	4.05	10.79	7.34	7.30	8.55	–

**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 (Gross of Fees)	Top Ten Holdings	% Rep. Account
Uber Technologies, Inc. 0.875% 01-dec-2028	0.8	Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	5.5
KKR & Co Inc 6.25% Mandatory Conv Pfd Registered Shs Series D	0.5	Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	5.3
Parsons Corporation 0.25% 15-aug-2025	0.4	Uber Technologies, Inc. 0.875% 01-dec-2028	5.1
Barclays Bank Plc 1.0% 16-feb-2029	0.4	Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	4.7
Ares Management Corporation Pfd Registered shs Series B	0.3	Ford Motor Company 0.0% 15-mar-2026	4.0
		Barclays Bank Plc 1.0% 16-feb-2029	3.8
		Ares Management Corporation Pfd Registered shs Series B	3.5
		Envista Holdings Corporation 1.75% 15-aug-2028	3.3
		American Water Capital Corp. 3.625% 15-jun-2026	3.2
		Welltower Inc. 2.75% 15-may-2028	3.2
		Total	41.7
Top 5 Detractors (%)	Contribution to Absolute Return (Gross of Fees)		
Ventas Realty Limited Partnership 3.75% 01-jun-2026	-0.2		
Global Payments Inc. 1.5% 01-mar-2031	-0.1		
Ppl Capital Funding, Inc. 2.875% 15-mar-2028	-0.1		
Booking Holdings Inc. 0.75% 01-may-2025	-0.1		
Albemarle Corporation Depository Shs Repr 1/20th 7.25 % Conv Pfd Registered Shs	-0.1		

**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 BofAML Investment Grade US Convertible 5% Constrained Index (VX5C). Prior to 12/1/2017, the benchmark was the ICE BofAML U.S. Convertible - Investment Grade Index (VXA1). The ICE BofAML Investment Grade US 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, ADR's 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 BofAML U.S. Convertible - Investment Grade Index (VXA1) is a market capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADR's 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 benchmark returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns have been taken from a published source and do not include any transaction fees, management fees, or other costs. Prior to September 2023, the name of this composite was the INCORE Investment Grade Convertible Securities.

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.

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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.

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