

As of June 30, 2025

Executive Summary

Uncertainty reigned over risk assets in Q2. It began with President Trump's announcement of a new tariff regime, sending equities tumbling. Weeks later, an announced pause in the imposition of tariffs prompted a "risk-on" rally that saw investment grade credit spreads rally to cyclical tightness and the Treasury curve steepen. Hard and soft data on the economy and inflation diverged and the Federal Reserve ("the Fed") left rates unchanged, concerned that tariffs could keep inflation elevated even as a solid employment market provided no prompt to reduce from the upper bound of 4.5%. Against this backdrop, the Victory Income Strategy outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended June 30, 2025, on a gross and net basis.

Market Update & Commentary

The second quarter of 2025 started with a bang when President Trump announced an expansive new tariff regime on April 2. While tariffs had been promised on the campaign trail and were therefore not entirely unexpected, their magnitude and sweeping application rocked risk assets, sending them downward swiftly and deeply. They recovered sharply only a few weeks later when the president announced that the highest tariffs would be paused.

May brought the final downgrade from AAA to U.S. debt by Moody's, but the market's reaction was muted. Moody's cited the potentially unsustainable fiscal trajectory as a rationale for the downgrade. Credit spreads barely reacted because this was hardly news to anyone. Overall, credit spreads have remained very low and are pricing in a benign economic environment despite the volatility in the equity markets. Short-term yields decreased throughout the quarter, while long-term yields increased on the future of U.S. fiscal policy arising from the push to pass a budget before July 4.

The divergence between hard data, such as inflation measures and corporate earnings, and the soft data, such as inflation expectations and consumer survey data, is further evidence, in our view, of the high degree of economic uncertainty. The YoY Consumer Price Index (CPI) held quarter-over-quarter at 2.4%, while the unemployment rate fell from 4.2% at the end of Q1 to 4.1% at the end of Q2. In the end, hopes for the Fed to cut interest rates fell from four cuts to between two and three in 2025 as the Fed increasingly signaled a wait-and-see approach, weighing firm employment against expectations of weaker consumer spending on the application of tariffs.

	Yield (%)	Spreads (bps)			Returns (%)	
		6/30/2025	3/31/2025	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.0	-	-	-	0.8	5.3
U.S. Aggregate	4.5	33	35	-2	1.2	6.1
U.S. Credit	4.9	80	88	-9	1.8	6.8
Corporate	5.0	84	93	-9	1.8	6.9
Aa	4.7	47	54	-7	1.3	5.7
A	4.9	70	79	-9	1.8	6.7
Baa	5.2	105	114	-9	2.0	7.4
Crossover	5.8	171	187	-16	2.5	8.0
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	7.4	292	345	-54	3.5	10.3
Ba	6.1	168	217	-49	3.4	8.9
B	7.4	279	347	-68	3.6	9.5
Caa	11.2	678	671	+7	4.0	16.7
Ca-D	20.8	1,928	1,757	+171	0.6	27.9
Structured Product						
U.S. MBS	4.9	37	36	+1	1.1	6.5
ABS	4.4	57	59	-3	1.4	6.3
CMBS	4.7	85	88	-3	1.9	7.7

Source: Bloomberg

Between April's equity sell-off and the continuing uncertainty regarding the direction of fiscal policy, we believe fixed income offers investors' portfolios ballast and improved diversification in a volatile equity market. Despite credit spreads near 25-year lows, positive real yields offer attractive earning potential.

Portfolio Performance & Positioning

The Strategy increased its allocation to corporate securities during the quarter as spreads widened during the month of April on tariff concerns and we took advantage of the buying opportunity. Spreads have since tightened back to levels seen at the beginning of the quarter. The Strategy also increased its allocation to agency mortgage-backed securities (MBS) while reducing its allocation to U.S. Treasuries. The Strategy's duration remains in line with its benchmark.

Contributors

- The Strategy's overweight allocation to corporate bonds, which was the best-performing asset class during the quarter, contributed positively to performance during the quarter.
- Overweights to banking, utilities and consumer non-cyclicals were primary sources of outperformance.
- The Strategy's underweight to Treasury securities, which was the worst-performing asset class during the quarter, also benefited performance.
- An overweight to BBB-rated securities was the largest credit rating factor benefiting performance.

Detractors

- Sectors that detracted from performance include transportation and media & entertainment.
- Taxable municipal securities also detracted slightly from performance.
- An overweight allocation to BB-rated securities relative to the index also detracted from performance.

Performance

Average Annual Returns (%) as of June 30, 2025

Victory Income Strategy	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (April 1974)
Gross of Fees	1.44	4.19	7.03	4.56	1.40	3.27	7.80
Net of Fees	1.31	3.92	6.47	4.02	0.90	2.76	7.20
Bloomberg U.S. Aggregate Bond Index	1.21	4.02	6.08	2.55	-0.73	1.76	—

Past performance cannot 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. Performance prior to July 1, 2019, occurred while the team was affiliated with a prior firm. The investment management team has managed the composite strategy since inception and the investment process has not changed. Composite and benchmark returns are presented net of non-reclaimable withholding taxes. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. The composite net-of-fees returns shown reflect 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.



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 Income Composite includes all institutional and retail portfolios invested primarily in U.S. dollar-denominated fixed-income securities that have been selected for their high yields relative to the risk involved. The fixed-income securities in which the composite portfolio invests include obligations of U.S., state, and local governments, and their agencies and instrumentalities; mortgage- and asset-backed securities; corporate debt securities; and repurchase agreements. Composite portfolios also may invest in income-producing common stock, preferred securities, and other securities believed to have debt-like characteristics. The strategy aims to deliver maximum current income without undue risk to principal. High yield bonds carry increased levels of credit and default risk and are less liquid than government and investment grade bonds. Beginning September 1st, 2023, the minimum account size for the composite is \$25 Million. The composite creation date is July 2019, and the composite inception date is April 1974. The benchmark of the composite is the Bloomberg U.S. Aggregate Bond Index. Prior to 4/24/2023, the name of this composite was the USAA Income Fixed Income Composite.

The benchmark of the composite is the **Bloomberg U.S. Aggregate Bond Index**. The Bloomberg U.S. Aggregate Bond Index measures the performance of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage (ARM) pass-throughs), asset-backed securities, and commercial mortgage-backed securities. 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.

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. **Past performance does not guarantee future results.**

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.

Victory Capital Management Inc. (VCM) is a diversified global investment adviser registered under the Investment Advisers Act of 1940 and comprises multiple investment franchises: Integrity Asset Management, Munder Capital Management, New Energy Capital Partners, NewBridge Asset Management, Pioneer Investments, RS Investments, Sophus Capital, Sycamore Capital, THB Asset Management, Trivalent Investments, Victory Income Investors, and the Victory Capital Solutions Platform. RS Investments and Sophus Capital became a part of the VCM GIPS firm effective January 1, 2017; Victory Income Investors, effective July 1, 2019; THB Asset Management, effective March 1, 2021; New Energy Capital effective November 1, 2021; and Amundi Asset Management US, Inc. (renamed to "Pioneer Investments"), effective April 1, 2025.

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The opinions are as of the date indicated 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.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

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