

Executive Summary

- Convertibles provided positive returns in the first quarter, although equity participation rates to the S&P 500 remained subdued. For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) rose 2.23%, about 21% as much as the S&P 500® Index return. The ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) rose 2.37%.
- The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the first 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 could become increasingly important.

Market Review

Stocks continued their strong performance during the quarter with the S&P 500® Index returning 10.56% , recording its best first quarter since 2019. Markets mostly tread water during the first half of January until robust semiconductor earnings spurred a technology rally. Stocks pulled back late in January after Fed Chair Powell threw cold water on the rally by indicating that a March rate cut was largely off the table. However, stocks roared ahead in February after Meta Corp. reported earnings that pushed the software behemoth up 20%. Later in the month, powerful semiconductor chip darling Nvidia posted blockbuster earnings that drove its stock up 16% on the day, leading the entire market higher. Stocks were choppy early in March as higher-than-expected job growth and inflation fostered the view that the Fed may cut rates fewer times in 2024 than previously expected. But stocks pushed upwards and closed out the quarter on a high note after the Fed held steady at three projected rate cuts during their March meeting. Unlike stocks, bond returns fell in the quarter, with the Bloomberg U.S. Aggregate Total Return Index declining 0.78%.

First Quarter Convertibles

Convertibles provided positive returns in the first quarter, although equity participation rates to the S&P 500 remained subdued. For the quarter, the Constrained Convertible Index (VX5C) rose 2.23%, about 21% as much as the S&P 500® Index return. The Unconstrained Convertible Index (VXA1) rose 2.37%. The Financials sector provided the bulk of index returns, followed by Energy and Consumer Discretionary. The Real Estate and Health Care sectors detracted from returns. Top individual performers in the index included Pioneer Natural Resources, Apollo Global Management, and NextEra Energy. Bottom performers included Ventas Realty, Expedia Group, and EQT Corp. New issuance continued to be robust in the first quarter, with 31 new issues raising \$19.4 billion. Six of the new issues were rated investment grade, raising \$5.4 billion.

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 first quarter. Absolute performance was led by the Financials sector, followed by Industrials and Energy. The Information Technology, Real Estate, Materials, and Health Care sectors detracted from performance. Relative performance was hurt by an overweight in Information Technology and by negative security selection in Financials. Top performing individual convertibles included Pioneer Natural Resources, Parsons Corp., and Apollo Global Management. Bottom performers included Akamai Technologies, New York Community Bank, and Expedia Group.

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 2.8%, a delta (sensitivity to common stock) of 48%, and an average credit rating of BBB. The Constrained Convertible Index (VX5C) yields 3.2%, has a delta of 44%, 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, Health Care, and Financials sectors. We maintain an underweight in the Utilities and Real Estate sectors. We maintain approximately neutral exposure to other sectors.

Buys and Sells

During the first quarter, we initiated positions in new issue convertible bonds of Global Payments, Federal Realty, and Rexford Industrial Realty. Global Payments provides electronic payment processing for various institutions worldwide. Federal Realty specializes in prime community shopping centers located mainly on both coasts and in Chicago. Rexford Industrial Realty specializes in industrial properties in the Los Angeles area. We added to positions in a number of current holdings across several sectors, including American Water Works, Apollo Global, Evergy Inc., New Mountain Financial, NextEra Energy, PPL Corp., Southwest Airlines, Ventas Realty, and Welltower, Inc. We sold natural gas company EQT Corp. after it was called for redemption. We exchanged Barclays bonds exchangeable into Microsoft for similar newly issued bonds with a better risk/reward profile. And finally, we allowed Ares Capital bonds to mature at par.

Outlook

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 could become increasingly important.

The U.S. economy remains in the later stages of an economic cycle; nonetheless, economic growth has surprised on the upside, which has both boosted earnings and kept upward pressure on inflation. The likelihood of imminent recession has dissipated, although the Conference Board Leading Economic Index (LEI) remains negative and the yield curve remains inverted. Forecasts of economic growth have increased, with the latest Bloomberg survey of economists showing expansion of 2.2% in 2024.

Inflation continues to be a primary concern. While inflation has been trending lower, the latest Consumer Price Index reading of 3.5% in March came in higher than expectations, and above the 3.2% February reading. Coming into the year, economists expected

multiple Fed rate cuts, but the number of expected cuts has been dwindling as inflation has remained sticky. The Fed indicated three rate cuts were probable this year during their March meeting, but now that prediction could prove optimistic.

Stronger-than-expected economic growth has resulted in higher earnings. Bloomberg's survey of strategists indicates a median S&P 500® Index EPS forecast of \$235 in 2024, putting the index at an elevated 22.4 times earnings based on its quarterly closing level of 5254. Current valuation levels may limit upside gains, but valuation on its own is seldom a good market timing indicator.

We remain neutral on stock market prospects, believing markets will continue to be volatile. Much of the strength in equity markets in 2023 was due to a relatively small number of mega-cap technology-oriented stocks. A broader market would likely be good for convertibles, acting to increase their equity participation rates like it did in the second half of 2023.

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 March 31, 2024

Victory Investment Grade Convertible Securities Strategy	Inception Date	Q1 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Victory Investment Grade Convertible Securities Strategy (Gross)	1/1/87	2.90	2.90	10.37	2.45	7.52	8.35	8.32
Victory Investment Grade Convertible Securities Strategy (Net)	1/1/87	2.76	2.76	9.77	1.89	6.95	7.76	7.68
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	–	2.23	2.23	8.87	2.88	6.78	8.33	–
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	–	2.38	2.38	8.77	2.17	6.05	8.76	–

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
Pioneer Natural Resources Company 0.25% 15-may-2025	1.0
Parsons Corporation 0.25% 15-aug-2025	1.0
Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	0.4
Barclays Bank Plc 0.0% 04-feb-2025	0.4
NextEra Energy, Inc. 4.6 % Equity Units Cons of Deb 01.09.27 + 1 PC 01.09.25	0.3
Top 5 Detractors (%)	Contribution to Absolute Return
Akamai Technologies, Inc. 0.125% 01-may-2025	-0.2
New York Community Capital Trust V 6 % Bifurcated Option Note Unit Secs Cons of 1 6% Trust Pfd Sec 1.11.51 + 1 Wt 7.5.51	-0.2
Expedia Group, Inc. 0.0% 15-feb-2026	-0.1
Envista Holdings Corporation 1.75% 15-aug-2028	-0.1
Kite Realty Group, L.p. 0.75% 01-apr-2027	-0.1

Top Ten Holdings	% Rep. Account
Pioneer Natural Resources Company 0.25% 15-may-2025	6.3
Booking Holdings Inc. 0.75% 01-may-2025	6.1
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	6.0
Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	5.7
Southwest Airlines Co. 1.25% 01-may-2025	5.7
NextEra Energy, Inc. 4.6 % Equity Units Cons of Deb 01.09.27 + 1 PC 01.09.25	5.5
Ford Motor Company 0.0% 15-mar-2026	4.5
Parsons Corporation 0.25% 15-aug-2025	4.2
Expedia Group, Inc. 0.0% 15-feb-2026	4.1
Barclays Bank Plc 1.0% 16-feb-2029	4.1
Total	52.3

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 BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C). Prior to 12/1/2017, the benchmark was the ICE BofA Investment Grade U.S. Convertible Index (VXA1). The ICE BofA Investment Grade U.S. 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, 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. 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.

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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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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