STATE TAX EXEMPT BOND FUNDS QUARTERLY COMMENTARY

USAA INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2021

USAA California Bond Fund // USAA New York Bond Fund // USAA Virginia Bond Fund

Market Review & Outlook

The Bloomberg Municipal Bond Index returned -0.27% for the third quarter, with the BBB sub-index outperforming with a 0.11% return. As a point of comparison, the (taxable) Bloomberg U.S. Aggregate Bond Index returned 0.05% in the third quarter. However, for the year-to-date the muni index has still outperformed the aggregate with a return of 0.79% compared to -1.55%. YTD returns for the muni index have been driven by the BBB sub-index, which has returned 4.02% YTD.

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) remained relatively flat in the short maturity range during the quarter, with the 3-year finishing at 0.25% (compared to 0.24% at the start of the quarter). However, in intermediate and longer maturities, rates increased notably, with the 10-year up to 1.13% (from 1.00% at the start of the quarter) and the 30-year up to 1.72% (from 1.57%). As a reminder, an increase in bond yields means that bond prices decrease.
- Fund flows for municipal bond mutual funds were positive nearly every week for the first three quarters of the year. This continued a trend of generally positive fund flows since May of last year. Total fund flows year to date in 2021 are roughly $90 billion.
- Demand across the new-issue market remained high in the third quarter of 2021. Most deals remain over-subscribed, although this has lessened somewhat compared to earlier parts of the year.
- Credit spreads (the difference between riskier bonds and AAA bonds) continued to tighten through the third quarter. The BBB credit spread decreased from 0.63% at the beginning of the quarter to 0.54% at the end of the third quarter. Credit spreads have tightened considerably this year, down from 1.29% to start 2021.

In general, the USAA Investments tax-exempt funds performed roughly in-line with the indices this quarter, as credit spread tightening was somewhat muted in Q3. However, YTD the funds have significantly outperformed their benchmarks. This outperformance is what we would expect given our investment philosophy and the strong performance of credit markets during the quarter. Our tax-exempt funds tend to be more credit heavy, holding more BBB-category rated (the lowest category of investment grade) bonds than the benchmark. As noted earlier, the BBB sub-index was the best performing credit segment in the broader muni index. While we welcome short-term outperformance, the primary reason we overweight BBB credits is to provide additional tax-free income to our investors on a long-term basis.

Heading into the last quarter of 2021, factors such as government policy on infrastructure spending and public finance policy (e.g., reinstatement of tax-exempt advance refundings) could play a significant role in determining muni returns for the remainder of the year and on into 2022.

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 represent an attractive investment opportunity on a relative basis. At the end of the third quarter, the yield on the Bloomberg Municipal Bond Index was 1.12%, which is a taxable-equivalent yield of 1.89% (in the highest tax bracket). After factoring in the benefit of the tax exemption, munis look attractive vs. the (taxable) Bloomberg U.S. Aggregate Bond Index, which yielded 1.56% at quarter-end.

Fund Performance & Positioning

During the third quarter, the USAA California Bond Fund and the USAA Virginia Bond Fund outperformed both the benchmark (which is a national index) and their respective state-specific indices. The USAA New York Bond Fund slightly underperformed its state-specific index and the benchmark.

During the quarter, our commitment to independent credit research continued to help us seek to identify attractive opportunities for the Funds. As always, we worked with our in-house team of credit analysts to select investments for the Funds on a bond-by-bond basis. Our team carefully analyzes and continually monitors every bond in the Funds, selectively choosing issues with coupons and structures that can contribute to the Funds' dividend yield. We employ fundamental analysis that emphasizes an issuer's ability and willingness to repay its debt. Through our credit research, we strive both to recognize relative value and to avoid potential pitfalls. The Funds remain well diversified across positions and sectors.

USAA California Bond Fund

California's economy of nearly 40 million people, the largest among the 50 states, is broad and diverse. The State's enormous $3.2 trillion gross domestic product accounts for 14% of the nation's economy. However, the financial impact to the state of California from the COVID-19 pandemic has been significant in terms of higher unemployment, diminished sales tax collections and other negative economic factors. Offsetting these concerns, to a degree, has been the receipt of one-shot federal aid money.

20211018-1864855

Of recent note is the fact that Governor Newsom survived the recall election challenge in September. Also, the wildfire season has been particularly bad, exacerbated by the state's ongoing severe drought emergency.

On a positive note, following the Great Recession, California made significant structural changes to its fiscal operations that contributed to improved financial position. Areas of improvement include timely budgets, restrained spending, and the creation of rainy-day reserve funds. These factors, combined with significant one-time measures in the 2021 budget, enabled California to complete fiscal 2021 with good reserve levels. However, significant budget pressure in fiscal 2022 and beyond remain a credit concern. High dependence upon revenues generated from the cyclical personal income tax and a rising trend of outmigration, while still small relative to the population, are areas of potential fiscal concern.

The state currently maintains strong ratings of Aa2 with stable outlook by Moody's, AA- with positive outlook by S&P, and AA with stable outlook by Fitch Ratings. Recent diminishment of the COVID pandemic and corresponding improvement in the economy are noted. Consequently, we are revising our outlook for California's credit rating to stable from negative. However, pandemic and underlying economic vulnerabilities remain.

USAA New York Bond Fund

New York State continues to rebound from the coronavirus pandemic with improving GDP. Employment numbers are also trending higher, although below pre-pandemic levels. The State's economic base remains substantial and broad including New York City, a center for world trade and culture.

Financial management benefits from an institutionalized process supported by multi-year budgeting and quarterly plan updates. Recent tax revenues have improved sharply as the effects of the pandemic wane. This fiscal improvement, coupled with significant funding from the American Rescue Plan, should ensure balanced operations over the near-term. Comfortable reserves provide additional support. It must be mentioned that vital public agencies, such as the Metropolitan Transportation Authority, may require a degree of State assistance to address pandemic related stress. Although the State's debt level is above average, the liability remains manageable. Pension obligations are well funded.

Ratings are strong with agency outlooks all improving recently. General obligation debt is rated Aa2 (positive outlook) by Moody's, AA+ (stable outlook) by S&P, and AA+ (stable) by Fitch.

USAA Virginia Bond Fund

The Commonwealth of Virginia continues to steadily recover from the economic and fiscal impact felt at the peak of the COVID-19 pandemic. Preliminary August 2021 unemployment rates from the Bureau of Labor Statistics are at 4% for the state, which is a considerable improvement from a peak unemployment rate during the height of the pandemic of 11.3% (April 2020).

GDP growth also points to a strong recovery in the Commonwealth, though lagging that of the US. In 2Q21 GDP grew 5.8% (annualized) vs. the US growth of 6.7%, ranking Virginia 30th by state. The largest growth was seen in the accommodation and food services sector, followed by the professional, scientific and technical services sector, mirroring national trends. Virginia's above average government and military presence may have helped stabilized GDP during the pandemic.

Fiscal 2021 results further affirm the commonwealth's solid financial position. Virginia achieved a record $2.6 billion surplus FY21, thanks to budget cuts enacted by the legislature and larger than anticipated revenues in most major general fund revenue categories. Total revenue collections were $8.6 billion in the fourth quarter. Virginia has almost $10 billion in cash and investments available as of August 2021 (approximately 40% of the 2022 budget). In addition, Virginia's pension burden is one of the lowest in the nation in terms of state GDP. According to Moody's, Virginia's adjusted net pension liabilities (ANPL) is 2.2% of state GDP, ranking 44th out of 50 in a range of 1.8% to 27.3%.

While we will continue to monitor the ongoing impact from the current pandemic as well as the overall performance of the state, we continue to view the underlying credit quality of Virginia as exceptionally strong. Presently Virginia remains rated AAA by Fitch, Moody's, and Standard & Poor's.

VictoryCapital®

20211018-1864855

Standardized Performance: September 30, 2021

Average Annual Returns (%)

USAA California Bond Fund	**Ticker**	**Inception Date**	**Q3 2021**	**1 Year**	**5 Year**	**10 Year**	**Since Inception**	**Expense Ratio**	
								Gross	**Net**
Fund Shares	USCBX	08/01/89	-0.10	3.46	3.29	4.65	5.46	0.56	0.56
Bloomberg Municipal Bond Index	–	–	-0.27	2.63	3.26	3.87	–	–	–
Bloomberg Municipal Bond - California Exempt Index	–	–	-0.25	2.10	3.14	4.15	–	–	–

USAA New York Bond Fund	**Ticker**	**Inception Date**	**Q3 2021**	**1 Year**	**5 Year**	**10 Year**	**Since Inception**	**Expense Ratio**	
								Gross	**Net**
Fund Shares	USNYX	10/10/90	-0.56	4.74	2.99	3.75	5.44	0.66	0.66
Bloomberg Municipal Bond Index	–	–	-0.27	2.63	3.26	3.87	–	–	–
Bloomberg Municipal Bond - New York Exempt Index	–	–	-0.54	3.42	3.00	3.67	–	–	–

USAA Virginia Bond Fund	**Ticker**	**Inception Date**	**Q3 2021**	**1 Year**	**5 Year**	**10 Year**	**Since Inception**	**Expense Ratio**	
								Gross	**Net**
Fund Shares	USVAX	10/10/90	-0.06	2.86	2.83	3.73	5.19	0.50	0.50
Bloomberg Municipal Bond Index	–	–	-0.27	2.63	3.26	3.87	–	–	–
Bloomberg Municipal Bond - Virginia Index	–	–	-0.23	1.68	2.94	3.41	–	–	–

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*. Fee waivers and/or expense reimbursements may have been in place for some or all periods shown, without which, fund performance would have been lower. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index. Investing involves risk including loss of principal. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through June 30, 2023.

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.

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. Some income may be subject to local taxes and could be declared taxable and/or subject to the federal alternative minimum tax (AMT) if federal or state tax laws change. 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.

Discussion based on the Fund share class. Other classes have different performance characteristics.

The Bloomberg Municipal Bond Index is considered to be generally representative of investment-grade municipal issues having remaining maturities greater than 1 year and a national scope.

The Bloomberg U.S. Aggregate Bond Inde 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 Municipal Bond – California Exempt Index is an unmanaged index considered representative of California investment-grade municipal bonds.

The Bloomberg Municipal Bond – New York Exempt Index is an unmanaged index considered representative of New York investment-grade municipal bonds.

The Bloomberg Municipal Bond – Virginia Index is an unmanaged index considered representative of Virginia investment-grade municipal bonds.

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.**

Victory Capital means Victory Capital Management Inc., the investment adviser of the Victory Capital mutual funds and USAA Mutual Funds. Victory Capital mutual funds and USAA Mutual Funds are distributed by Victory Capital Services, Inc. (VCS), member FINRA, an affiliate of Victory Capital. Victory Capital and its affiliates are not affiliated with United Services Automobile Association or its affiliates. USAA and the USAA logos are registered trademarks and the USAA Mutual Funds and USAA Investments logos are trademarks of United Services Automobile Association and are being used by Victory Capital and its affiliates under license.

V20.152 // 3Q 2021 USAA State Tax Exempt Bond Funds DM COM