STATE TAX EXEMPT BOND FUNDS QUARTERLY COMMENTARY

USAA INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2022

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

Performance Summary

The municipal market posted positive returns in the 4th quarter of 2022 following what proved to be a very painful first few quarters of the year (a pain that was felt across most of the fixed income industry). The Bloomberg Municipal Bond Index returned 4.10% for the fourth quarter, bringing YTD performance to -8.53% (the lowest calendar year return for the index since the early 1980s). Negative returns for the year were attributable to a combination of factors, including the Federal Reserve's prolonged fight to reduce inflation through interest rate increases and significant investor outflows from municipal mutual funds. While the increase in rates in 2022 was painful in the short-term, we believe the now higher rates bode well for future returns as starting yield is a good predictor for long-term fixed income returns. The starting yield of the Bloomberg Municipal Bond index increased from 1.11% (12/31/2021) to 3.55% (12/31/2022). These improved yield levels offer investors a better entry point into the municipal market and are even more attractive when you consider the tax-free treatment of most municipal bonds.

Market Review & Outlook

The Bloomberg Municipal Bond Index returned 4.10% for the fourth quarter, which brought YTD performance to -8.53%. Other fixed income asset classes had positive performance in 4Q as well but not nearly enough to bring YTD returns positive. Calendar year returns were -13.01% for the Bloomberg U.S. Aggregate Bond Index, -12.99% for the Bloomberg U.S. Universal Index, and -12.46% for the Bloomberg U.S. Treasury Index.

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) decreased in 4Q but still increased materially since the first of the year. As a reminder, an increase in bond yields means that bond prices decrease. See below for yield changes from 12/31/2021 to 12/31/2022 at several key maturities.
    - 3-year: 0.33% to 2.58%
    - 10-year: 1.05% to 2.65%
    - 30-year: 1.54% to 3.62%
- Fund flows for municipal bond mutual funds have remained negative (after last year's record-setting inflows). Total fund flows through the end of 2022 were roughly -$120 billion, which amounted to the largest year of outflows from the muni market ever.
- Credit spreads (the difference between riskier bonds and AAA bonds) continued to rise a bit during the fourth quarter. The BBB credit spread increased from 1.12% to 1.39% during that time (up from 0.61% to start the year).

Returns were positive across the USAA Investments tax-exempt funds for the fourth quarter. While rising rates were a drag on performance during earlier parts of the year, we believe the higher rates should drive higher returns over the long term.

We believe that the creditworthiness of muni borrowers will remain strong in the near term, as many borrowers have improved their financial position coming out of the coronavirus-induced slowdown (often helped by generous amounts of federal stimulus aid).

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 3.55%, which is a taxable-equivalent yield of 5.99% (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 4.68% at quarter-end.

Portfolio Performance & Positioning

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 has the largest economy in the United States with nearly 40 million people. Its economy is vast, broad, and diverse and continues to recover from the economic and fiscal impact from the peak of the recent pandemic. The preliminary November seasonally adjusted unemployment rate for California was 4.1% (versus 3.6% for the US), which ranked 37th among the states, but it is a marked improvement from the high in May of 2020 and back to pre-COVID levels.

In the latter half of 2022 California saw a reversal of the economic slowdown of the first half of the year. During the 3rd quarter of 2022, California's GDP grew by an annual rate of 3.8% versus the US GDP growth of 3.2%. California's fiscal outlook remains somewhat vulnerable to economic performance. A recession and weak capital markets could undermine projected revenues due to a reliance on personal income taxes which include capital gains. The most recent outlook from the Legislative Analyst's Office suggests revenue softening; however, it is early in the 2022-2023 fiscal year. Also, California's robust reserves and strong liquidity can help absorb moderate unforeseen challenges to the budget.

We will continue to monitor the overall performance of the state; however, our credit outlook for the state remains stable. 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.

USAA New York Bond Fund

New York State boasts a diverse and substantial economic base including a sizable population of just under 20 million. Economic growth continues, albeit slower than the national norm. Employment numbers have steadily increased while remaining below pre-pandemic levels. New York City anchors the State's economic base serving as a center for world trade and culture. Uncertainty, however, is noted as workers have been reticent post-pandemic in returning to offices causing a headwind for economic activity.

The State's financial performance has generally been balanced in large part due to sound financial practices including multi-year budgeting coupled with quarterly adjustments. Based on mid-year data, budgetary performance remains satisfactory, but less than stellar capital markets could possibly create a drag on capital gains causing personal income tax receipts to lag. Nevertheless, robust reserves are available to offset unforeseen challenges to the financial plan. Vital agencies, such as the Metropolitan Transportation Authority, may require additional State support until operations fully recover from the pandemic. The State's economic and financial resources continue to be more than sufficient to honor long-term liabilities related to debt and pensions.

General obligations bonds issued by the State of New York carry strong ratings of Aa1 (stable outlook) by Moody's, AA+ (stable outlook) by S&P, and AA+ (stable outlook) by Fitch.

USAA Virginia Bond Fund

The Commonwealth of Virginia continues to recover from the economic and fiscal impact felt at the peak of the COVID-19 pandemic. Unemployment in Virginia is still above the pre-pandemic low in February 2020 of 2.5%. However, preliminary November unemployment numbers from the Bureau of Labor Statistics are at 2.8% versus 3.6% for the U.S., down from the high of 11.6% in April 2020. For now, it appears unemployment is slowly approaching its pre-pandemic low.

Growth in the GDP indicates an apparent reversal from the prior quarter's economic slowdown. During the 3rd quarter of 2022, Virginia's GDP grew 2.2% (annualized) vs. the US GDP growth of 3.2%, ranking Virginia 29th by state. The sectors that experienced the most GDP growth state- and nationwide during the quarter were the information and the professional, scientific, and technical services sectors. The largest contractions in GDP in Virginia during the quarter were in the construction and military spending sectors.

Fiscal 2023 year to date results affirm the commonwealth's solid financial position. The Virginia General Assembly approved a one-time taxpayer rebate program with an estimated $1 billion impact to general fund revenues for FY 2023, an impact that is evident in the general fund revenue collection summary for the period July-November 2022. Virginia's general fund revenue collections were $9.6B for the period, a 1.2% contraction over prior year revenue collections for the same period. Virginia has $15.2 billion in cash and investments available as of November 2022 (52% of the 2023 general fund budget). In addition, Virginia's pension burden is one of the lowest in the nation in terms of state GDP. Moody's Investors Service determined that Virginia has a low pension risk based on FY 2021 data.

While we will continue to monitor the ongoing impact from the COVID-19 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.

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Standardized Performance: December 31, 2022

Average Annual Returns (%)

USAA California Bond Fund	Ticker	Inception Date	Q4 2022	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USCBX	08/01/89	5.01	-9.74	0.99	2.32	4.96	0.55	0.55
Bloomberg Municipal Bond Index	–	–	4.10	-8.53	1.25	2.13	–	–	–
Bloomberg Municipal Bond - California Exempt Index	–	–	4.25	-8.17	1.25	2.30	–	–	–
USAA New York Bond Fund	**Ticker**	**Inception Date**	**Q4 2022**	**1 Year**	**5 Year**	**10 Year**	**Since Inception**	**Expense Ratio Gross**	**Expense Ratio Net**
Fund Shares	USNYX	10/10/90	4.77	-11.32	0.55	1.59	4.86	0.64	0.64
Bloomberg Municipal Bond Index	–	–	4.10	-8.53	1.25	2.13	–	–	–
Bloomberg Municipal Bond - New York Exempt Index	–	–	4.38	-8.94	0.98	1.99	–	–	–
USAA Virginia Bond Fund	**Ticker**	**Inception Date**	**Q4 2022**	**1 Year**	**5 Year**	**10 Year**	**Since Inception**	**Expense Ratio Gross**	**Expense Ratio Net**
Fund Shares	USVAX	10/10/90	4.01	-9.77	0.56	1.80	4.67	0.50	0.50
Bloomberg Municipal Bond Index	–	–	4.10	-8.53	1.25	2.13	–	–	–
Bloomberg Municipal Bond - Virginia Index	–	–	4.27	-8.38	1.03	1.88	–	–	–

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 July 31, 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.**

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