CORNERSTONE FUNDS QUARTERLY COMMENTARY

As of June 30, 2024

Victory Cornerstone Equity Fund // Victory Cornerstone Aggressive Fund // Victory Cornerstone Moderately Aggressive Fund // Victory Cornerstone Moderate Fund // Victory Cornerstone Moderately Conservative Fund // Victory Cornerstone Conservative Fund

Market Commentary

There always seems to be plenty to worry about when it comes to financial markets, but investor optimism once again carried the day during the second quarter. It certainly didn't begin that way as April saw a tick up in volatility, perhaps reflecting the realization that the Federal Reserve would not be cutting interest rates as early or as aggressively as previously hoped. That sent stocks lower early in the second quarter, only to see the broad market reverse course and head higher as we approached mid-year. In fact, the S&P 500® Index—the most popular proxy for our domestic stock market—returned approximately 4.3% during the second quarter, making several new all-time highs during the quarter once again.

Importantly, those headline numbers do not tell the full story. The market's gains were quite narrow, with just a small cohort of stocks responsible for the entirety of the market's rise. The Technology and Communication Services sectors have been the driving forces propelling markets higher, even as many other swaths of the economy struggled or remained relatively flat. Oddly enough, Utilities—considered a traditional, slower-moving value play—was also a bright spot among sectors during the second quarter.

In terms of investment styles, growth stocks outperformed value stocks, as the Russell 3000® Growth Index moved higher by 7.8%, while the Russell 3000® Value Index declined by approximately 2.3% during the quarter. In terms of market capitalizations, it's no surprise that the larger companies (and indeed the mega-caps specifically) led the rally, while small- and mid-cap companies had trouble gaining traction.

What is responsible for such a concentration in the market? On one hand, investors are continuing to embrace all things related to artificial intelligence (AI). Such excitement—some may call it exuberance—has been the unstoppable driving force carrying the broad market indices to new all-time highs. Meanwhile, the rest of the market seems to be focused on headwinds, including: the potential for an economic slowdown; monetary policy that remains tight even as inflation numbers become more bearable; and a host of geopolitical concerns.

During the second quarter, fixed income markets also rallied, though we saw periods of volatility—particularly early in the quarter—and performance was mixed across sectors. Inflation data cooled as the quarter progressed, and that renewed optimism that the Federal Reserve might finally cut interest rates later this year, perhaps as early as September. These expectations may have helped to steepen the yield curve, and both 2- and 10-year Treasury yields rose during the quarter and ended June at approximately 4.7% and 4.4%, respectively.

Fund Performance and Positioning

Despite the early-quarter volatility and the relatively narrow market rally, the Cornerstone Series Funds delivered positive absolute second quarter returns. On the whole, our general overweight of stocks versus bonds added to returns, as risk was "on" during the quarter and the broad equity market indexes outperformed most fixed income assets. More specifically, the Funds' general underweight allocation to Treasuries positively impacted performance. Treasuries experienced some volatility and struggled early in the second quarter as the market repriced expectations for future rate cuts.

Another contributor to our second quarter performance was the Cornerstone Funds' allocation to value-oriented stocks in emerging markets. That provided an interesting contrast to the prevailing story in our domestic equity market, whereby growth stocks once again outperformed value.

As you may know, the Funds in the Cornerstone Series are typically managed with a slight tilt toward value and quality companies. Although we had seen a broadening of the market rally during the first quarter, growth-oriented companies (and specifically anything related to AI) resumed their leadership position. Nevertheless, given the valuation disparity between the largest tech companies and the rest of the market, we maintain our discipline and continue to see a favorable risk-reward scenario for many value-oriented stocks. That could bode well for the Series' overall investment approach.

Other second quarter headwinds faced by the Cornerstone Funds were the result of our overweight to developed international stocks, which underperformed domestic stocks. We maintain an overweight position to this type of global exposure for the added diversification and attractive valuations, among other reasons.

Our exposure to commodities also had a negative impact on second quarter returns, primarily due to the underperformance of gold. However, we continue to keep a position in gold for tactical and risk management reasons.

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Looking Ahead

Although volatility declined as we moved deeper into the quarter and investors remained optimistic, we should not discount the potential risks ahead. Yes, inflation trends look encouraging and the Federal Reserve may cut interest rates, but there also are signs that the economy is slowing. In addition, the valuations of many large-cap stocks appear to be at extreme levels relative to the rest of the market. Beyond that, we continue to deal with geopolitical hot spots, and we are heading into what is sure to be a contentious U.S. presidential election. As a result, we would not be surprised to see a return of elevated volatility as the markets work through the uncertainties. Still, we continue to see opportunities, particularly in segments of the market that have not participated fully in the tech-dominated move higher. As ever, we remain vigilant and aim to keep the portfolios balanced between risks and potential rewards.

Past performance is not guarantee of future results. For current performance of the Cornerstone Funds visit www.vcm.com.

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. Asset allocation and diversification do not promise any level of performance or guarantee against loss of principal. The Funds will reflect the risks and incur the expenses of the underlying funds in which they invest. The Adviser may be subject to conflicts of interest in allocating the Fund's assets among affiliated Underlying Funds or ETFs (Affiliated Funds), unaffiliated Underlying Funds, or a combination of both. The Adviser may have an incentive to allocate the Fund's assets to those Affiliated Funds for which the net advisory fees payable to the Adviser are higher than the fees payable by other Affiliated Funds, or unaffiliated Underlying Funds. The Adviser or its affiliates receive fees for managing and administering the Affiliated Funds, which also creates a conflict of interest. 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. High yield securities may be more volatile, be subject to greater levels of credit or default risk, and may be less liquid and more difficult to sell at an advantageous time or price than higher-rated securities of similar maturity. Mortgage-backed securities ("MBS") and asset-backed securities ("ABS") are subject to credit, prepayment and extension risk and may react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significantly reduce the value of certain MBS and ABS. Investments in small- and mid-cap companies typically exhibit higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors. Technology companies are particularly vulnerable to rapid changes in technological product cycles, severe competition and government regulation. The communication services sector may be dominated by a small number of companies which may increase volatility. Companies in this sector are particularly vulnerable to product obsolescence due to technology advances and social media trends. Communication services companies may be negatively affected by pricing competition, security breaches, research and development costs and government regulations. Companies in the financial services sector are subject to extensive government regulation that may affect the scope of their activities, the prices they can charge and capital maintenance. The industry is subject to severe competition and can be significantly affected by market conditions, including interest rate changes. 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.

Holdings, if any, are subject to change without notice and should not be considered purchase recommendations.

Index performance includes reinvestment of dividends and other income but does not reflect management fees, transaction costs or expenses. One cannot invest directly in an index. Past performance does not guarantee future results.

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