

Victory INCORE Fund For Income Quarterly Commentary



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As of June 30, 2023

Commentary

For the quarter ended June 30, 2023, the Victory INCORE Fund for Income (Class A shares, without sales charge) had a total return of -0.28%. The Fund's benchmark index, the Bloomberg U.S. 1-5 Year Government Bond Index, had a total return of -0.90%.

Risk markets rallied and rates rose in the second quarter of 2023, with the Dow up 3.5%, the S&P 500 up at 8.7%, and the Nasdaq up 13.1% amid continued signs of gradually moderating inflation and a stronger-than-anticipated labor market. The U.S. Federal Reserve increased rates by a quarter point in May and held firm in June. The U.S. Treasury yield curve inverted further, with the 2s/10s at -1.06%. U.S. Treasury bond yields maturing in two years' time rose 0.87%, fives rose 0.58%, tens rose 0.37%, and the long bond rose 0.21%. Bond prices move opposite yields.

All fixed income sectors had negative total returns, but positive excess returns versus duration-neutral U.S. Treasury bonds. Corporate bonds had the most positive returns relative to U.S. Treasury bonds, with CMBS (commercial mortgage-backed securities), MBS (mortgage-backed securities) and ABS (asset-backed securities) all clumped together in second place, while agency debentures had the least positive performance. Within the mortgage market, Ginnie Mae (GNMA) led Fannie Mae (FNMA), which led Freddie Mac (FHLMC). All had negative total returns, yet positive returns versus duration-neutral U.S. Treasury bonds.

Our smallest allocation, GNMA structure (5.0%), had a slightly positive total return contribution. Our largest allocation, to GNMA single-family pass-through bonds (78.1%), had a slightly negative total return contribution, while our U.S. Treasury bond allocation (16.9%) had a mildly negative total return contribution. We continue to selectively buy or create high-coupon GNMA platinum pools as opportunities arise.

Ongoing strength in the U.S. labor market has breathed new life into an additional rate hike or two this year. We think the total impact of the Fed's previous large rate increases in 2022 has yet to be fully felt by the economy and as such is not priced into the market. Hopefully, the banking sector issues of the first quarter are now behind us. Yet regulatory changes in response to the previous bouts of banking instability loom large. Consumer resiliency is likely to be tested in the latter half of the year. No matter the weather, the goal of our strategy remains consistent as we seek to deliver high, reliable income and preservation of capital.

Investment Performance (%)

Average Annual Returns as of June 30, 2023

Victory INCORE Fund for Income (Class A – IPFIX)	Q2 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratio	
								Gross	Net
A Shares, without sales charge	-0.28	1.23	-0.45	-2.16	0.33	0.57	2.85	0.94	0.91
A Shares, with sales charge (max. 2.25%)	-2.50	-1.03	-2.71	-2.91	-0.12	0.34	2.76	0.94	0.91
Bloomberg U.S. 1-5 Year Government Bond Index	-0.88	0.97	-0.38	-1.88	0.87	0.83	-	-	-

Source: Victory Capital data analyzed through Zephyr

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. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Other share classes are available. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which Fund performance would have been lower. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through October 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. 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. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The market value of a security issued on a when-issued, to-be-announced (TBA) or delayed-delivery basis may change before the delivery date, which may adversely impact the Fund's net asset value. There is also the risk that a party fails to deliver the security on time or at all. 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.

The Bloomberg U.S. 1-5 Year Government Bond Index seeks to measure the performance of U.S. Treasuries and Agencies with less than five years to maturity. Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses. One cannot invest directly in an index.

Distributed by Victory Capital Services, Inc., an affiliate of Victory Capital Management Inc., the Fund's investment adviser.

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The Refinitiv Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The fund with the highest Lipper Leader for Consistent Return (Effective Return) value in each eligible category wins the Refinitiv Lipper Fund Award.

Victory INCORE Fund for Income, R6 was selected from among 13 funds and 50 share classes in the GNMA fund category over three years for the period ending November 30, 2022. Victory INCORE Fund for Income, R6 was selected from among 13 funds and 48 share classes in the GNMA fund category over five years for the period ending November 30, 2022.

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