Victory INCORE Low Duration Bond Fund Quarterly Commentary

As of March 31, 2021

Market Conditions

Through the first quarter of the year, the "reflation trade" continues to be the dominant market theme as fixed income investors were greeted with the worst quarterly performance in U.S. Treasuries (-4.25%) since 1980, led by the 10-year Treasury note yield, which increased by 89 basis points and closed at 1.74%, near its highest closing yield in the past year. The U.S. outpaced most of the globe in efforts to engineer a swift economic rebound, with nearly $3 trillion of additional fiscal stimulus since late December (and an additional $2 trillion proposed), continued monetary stimulus, effective distribution of vaccines, and economic reopening across the U.S. This combination caused markets to price in an even more powerful economic rebound and increasing risks of inflation. Traditional safe-haven currencies such as the Japanese yen and Swiss franc sold off, while the U.S. dollar strengthened. U.S. equity indices continued to set records, while small-cap and mid-cap indices outpaced the S&P 500® and Nasdaq as investors rotated portfolios from growth to value and favored small- and mid-cap stocks. The latest FOMC dot plot released in March indicates that most members of the FOMC expect the zero-interest-rate policy to continue through 2023, and the committee has clearly communicated their intention to allow inflation to exceed 2% for some time before tightening monetary policy. We expect the bond market will continue to challenge this assumption, as it did in 2018 and early 2019 when the Fed insisted rates would continue to rise and the market priced in the opposite. We are maintaining accounts relatively short duration versus benchmarks.

As we've written before, the Federal Reserve, Treasury, and Congress are embarking upon a bold experiment in Modern Monetary Theory (MMT), an untested concept where massive fiscal deficits theoretically don't matter for countries that control their own currency. Stimulus will not only be used to move demand forward, but also to promote social and environmental causes. While enormous monetary and fiscal stimulus is likely to be supportive of economic growth and market valuations over the next 1-2 years, increased taxes and regulation may offset some of these gains. While the Fed's favorite measure of inflation, Core PCE, is currently indicating a tame 1.4% rate of inflation, we remain concerned about possible higher inflation due to supply-chain issues, supply/demand imbalances as the economy reopens, and increased regulatory burdens. Longer term, unsustainable levels of debt and spending relative to GDP have the potential to cause higher interest rates and inflation if the currency is devalued as a result. Finally, irrespective of which political party is in control, government is notorious for inefficient use of capital. One need only revisit the tales of Solyndra, the Defense Department's $10,000 toilet covers, and the GSA boondoggle to Las Vegas in 2010 for vivid displays of recent waste, fraud, and abuse. And the history is long regardless of political party, so color us skeptical. For the sake of future generations, we hope "this time is different," and the experiment works. It is without doubt a bold gamble.

Market and Positioning Commentary

INCORE believes that while yields have risen substantially on intermediate- and long-term U.S. Treasuries, investors are still compelled to invest in corporate and consumer credit. We believe the U.S. economy is still in the early stages of economic recovery. As a result, we are maintaining a significant overweight to corporate credit, high yield, and investment grade convertible bonds as the economy recovers and interest rates rise. This positioning has been additive to performance in the first quarter, helping all INCORE funds outpace their benchmarks during the quarter and the past year.

Enormous monetary and fiscal stimulus will continue to buoy markets in the near term as the Biden administration and the Federal Reserve shift the MMT experiment into high gear. However, it is likely to be a volatile and uncertain time, as the long-term effects of MMT are unknown. The key attributes we strive for when positioning client portfolios for an uncertain outlook are quality, balance and diversification. We believe we are well positioned across our portfolios for this uncertain environment, and we believe being overweight credit and underweight duration versus our benchmarks should be additive to performance during the remainder of 2021.

Performance and Attribution

Victory INCORE Low Duration Bond Fund (the "Fund"): The Fund started 2021 underweight U.S. Treasuries and agencies, with corresponding overweight allocations to mortgage-backed securities, investment grade corporate bonds, high yield corporate bonds, and investment grade convertible bonds. Additionally, the Fund was short duration relative to its benchmark throughout the quarter. While Treasury yields have increased substantially from their pandemic lows, we maintain these overweight positions as we are early in the current economic cycle. The Fund benefited from this positioning during the quarter, outpacing the Bloomberg Barclays U.S. 1-3 Year Government Bond Index by 0.33% based on A Shares (without sales charge). Furthermore, the Fund remains ahead of its benchmark on a gross basis for all relevant time periods (e.g., 1-, 3-, and 5-year).

Investment Performance (%)	Inc. Date	QTR	YTD	ANNUALIZED RETURNS 1-YR	3-YR	5-YR	10-YR	Since Inception	Expense Ratio gross	net
A Shares, without sales charge	7/3/03	0.28	0.28	5.31	2.87	2.18	1.69	2.48	0.95	0.85
A Shares, with sales charge (max. 2.25%)	7/3/03	-1.93	-1.93	2.90	2.09	1.72	1.45	2.35	0.95	0.85
Y Shares	5/12/09	0.34	0.34	5.55	3.07	2.42	1.92	2.37	0.69	0.62
Bloomberg Barclays U.S. 1-3 Year Government Bond Index	—	-0.05	-0.05	0.36	2.80	1.73	1.31	—	—	—
Morningstar Percentile Rank	—	18	18	53	76	68	77	—	—	—
Number of Funds in Morningstar Category	—	605	605	580	516	462	300	—	—	—

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. Fee waivers were in place for all or some of the periods shown, without which, performance would have been lower. Net expense ratio reflects the fee waivers and or expense reimbursements contractually agreed to through April 30, 2021.

Source: Zephyr and Morningstar

Morningstar Category: Short-Term Bond

Morningstar Percentile Rank based on A Shares.

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. 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. 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 market price of the mortgage-backed securities ("MBS") in a mortgage dollar roll transaction may drop below their future purchase price. In addition, investment in mortgage dollar rolls may significantly increase the Fund's portfolio turnover rate.

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.

Derivatives may not work as intended and may result in losses.

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.

Not all share classes are available to all investors, as described in the Fund's prospectus.

The Bloomberg Barclays U.S. 1-3 Year Government Bond Index seeks to measure the performance of U.S. government obligations having maturities between one and three years.

This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be construed as a recommendation or solicitation to buy or sell any security or to adopt any particular investment strategy.

The Morningstar percentile ranking is based on a fund's average annual total return (excluding sales charges) relative to all funds in the same category. The highest (most favorable) percentile rank is 1%, and the lowest (least favorable) percentile rank is 100%. Fund performance used for the rankings reflects certain fee waivers, without which Morningstar rankings would have been lower and Morningstar ratings may have been lower.

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