# Victory Short-Term Bond Fund

## QUARTERLY COMMENTARY

VICTORY income investors®
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**As of September 30, 2026**

## Executive Summary

Fixed income markets endured a challenging quarter as inflation's stubborn plateau and a decisive hawkish pivot from the Federal Reserve drove yields to levels not seen in roughly two decades. Q3 began with the Fed holding rates amid rising internal dissent, moved through a hawkish recalibration at the Jackson Hole Symposium under Chair Warsh, and culminated in a 25-basis-point rate hike in September, a notable reversal from the easing cycle markets had anticipated at the start of the year. The 10-year Treasury yield surged 82 basis points over the quarter, ending September at 5.29%, up from 4.47% at the close of Q2. Against this backdrop, the Victory Short-Term Bond Fund (Institutional Shares) underperformed its benchmark, the Bloomberg 1-3 Year Credit Index, for the quarter ended September 30, 2026.

## Market Update & Commentary

Inflation's trajectory through the third quarter told a story of stalled progress rather than renewed acceleration. After peaking near 3.8% year-over-year in the second quarter, headline CPI cooled through the summer to 3.4% by August, with Core CPI plateauing near 2.5%. That stabilization proved insufficient to ease policymakers' concerns, as inflation remained firmly above the Fed's 2% target with limited evidence of a clear path back to goal.

The quarter's defining narrative was the Federal Reserve's hawkish turn under Chair Warsh. The Fed held rates steady in July despite three dissents favoring a hike. The Fed did not meet in August, but Chair Warsh used the Jackson Hole Symposium to reset expectations, reiterating that policy remained "not very restrictive" and that the Fed must address elevated inflation. That messaging proved prescient: by month-end, markets priced a 68% probability of a September hike, and the Fed delivered, raising rates 25 basis points with a hawkish dot plot signaling two to three additional increases through 2027 — a dramatic reversal from the rate-cut narrative that dominated expectations entering 2026. We view this less as a "higher for longer" anomaly and more as markets recalibrating toward a historical norm that predates the near-zero rate era following the 2008 financial crisis.

This repricing left a clear mark on performance. The 10-year Treasury yield rose 82 basis points over the quarter, ending September at 5.29%, with similarly sharp moves across the curve. Price pressure outweighed income for most asset classes: the Bloomberg U.S. Aggregate Index returned -3.51% for the quarter, with investment grade corporates and Treasuries posting comparable declines, while high yield corporates proved more resilient given shorter duration. Municipal bonds lagged materially. Credit markets stayed well-behaved for much of the quarter, investment grade spreads held near multi-decade lows even as AI-related technology issuance accelerated, before widening slightly in September.

Rising yields, while a headwind for near-term returns, have left investors with starting yields among the most attractive seen in roughly two decades. We view this as a mechanical function of higher rates rather than asset-class impairment; historically, starting yields have been a driver of long-term returns. We remain attentive to the risk that further hawkish surprises could pressure spreads further, but believe the current environment — higher real yields, resilient fundamentals, and disciplined credit selection — continues to offer a compelling income opportunity for investors able to look past near-term volatility.

| | Yield (%) | Spreads (bps*) | | | Returns (%) | |
|---|---|---|---|---|---|---|
| | | 9/30/ 2026 | 6/30/ 2026 | Δ (+/-) | 3M | 1YR |
| **Investment Grade (Moody's Ratings)** | | | | | | |
| U.S. Treasury | 5.1 | 0 | 0 | 0 | (3.0) | (1.9) |
| U.S. Aggregate | 5.6 | 31 | 26 | +5 | (3.5) | (1.8) |
| U.S. Credit | 6.0 | 75 | 69 | +6 | (3.8) | (2.2) |
| Corporate | 6.0 | 80 | 74 | +6 | (3.9) | (2.3) |
| Aa | 5.9 | 59 | 52 | +7 | (4.8) | (4.2) |
| A | 5.9 | 68 | 62 | +6 | (3.9) | (2.3) |
| Baa | 6.2 | 97 | 91 | +7 | (3.7) | (1.8) |
| Crossover | 6.9 | 168 | 144 | +24 | (2.7) | 0.2 |
| **High Yield (Moody's Ratings)** | | | | | | |
| U.S. Corporate High Yield | 8.5 | 313 | 264 | +48 | (1.8) | 1.4 |
| Ba | 7.2 | 186 | 155 | +32 | (1.9) | 1.5 |
| B | 8.5 | 303 | 280 | +24 | (1.2) | 2.6 |
| Caa | 15.4 | 992 | 745 | +247 | (3.4) | (1.6) |
| Ca-D | 37.9 | 3,256 | 3357 | -101 | (3.1) | (18.3) |
| **Structured Product** | | | | | | |
| U.S. MBS | 5.9 | 43 | 24 | +19 | (4.3) | (1.7) |
| ABS | 5.3 | 40 | 44 | -3 | (0.8) | 1.5 |
| CMBS | 5.7 | 67 | 65 | +2 | (1.8) | 0.3 |

Source: Bloomberg
* A basis point is one-hundredth of a percentage point (0.01%) and is abbreviated as "bp" (singular) or "bps" (plural).

## Portfolio Performance & Positioning

During the quarter, we increased our allocation to corporates, and decreased ABS.

### Contributors

- Best performers relative to the index were railroads, aerospace/defense, commercial mortgage-backed securities, asset backed bonds, and media and entertainment.
- From a credit perspective, relative to the index, high yield and AAA bonds provided the best performance.
- Allocation and selection added 23 bps to performance.

### Detractors

- Sectors that detracted from performance relative to the index included health insurance, utilities, Treasuries, building materials, and real estate investment trusts.
- From a credit perspective, relative to the index, BBB, single A and AA bonds contributed the least to performance.
- Duration detracted 11 bps from performance, due mainly to the portfolio being more laddered relative to the index. During the quarter, Treasury rates increased the least in the short end (2 YR and less) and most in the longer end (3-5 YR).

## Standardized Performance: September 30, 2026

Average Annual Returns (%)

| Victory Short-Term Bond Fund | Ticker | Inception Date | Q3 2026 | 1 Year | 5 Year | 10 Year | Since Inception | Expense Ratio | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Gross | Net |
| Fund Shares | USSBX | 06/01/93 | -0.18 | 2.36 | 3.21 | 2.99 | 3.75 | 0.55 | 0.55 |
| A Shares, without sales charge | UASBX | 08/02/10 | -0.34 | 2.16 | 3.02 | 2.79 | 2.47 | 0.76 | 0.74 |
| A Shares, with sales charge (max. 0.00%) | UASBX | 08/02/10 | -2.59 | -0.12 | 2.56 | 2.56 | 2.32 | 0.76 | 0.74 |
| Institutional Shares | UISBX | 08/01/08 | -0.27 | 2.45 | 3.29 | 3.08 | 3.26 | 0.46 | 0.46 |
| R6 Shares | URSBX | 12/01/16 | -0.23 | 2.58 | 3.43 | – | 3.32 | 0.33 | 0.33 |
| Bloomberg 1-3 Year Credit Index | – | – | -0.19 | 2.14 | 2.58 | 2.49 | – | | |

**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. Performance may reflect certain past fee waivers and/or expense reimbursements, without which performance would have been lower. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through August 31, 2027.

**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.**

Not all share classes are available to all investors.

**All investing involves risk, including the potential loss of principal.**

**Fixed income securities** are subject to interest rate, inflation, credit, prepayment, 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")** 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.

The portfolio is also subject to **liquidity risk**, which is the risk that the Adviser may not be able to sell a security at an advantageous time or price, which may adversely affect the portfolio.

**Large shareholders**, including other funds advised by the Adviser, may own a substantial amount of the Fund's shares. The actions of large shareholders, including large inflows or outflows of cash, may adversely affect other shareholders, including potentially increasing capital gains.

The value of your investment is also subject to geopolitical risks such as wars, terrorism, trade disputes, 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.

**Consumer Price Index (CPI),** a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers.

**The Bloomberg U.S. Aggregate Bond Index** 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 1–3 Year Credit Index** measures the performance of investment grade corporate debt and sovereign, supranational, local authority and non-U.S. agency bonds that have a remaining maturity of at least one year and less than three years.

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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