REFINITIV LIPPER FUND AWARDS
2022 WINNER UNITED STATES

VICTORY FLOATING RATE FUND QUARTERLY COMMENTARY

Victory Capital

As of June 30, 2022

Fund Performance Summary

In the second quarter of 2022, the Victory Floating Rate Fund (the "Fund") returned -7.1% (Class A shares without sales charge), underperforming its benchmark, the S&P/LSTA Leveraged Loan® Index[1] (the "Index"), which returned -4.5%.

Positions detracting from the Fund's performance relative to the Index in the second quarter included an overweight and security selection in the healthcare sector, select positions in home and craft retailing, and radio broadcasters.

Positive contributors during the quarter were an increase in the Fund's energy exposure along with positive security selection in that sector and select positions in the leisure and automotive sectors.

Market and Portfolio Overview

The first six months of 2022 marked the worst start to a year ever for the leveraged loan market.

While rising rates, Russia's Ukraine invasion, and inflation had resonated during the first quarter, the second quarter was dominated by recession fears and de-risking throughout all asset classes. Fear of a spiking default rate and deteriorating credit quality took center stage, as some companies indicated that price hikes could not keep pace with rising costs.

In reaction, riskier assets were punished, and volatility jumped to a new level from the already-elevated platform of the first quarter. Some companies weathered the inflationary environment quite well, but fundamentals took a deep back seat to investors' technical selling and buyers' retreat. This de-risking was most pronounced in loan ETFs, a relatively small portion of the loan market but one that endured the deepest outflows, triggering heavy selling throughout the entire asset class.

As investors debated the recession outlook, the focus in levered credit was on the next default cycle even though defaults sit at just 1.0% currently. The Fund has had no defaults among its holdings year to date.

The default rate started the year at 0.5% and it will likely rise; that's not a secret. But we agree with most strategists, who are calling for a loan default rate in the 2.5% range for the foreseeable future. This is well below the historical average of 3.5% for the asset class and is even further below the norm for any recessionary period.

Our strategy involves taking high-conviction positions in the more liquid floating rate loans. We've found this emphasis on liquidity prudent in both good and bad markets. However, in the second quarter, the sell-off was particularly severe for the more liquid names, not because of fundamentals or security-specific issues, but simply because they could be readily sold as investors rushed to raise cash.

This dynamic of technical factors outweighing fundamentals and larger, more liquid names taking the brunt of a sell-off has happened before. But we find that fundamentals ultimately come back into play and liquidity is always paramount.

We think the steep trading down for many of our holdings was overdone and they can contribute to the rebound when volatility subsides.

One positive for the asset class was the arrival of higher coupons, as leveraged loan rates reset in tandem with the U.S. Federal Reserve (the "Fed") repeatedly raising its benchmark interest rate. Indeed, despite all the turbulence, rising coupons made the Index the strongest performer in fixed income during the quarter.

Leveraged Loan Market Outlook

Yields for the Index started 2022 at 3.2% but rose with each Fed increase and exited the second quarter at an annualized rate of 4.1%, with trading in interest rate futures indicating a rise of another 1.8% to 2.0%. We agree with that expectation and believe that floating rate loans remain the best instrument to capitalize on rising rates. We've positioned the portfolio for a return of these higher rates and for elevated inflation risk sticking around.

From our perspective, many of the fears that rattled the market in the second quarter were exaggerated. Along with most strategists, we don't expect the spiking defaults that have occurred in other deep recessionary periods, including the onset of COVID-19 when defaults hit 8.0%. Our view contrasts with the second quarter sell-off to levels reflecting a multi-year annual default rate of 5.0% to 7.0%.

Other market concerns centered on the new-issue market being completely shut lately, limiting companies' access to capital. However, the loan and high yield universe has virtually no maturities in front of it, and therefore little to no refinancing need. Just 7.0% of high yield and 8.0% of loan debt matures before 2025. The runway has never been cleaner for these below investment grade companies.

Lastly, we believe rising rates will benefit investors, but not at the cost of upending borrowers. With leverage at modest levels and interest coverage at very strong levels, we believe most companies can handle rate hikes of 3.0% to 3.5%, which is far more than the market expects, before heading toward stressed levels. And that doesn't take into account the record levels of cash on corporate balance sheets.

Volatility, significant default fears, and some technical pressures have taken over lately, but we believe fundamental factors will indeed matter again – and when they do, it will highlight the current attractive trading prices for the asset class.

Investment Performance (%)
Average Annual Returns as of June 30, 2022

Victory Floating Rate Fund (Class A – RSFLX)	Q2 2022	1 Year	3 Year	5 Year	10 Year	Since Inception (12/31/09)	Expense Ratio	
							Gross	Net
A Shares, without sales charge	-7.06	-7.27	1.08	2.37	3.06	3.59	Gross	Net
A Shares, with sales charge (max. 2.25%)	-9.15	-9.39	0.30	1.90	2.83	3.40	1.12	1.00
S&P/LSTA US Leveraged Loan Index	-4.45	-2.78	2.09	2.91	3.74	—		

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. 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 April 30, 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.

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 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. Securities with floating interest rates are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much as interest rates in general. Floating rate investments issued in connection with leveraged transactions are subject to greater credit risk than many other investments. In certain circumstances, a lack of a ready market may make it difficult for the Fund to purchase or sell particular investments within a reasonable time and/or at a fair price. 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.

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.

[1]**The S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index** covers more than 1,100 loan facilities and reflects the market-value-weighted performance of U.S. dollar denominated institutional leveraged loans.

Park Avenue Institutional Advisers LLC is the sub adviser to the Fund. The Fund is distributed by Victory Capital Services, Inc. ("VCS"). Victory Capital Management Inc. ("VCM"), an affiliate of VCS, is the investment advisor to the Funds. Neither VCS nor VCM are affiliated with Park Avenue Institutional Advisers LLC.

The Refinitiv Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers.

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 classification wins the Refinitiv Lipper Fund Award. Victory Floating Rate Fund Class Y was selected from among 53 funds and 217 share classes in the loan participation fund category over five years for the period ending November 30, 2021. For more information, see lipperfundawards.com. Although Refinitiv Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Refinitiv Lipper.

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