VictoryShares Short-Term Bond ETF

USTB

QUARTERLY COMMENTARY • Q1 // March 31, 2025

Executive Summary

Fixed income experienced a strong first quarter driven by a downward move in the Treasury yield curve. Inflation trended downward during the quarter while short- and long-term inflation expectations rose, pushed up by the unknown and potentially far-reaching impacts of future tariff policies. Markets that entered 2025 with a risk-on attitude faced much uncertainty amidst various policy developments and reduced growth expectations. The Federal Reserve ("the Fed") did not reduce rates throughout the quarter, holding the upper bound steady at 4.50%. Markets priced in a slightly quicker pace of rate reductions through the end of the year, primarily due to concerns of a weakening economy. Against this backdrop, the VictoryShares Short-Term Bond ETF outperformed its benchmark, the Bloomberg 1-3 Year Credit Index, for the quarter ended March 31, 2025.

Market Update & Commentary

At the beginning of the quarter, risk markets were priced to perfection – both fixed income and equity valuations were extended and pricing in a benign environment. While credit spreads remained below long-term averages for the majority of the quarter, we saw movement in response to uncertainty surrounding potential trade wars, higher inflation expectations, and slower growth forecasts toward the end of March. Yields moved down throughout Q1; long-term yields decreased more relative to the front of the curve in the middle of the quarter as investors sought to balance weaker economic data and a slight increase in inflation. Come March, the front end of the curve decreased as well, due (in our view) to markets pricing in a quicker pace of rate cuts. The 10-year U.S. Treasury yield began the quarter at 4.7% and concluded at 4.2%.

Forecasting rate cuts took a back seat in the news cycle amidst rising volatility. The VIX Index rose steadily throughout the quarter, most notably in March as market participants' concerns surrounding future U.S. trade policy increased. The YoY Consumer Price Index (CPI) decreased throughout the quarter from 2.9% to 2.4%, while the unemployment rate increased from 4.1% at the end of 2024 to 4.2% at the end of Q1. While there were improvements seen on the inflation front, the focus of many market participants turned to the aggressive approach the Trump administration outlined to address trade deficits and more protectionist policies. Considering the material number of unknowns faced by markets, the Fed did not reduce rates throughout the quarter and has emphasized their "wait and see" approach to future monetary policy decisions. Short- and long-term inflation expectations rose, and consumer and business confidence dropped during the quarter, which may pose a threat to U.S. exceptionalism in the markets. However, between the swell in volatility and risk asset sell-off in mid-March, fixed income reclaimed its role as both an income generator and a valuable diversifier to equity risk. Investor compensation for adding credit risk improved throughout the quarter but remained below average, which in our view showed that investors were pricing in a generally optimistic, but very narrow outlook.

	Yield (%)	Spreads (bps*)			Returns (%)	
		3/31/2025	12/31/2025	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.1	-	-	-	2.9	4.5
U.S. Aggregate	4.6	35	34	+1	2.8	4.9
U.S. Credit	5.1	88	77	+12	2.4	4.9
Corporate	5.2	93	80	+13	2.3	4.9
Aa	4.8	54	44	+10	2.4	3.7
A	5.0	79	68	+11	2.4	4.6
Baa	5.4	114	97	+17	2.2	5.4
Crossover	6.1	187	155	+33	1.7	6.5
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	7.9	345	287	+58	1.0	7.7
Ba	6.5	217	179	+38	1.5	6.7
B	7.9	347	278	+70	0.7	6.7
Caa	11.2	671	550	+121	(0.4)	12.2
Ca-D	21.9	1,757	1,613	+144	1.6	33.1
Structured Product						
U.S. MBS	4.9	36	43	-7	3.1	5.4
ABS	4.6	59	43	+16	1.5	5.9
CMBS	4.9	88	81	+7	2.6	6.5

Source: Bloomberg

While fixed income yields lowered, driving positive returns across asset classes for the quarter, the real yields on offer and diversification benefits provide an attractive opportunity for fixed income investors seeking a cushion against potential volatility. The Bloomberg U.S. Aggregate Bond Index concluded the quarter at +2.8%.

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

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Portfolio Performance & Positioning

During the quarter, we increased our allocation to corporates and asset-backed securities (ABS) while decreasing Treasuries and cash.

Contributors

- Best performers relative to the index were real estate investment trusts (REITs), autos, property & casualty insurance, health insurance, and chemicals.
- From a credit perspective, relative to the index, our allocation to high yield, BBB, and AA bonds provided the best performance.
- Allocation and selection added 6 bps to performance.
- Duration added 11 bps to performance.

Detractors

- Sectors that detracted from performance relative to the index included consumer cyclical services, healthcare, food & beverage, aerospace & defense, and banking.
- From a credit perspective, relative to the index, single-A and AAA bonds contributed the least to performance.

ANNUALIZED RATE OF RETURN (%)

VictoryShares Short-Term Bond ETF (USTB)	QTR	YTD	1YR	3YR	5YR	Since Inception Oct 24, 2017	Expense Ratio (%) Gross	Expense Ratio (%) Net
Net Asset Value (NAV)	1.73	1.73	6.73	4.77	4.03	3.26	0.35	0.35
Closing Market Price	1.74	1.74	6.73	4.85	4.02	3.28		
Index								
Bloomberg 1-3 Year Credit Index	1.64	1.64	6.06	3.66	2.52	–		

Past performance does not guarantee future results. The performance data 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.victoryshares.com. ETF shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market price returns are based on the price of the last reported trade on the Fund's primary exchange. If you trade your shares at another time, your return may differ. 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 October 31, 2025. Index performance is shown for illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index.

SECTOR WEIGHTING (%)

Sector	USTB	Bloomberg Credit (1-3 Y)
ABS	28.4	–
CMBS	2.0	–
Finance	22.3	40.4
Government Related	1.8	16.1
Industrials	19.8	39.2
Mortgage-Backed	1.2	–
Treasury	15.6	–
Utilities	3.1	4.3
Cash	4.8	–

FUND TOP 10 HOLDINGS

	Weighting (%)
U.S. Government	17.21
Merchants Fleet Funding LLC	0.69
Schwab (Charles) Corp.	0.66
Bank Of New York Mellon Corp.	0.60
American Express Co.	0.58
Citizens Financial Group	0.57
Lobel Automobile Receivables Trust 2025-1	0.57
Health Care Service Corp.	0.56
Southern Co.	0.56
Citigroup Inc.	0.54

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. The Fund has the same risks as the underlying securities traded on the exchange throughout the day. Redemptions are limited, and commissions are often charged on each trade. ETFs may trade at a premium or discount to their net asset value. 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. The Fund 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 Fund. 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. Fund holdings and sector allocations are subject to change, may differ from the Index, and should not be considered investment advice.

Average Effective Duration is a duration calculation for bonds that have embedded options. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change and is, therefore, a measure of risk.

Beta is a measure of the volatility, or systematic risk, of a security or portfolio relative to the market or a benchmark.

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.

Market Capitalization is the total dollar value of all outstanding shares computed as number of shares times current market price.

Market Price is the price of the last reported trade on a fund's primary exchange.

Net Asset Value or **NAV** is a fund's total assets minus its total liabilities, divided by the number of outstanding shares.

Premium/Discount % indicates whether an ETF is currently trading at a higher or lower price than the current value of the securities in that portfolio.

Yield Curve shows yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Credit Quality ratings on underlying securities of the fund reflect the highest long-term rating from S&P, Moody's, or Fitch, and are converted to the equivalent S&P major rating category. S&P rates securities in descending order as AAA, AA, A, BBB, BB, B, CCC, CC, C and D. Unrated securities do not necessarily indicate low quality. Below-investment-grade is represented by a rating of BB and below. Quality ratings are subject to change.

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.

VictoryShares ETFs and Victory Funds are distributed by Victory Capital Services, Inc. (VCS), an affiliate of Victory Capital Management Inc., the Fund's adviser.

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