VictoryShares USAA® Core Short-Term Bond ETF

QUARTERLY COMMENTARY • Q1 // March 31, 2022

Executive Summary

Fixed income fared poorly during Q1 as market dynamics were challenging due to Russia's invasion of Ukraine and the highest inflation readings in the past four decades, leading most to expect the Fed to rapidly tighten monetary policy. As a result, fixed income returns were negative, with widening spreads across the credit spectrum, rising interest rates, and a flattening Treasury curve. The VictoryShares USAA Core Short-Term Bond ETF outperformed its benchmark, the Bloomberg 1-3 Year Credit Index, for the quarter. The Fund's investments in corporates and bank loans was the primary driver of relative performance.

Market Update & Commentary

The U.S. bond market, per the Bloomberg U.S. Aggregate Bond Index, returned -5.9% over the first quarter as, overall, bond prices fell. The Aggregate has not performed this poorly over a quarter in more than four decades. The U.S. Treasury component of the Aggregate saw a yield increase of 119 basis points (bps) to 2.4% and returned -5.6%, again on falling bond prices and because yields move inversely to price. Investment grade (IG) corporate bonds returned -7.7% on higher Treasury yields and wider credit spreads. Credit spreads are the additional compensation investors require to hold securities that aren't as safe and liquid as those issued by the U.S. Treasury. Corporate high yield performed better, declining 4.8%, due to high yield's lower sensitivity to interest rates.

	Yield (%)	Spreads (bps)			Returns (%)	
		12/31/2021	3/31/2022	Δ (+/-)	3M	1YR
Investment Grade						
U.S. Treasury	2.4	0	0	0	(5.6)	(3.7)
U.S. Aggregate	2.9	36	40	+4	(5.9)	(4.2)
U.S. Credit	3.5	87	107	+20	(7.4)	(4.2)
Corporate	3.6	92	115	+22	(7.7)	(4.2)
Aa	3.1	57	68	+11	(7.9)	(4.1)
A	3.4	74	94	+19	(7.3)	(4.3)
Baa	3.9	113	140	+27	(7.9)	(4.2)
Crossover	4.7	167	203	+36	(7.1)	(2.5)
High Yield						
U.S. Corporate High Yield	6.2	283	321	+38	(4.8)	(0.7)
Ba	5.1	194	230	+36	(5.9)	(1.5)
B	6.5	312	340	+28	(3.5)	(0.0)
Caa	9.5	555	594	+39	(3.9)	0.8
Ca-D	30.8	2,660	2,752	+92	(3.8)	(5.5)
Structured Product						
U.S. MBS	3.0	32	24	-8	(5.0)	(4.9)
ABS	2.8	38	58	+20	(2.9)	(3.1)
CMBS	3.3	68	85	+17	(5.6)	(4.5)

Corporate credit spreads widened 22 bps to 115 bps, while high yield spreads widened 38 bps to 321 bps. Though corporate investment grade and high yield credit spreads widened during the quarter, both evidenced some recovery from their widest levels of mid-March. Investment-grade rated debt (rated AAA through BBB) performed similarly, regardless of rating, but lower quality (B through CCC) high yield bonds performed better than higher-rated BB bonds.

Asset-backed securities (ABS) returned -2.9% over the first quarter. Collateralized mortgage-backed securities (CMBS) returned -5.6% on 17 bps of spread widening. Agency mortgage-backed securities (MBS) returned -5.0%, as yields on the aggregate component of US Agency MBS increased 102 bps to 3%.

Rising prices—inflation—has become the top macroeconomic concern. The February Consumer Price Index (CPI) printed at 7.9% (annualized), its biggest increase since 1982. Supply chain constraints are a lingering cause, but Russia's invasion of Ukraine (and the resulting economic sanctions) is also a factor in that it promptly drove energy prices higher—West Texas Intermediate crude oil increased over 35% (to $100/barrel) over the quarter. Prices for other commodities, such as wheat (of which Ukraine is a big exporter) to aluminum and palladium (of which Russia is a global supplier), also jumped.

A surging CPI has layered further pressure on the Fed to tame prices. The Federal Reserve increased the federal funds target rate 25 bps in its March meeting and, at quarter's end, the market was pricing in eight rate hikes in 2022. U.S. Treasury yields saw substantial increases, particularly in the front end of the curve, flattening the Treasury curve significantly. The 2-year Treasury yield increased 160 bps to 2.34%, whereas the 10-year Treasury yield increased also, but only by 83 bps, to 2.34%, the very definition of flat.

Treasury yields initially fell and credit spreads widened on a "risk-off" reaction to the invasion. But, by March 14, investment grade corporate credit spreads had peaked for the quarter and Treasury yields had resumed their climb such that, by quarter-end, they were well above yields before the invasion as inflationary concerns returned to the fore. In all likelihood, these same concerns will prove to be most important for the rest of 2022.

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Portfolio Performance & Positioning

The Fund outperformed its benchmark index, the Bloomberg 1-3 Year Credit Index, quarter to date ending March 31, 2022. The Fund share class returned -2.37% (before fees) compared to the benchmark return of -2.46%. The largest contributors to relative performance were the Fund's positions in corporates and bank loans. These securities posted good performance, related to credit outperformance, and the loans' floating interest rates offsetting the rise in Treasury yields during the quarter. Security selection in the Fund was also a meaningful contributor. Security selection within the Fund's off-benchmark exposure to high yield bonds, specifically BB-rated securities, benefited our performance. Our positions in Treasuries, wireless, and finance companies were detractors from performance.

During the year, our sector allocations had a slight increase in ABS, CMBS, and Treasuries, while corporates and taxable munis decreased.

Contributors

- Security Allocation and Selection added 5 bps of outperformance. Duration added 3 bps to performance, as the portfolio is more laddered than the index, which is concentrated in the 2-3 year part of the curve, which experienced the greatest rate increases.
- The greatest outperformance came from machinery, aerospace and defense, building materials, metals and mining, and cable and satellite.
- An overweight to BB high yield bonds and an underweight to A rated credit were the largest credit rating drivers of performance.

Detractors

- Certain sectors detracted from performance during the quarter. Underperformance came from wireless, autos, refining, tobacco and Treasuries. Most of this underperformance was driven by the increase in interest rates.

ANNUALIZED RATE OF RETURN (%)

VictoryShares USAA Core 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)	-2.37	-2.37	-1.61	2.20	–	2.25	0.37	0.35
Closing Market Price	-2.57	-2.57	-1.84	2.12	–	2.23		
Indexes								
Bloomberg 1-3 Year Credit Index	-2.46	-2.46	-2.60	1.40	1.71	–		

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. Index performance is shown for illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index.

VictoryShares®

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SECTOR WEIGHTING (%)

Sector	USTB	Bloomberg Credit (1-3 Y)
ABS	20.9	–
Bank Loan	1.8	–
CMBS*	7.0	–
Finance	15.9	36.4
Government Related	15.4	22.1
Industrials	36.4	37.5
Local Authority	0.2	–
Treasury	1.3	–
Utilities	1.7	4.0
Cash	-0.7	–

**Commercial Mortgage-Backed Securities*

FUND TOP 10 HOLDINGS

	Weighting (%)
Us Government	1.27
Midwest Connector Capit	1.08
Western Gas Parnters Lp	1.06
Ashtead Capital Inc	0.92
Bbva Bancomer Sa Texas	0.89
Berry Global Group Inc	0.85
Banco Santander Mexico	0.84
Athene Holding Ltd	0.83
Freeport-Mcmoran Copper & Gold	0.82
Hess Midstream Partners	0.82

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. 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. 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. 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.

One **Basis Point** is equal to 1/100th or 1%.

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 are obtained using Bloomberg methodology using ratings derived from Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch). When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used. Victory Capital Management does not evaluate these ratings but simply assigns the to the appropriate credit quality category as determined by the rating agency.

The Bloomberg 1-3 Year Credit Index (Bloomberg Credit (1-3 Y) measures the 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.

Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through October 31, 2021.

LLC (Foreside). Victory Capital is not affiliated with Foreside.

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