IN BRIEF

FIXED INCOME
2018

Bracing for higher rates

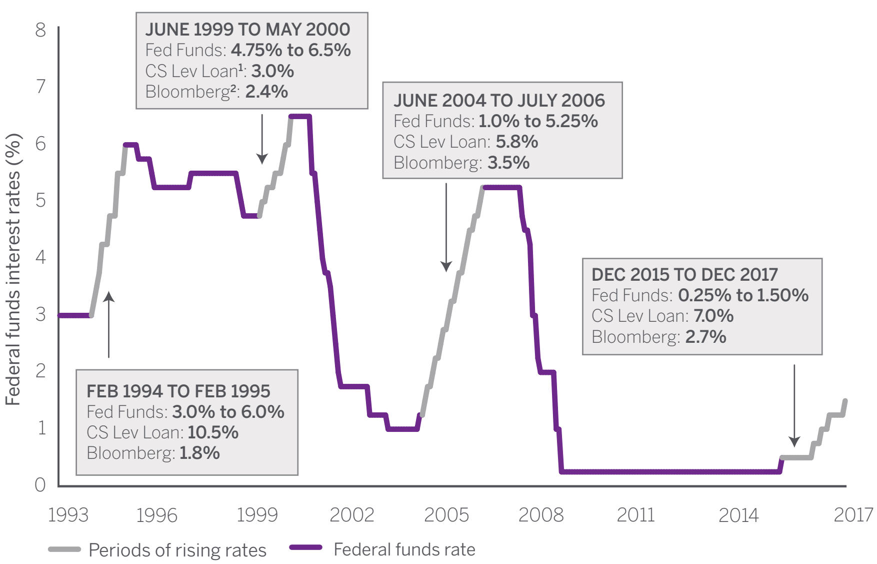
Is now the right time to reconfigure your fixed income portfolio?

Are we in the midst of a new inflationary regime? Yields have been on the rise in early 2018, and the Federal Reserve has telegraphed its intention to continue pursuing a path of modest tightening. Is it any surprise that investors are rethinking their fixed income allocations and wondering how to protect their bond portfolios?

RISING TO THE CHALLENGE? (As of December 31, 2017)

Floating-rate loans are variable-rate loans made by financial institutions to companies that are generally rated below investment grade. Unlike many fixed income instruments, floating bank loan yields adjust regularly to provide price stability. Additionally, bank loans are characterized as senior in a company's capital structure and are entitled to all of the benefits of their secured standing.

Floating-rate loans in a rising rate environment, January 1993–December 2017



Source: Federal Reserve.

Performance quoted represents past performance and does not guarantee future results. Indexes are unmanaged and not available for direct investment and do not represent the performance of a single fund or any of the Victory Funds.

Consider the historical returns of floating-rate loans (as measured by the Credit Suisse Leveraged Loan Index[1]) during three different periods of federal funds rate increases. Yield on these loans adjusts periodically based on a short maturity interest rate benchmark, often the three-month London Interbank Offered Rate (LIBOR).[3]

1 Credit Suisse Leveraged Loan Index (CS Lev Loan): This index is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. The index inception is 1992 and the index frequency is monthly.

2 Bloomberg Barclays U.S. Aggregate Bond Index (Bloomberg): This is an unmanaged index of publicly issued investment grade corporate, U.S. Treasury and government agency securities with remaining maturities of one to three years.

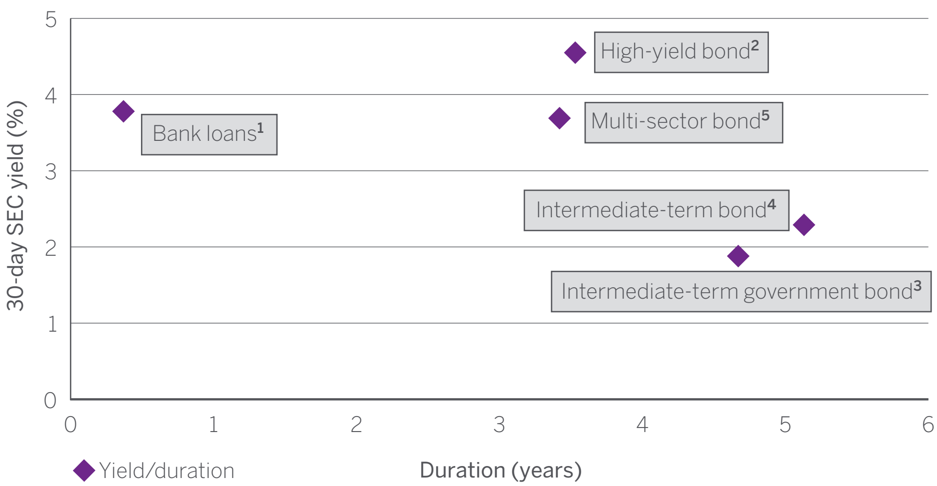
3 The London Interbank Offered Rate (LIBOR): The annualized, average interest rate at which a select group of large, reputable banks that participate in the London interbank money market can borrow unsecured funds from other banks. The three-month LIBOR is often used as a proxy for short-term interest rates.

Be rewarded for your risk

Not all fixed income products lose value in rising rate environments. That's why investors should look at duration when evaluating and constructing their fixed income portfolios. Duration is defined as a measure of interest rate sensitivity—the longer the duration, the more sensitive to shifts in interest rates and the greater potential for losses in periods of rising rates. We believe floating-rate loans provide attractive risk-reward tradeoffs in a potentially rising rate environment, as measured by duration.

ARE YOU POSITIONING PROPERLY? (As of December 31, 2017)

30-day SEC yield* per unit of duration for major fixed income categories



Source: Morningstar.

Performance quoted represents past performance and does not guarantee future results.

* 30-day SEC Yield: a standard yield calculation developed by the Securities and Exchange Commission (SEC) that allows for fairer comparisons of bond funds. It is based on the most recent 30-day period covered by the Fund's filings with the SEC. The yield figure reflects the dividends and interest earned during the period, after the deduction of the Fund's expenses. This is also referred to as the "standardized yield."

> Of all the major fixed income asset classes, floating-rate loans, represented by the Morningstar Bank Loan category on the chart, typically offer the most attractive yield with low interest rate risk. Investors should always be aware of other risks associated with this asset class, including credit and liquidity.

The Morningstar Category Averages cited below assume reinvestment of dividends.

1 Morningstar Bank Loan: Bank loan portfolios primarily invest in floating rate bank loans instead of bonds. These portfolios have credit risk and limited duration risk. The Morningstar Category Average is the average duration and average 30-day SEC yield for the peer group based on the durations and 30-day SEC yields of each individual fund within the group, for the period shown.

2 Morningstar High Yield Bond: High yield bond portfolios concentrate on lower-quality bonds, which are riskier than those of higher quality companies. The Morningstar Category Average is the average duration and average 30-day SEC yield for the peer group based on the durations and 30-day SEC yields of each individual fund within the group, for the period shown.

3 Morningstar Intermediate Government Bond: Intermediate-government portfolios have at least 90% of their bond holdings in bonds backed by the US government or by government-linked agencies. The Morningstar Category Average is the average duration and average 30-day SEC yield for the peer group based on the durations and 30-day SEC yields of each individual fund within the group, for the period shown.

4 Morningstar Intermediate-Term Bond: Intermediate-term bond portfolios invest primarily in corporate and other investment grade US fixed income issues and typically have durations of 3.5 to 6.0 years. The Morningstar Category Average is the average duration and average 30-day SEC yield for the peer group based on the durations and 30-day SEC yields of each individual fund within the group, for the period shown.

5 Morningstar Multisector Bond: Broad bond portfolios that typically invest assets among several fixed-income sectors, including government bonds, corporate bonds, high-yield bonds and foreign bonds. The Morningstar Category Average is the average duration and average 30-day SEC yield for the peer group based on the durations and 30-day SEC yields of each individual fund within the group, for the period shown.

An investor should consider the fund's investment objectives, risks, charges and expenses carefully before investing or sending money. This and other important information about the fund can be found in the fund's prospectus, or, if applicable, the summary prospectus. To obtain a copy, visit *www.vcm.com*. Read the prospectus carefully before investing.

All investing involves risk, including potential loss of principal.

Fixed income funds are subject to interest-rate and credit risk. Typically, when interest rates rise bond values decline. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. 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. Derivative transactions can create leverage and may be highly volatile.

The information and statistical data contained in this material were obtained from third-party sources believed to be reliable; however, Victory Capital does not guarantee the accuracy of the information or data, and the information and data may differ from information provided by Victory Capital. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice.

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V18.010 // 1Q 2018 VC In Brief: Bracing for higher rates IB

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