

USAA Ultra Short-Term Bond Fund // USAA Short-Term Bond Fund // USAA Income Fund // USAA Intermediate-Term Bond Fund

Market Commentary

Taxable bonds performed well during the third quarter, continuing to recover from the dramatic sell-off they had experienced in March. COVID-19 sensitive industries, however, faced ongoing challenges, as many are associated with travel and leisure activities. U.S. economic data improved, highlighted by increased consumer spending, manufacturing orders, and home sales. Meanwhile, many companies boosted liquidity, stockpiling cash and issuing a record amount of debt, as they sought to survive what many observers believed would be an extended period of slow economic growth. According to Wells Fargo, 2020 investment-grade debt issuance topped \$1.575 trillion in the first nine months of 2020, 68% more than during the same period in 2019.

Credit spreads tightened during the third quarter overall, though they widened in September, a record-setting month for corporate debt issuance. (Credit spreads are the additional compensation that investors require to hold securities that are not as safe and liquid as those issued by the U.S. Treasury. Widening spreads reflect investors' perception of rising risks, whereas tightening spreads reflect investors' perception of decreasing risks.) Investment-grade credit spreads, as measured by the Bloomberg Barclays U.S. Corporate Index, tightened by 14 basis points in the third quarter. (A basis point is 1/100th of a percentage point.) High-yield credit spreads based on the Bloomberg Barclays US High Yield 2% Issuer Capped Bond Index narrowed by 97 basis points.

Performance during the quarter closely tracked credit quality, with CCC-rated bonds, which have highest credit risk, generating the highest returns and AAA-rated bonds, which have the lowest credit risk, producing the weakest returns.

In the U.S. Treasury market, yields on shorter-term maturities fell slightly, while those on intermediate- and longer-term maturities edged up. Yields on 10-year and 30-year Treasury securities rose three and five basis points, respectively. Yields on two-year, three-year, and five-year Treasuries fell three, two, and one basis points, respectively, during the third quarter.

In this environment, the USAA Ultra Short-Term Bond Fund, the USAA Short-Term Bond Fund, the USAA Income Bond Fund, and the USAA Intermediate-Term Bond Fund outperformed their respective benchmark indices during the third quarter.

This relative outperformance was largely because of the taxable bond Funds' comparatively greater exposure to corporate credit. The Funds were positioned to benefit from stable to improving corporate bond prices, which occurred during the quarter.

In managing the taxable bond Funds, we continued to work with our in-house team of credit analysts, continuing to build the portfolios bond-by-bond, through fundamental bottom-up analysis. We seek ideas where our fundamental understanding of the credit

risk is different than the market. Our credit analysts review all securities considered for purchase and assign their own independent credit rating. As always, they continuously monitor every holding in the Funds. During the quarter, we continued to adhere to our disciplined investment approach, which is to maintain attractive yields with an acceptable level of risk.

USAA Ultra Short-Term Bond Fund

The Fund outperformed its benchmark index during the third quarter, as conditions in the corporate bond market improved. Although credit spreads widened in September, they continued their tightening trend during the quarter overall. Against this backdrop, the Fund benefited from its holdings in all credit ratings categories, with BBB-rated credits producing the highest positive returns. The Fund's biggest relative outperformers were its investments in banks, finance companies, midstream energy companies, and airlines, as well as commercial mortgage-backed securities. The largest relative detractors were electric utilities and the Fund's underweight in US Treasury securities. In keeping with our investment approach, we continued to seek attractive opportunities among various sectors, with a focus on the front end of the yield curve.

USAA Short-Term Bond Fund

The Fund outperformed its benchmark index for the quarter, led by its holdings in the leisure, independent exploration and production, airlines, consumer cyclical services, and metals and mining sectors. The Fund's investments in the utilities, pharmaceuticals, and tobacco sectors, along with a position in US Treasuries, generated positive returns but detracted overall from relative performance. The Fund was also held back by its cash position. From a credit perspective, holdings of BBB-rated and high-yield corporate bonds added to performance, while holdings of AAA-through A-rated corporate bonds detracted slightly from performance though they did produce positive returns.

USAA Income Fund

The Fund outperformed its benchmark index during the quarter, driven by its overweight positions in corporate bonds, taxable municipal securities, asset-backed securities, and collateralized mortgage-backed securities. Underweight positions in US Treasury securities and agency mortgage-backed securities also contributed positively. In term of credit quality, the Fund's overweight in BBB-rated credits and its underweight in AAA-rated credits added significantly to performance, as did credit selection within both ratings categories. Among corporate bonds, the Fund benefited from its holdings in the midstream energy, life insurance and electrical utility industries. Credit selection of taxable municipal bonds was also advantageous.

USAA Intermediate-Term Bond Fund

The Fund outperformed its benchmark during the quarter, largely because of its overweight positions in corporate bonds, bank loans, taxable municipal securities, and commercial mortgage-backed securities. Among corporate bonds, the Fund's largest outperforming investments were within the airlines, exploration and

production, insurance, and metals and mining industries. Credit selection among food and beverage, banking, midstream energy, and retail companies also bolstered relative returns. On the other hand, the Fund's allocation to cash held back its performance. Additionally, an allocation to oilfield services names detracted slightly from relative results during the quarter.

Consider the investment objectives, risks, charges and expenses of the USAA Mutual Funds carefully before investing. To obtain a prospectus or summary prospectus containing this and other information visit www.usaa.com/prospectus. Read it carefully before investing.

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Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

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.

Discussion based on the fund share class. Other classes have different performance characteristics.

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