# VICTORY INCOME FUND
# QUARTERLY COMMENTARY

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of 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 Victory Income Fund (Institutional Shares) underperformed its benchmark, the Bloomberg U.S. Aggregate Bond 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.

| | 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

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. 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

The Fund reduced its allocation to corporate securities, in particular BBB-rated securities, during the quarter and increased its allocation to agency mortgage-backed securities (MBS). The Fund's duration remains in line with its benchmark.

## Contributors

- The Fund's security selection within corporate bonds contributed positively to performance during the quarter.
- Security selection within transportation, banking, insurance, and utilities contributed the most to performance.

## Detractors

- An overallocation to corporate securities, and in particular BBB-rated securities, detracted most from performance.
- Within corporates, real estate investment trusts (REITs), retail, and healthcare were the largest detractors.
- An underallocation to agency MBS also detracted from performance.

## Standardized Performance: March 31, 2025

Average Annual Returns (%)

| Victory Income Fund | Ticker | Inception Date | Q1 2025 | 1 Year | 5 Year | 10 Year | Since Inception | Expense Ratio Gross | Expense Ratio Net |
|---|---|---|---|---|---|---|---|---|---|
| Fund Shares | USAIX | 03/04/74 | 2.58 | 5.54 | 2.05 | 2.44 | 7.18 | 0.60 | 0.59 |
| A Shares, without sales charge | UINCX | 08/02/10 | 2.46 | 5.22 | 1.78 | 2.19 | 2.94 | 0.88 | 0.85 |
| A Shares, with sales charge (max. 2.25%) | UINCX | 08/02/10 | 0.16 | 2.87 | 1.31 | 1.96 | 2.79 | 0.88 | 0.85 |
| Institutional Shares | UIINX | 08/01/08 | 2.60 | 5.51 | 2.10 | 2.50 | 4.05 | 0.55 | 0.55 |
| R6 Shares | URIFX | 12/01/16 | 2.62 | 5.70 | 2.21 | – | 2.83 | 0.57 | 0.45 |
| Bloomberg U.S. Aggregate Bond Index | – | – | 2.78 | 4.88 | -0.40 | 1.46 | – | – | – |

**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 August 31, 2025.

**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.** In addition to the normal risks associated with investing, 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. 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. Derivatives may not work as intended and may result in losses. Large shareholders, including other funds advised by the Adviser, may own a substantial amount of the Fund's shares. The actions of large shareholders, including large inflows or outflows, may adversely affect other shareholders, including potentially increasing capital gains. 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.

**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.

**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.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance does not reflect management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

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