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As of June 30, 2023

Executive Summary

The quarter began with a regional banking crisis but, by its end, banks had faded from the headlines and the tumult subsided. Come June, the markets had returned their attention to predicting the next policy move by the Federal Reserve (the Fed), where inflation was going and, always in the background, if and when there might be an economic slowdown. Against this backdrop, the Victory Short-Term Bond Fund (Institutional Shares) outperformed its benchmark, the Bloomberg 1-3 Year Credit Index, for the quarter ended June 30, 2023. See next page for other share classes.

Market Update & Commentary

The first quarter closed with the U.S. in the throes of a banking panic that began in regional banks but leaked over to continental Europe in the form of a forced merger of Credit Suisse with UBS. As the second quarter closed, the banking crisis was forgotten and back to the forefront was how to interpret three common harbingers of difficult economic times: rising interest rates, high inflation, and a recession that—seemingly—has loomed on the horizon for some time.

Federal Reserve policy held center stage as the second quarter progressed. By the June meeting, the market was ready to welcome and indeed had come to expect that the Fed would finally pause its hiking campaign; this is what it got, as the Federal Open Market Committee kept rates at 5.15%. But the accompanying hawkish commentary disquieted many, and Chairman Powell's insistence over the ensuing weeks that the Committee was firm in its willingness to hike again if inflation should not abate persuaded many that the Fed may not be done tightening after all. The shift in expectations is evident in the market's pricing of the federal funds rate for January 31, 2024. At the end of the first quarter, the consensus was 4.17%, indicating widespread expectations of rate cuts in the latter months of 2023. By the end of Q2, the implied rate had jumped to 5.29%, revealing that the market believed the Fed could hike again. However grudgingly, the market has come to admit that rates will probably go higher in the near term, rather than lower, and that, because if they go higher, they will likely stay higher for longer. How much longer is anyone's guess, but the numbers to watch are those involving inflation. The Fed wants inflation back at or below 2% and, while headline inflation is well off its peak, core CPI remains stubbornly above 5%. As long as core CPI is elevated, the Fed is likely to keep monetary policy restrictive, and this could be for a while.

Markets whipsawed—sometimes violently—from April to June, but little of this turmoil leaked into the corporate bond market. Corporate credit spreads tightened during the quarter across all rating categories. Still, performance across the major fixed income asset classes during the quarter was mixed as tighter credit spreads in both investment grade and high yield corporate credit were partially offset by an increase in yields along the Treasury curve.

- The Bloomberg U.S. Aggregate Bond Index returned -0.8% during the quarter.

	Yield (%)	Spreads (bps)			Returns (%)	
		3/30/2023	6/30/2023	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.4	0	0	0	(1.4)	(2.1)
U.S. Aggregate	4.8	56	49	-7	(0.8)	(0.9)
U.S. Credit	5.4	130	113	-17	(0.3)	1.4
Corporate	5.5	140	122	-18	(0.3)	1.5
Aa	4.8	70	60	-10	(0.7)	(0.0)
A	5.3	120	103	-17	(0.4)	0.8
Baa	5.8	169	150	-19	(0.1)	2.5
Crossover	6.7	265	226	-39	0.6	6.1
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	8.6	469	392	-77	1.7	9.1
Ba	7.1	300	251	-49	0.9	8.1
B	8.7	492	400	-92	1.9	9.9
Caa	13.2	1015	837	-178	4.2	9.4
Ca-D	23.1	3636	1,805	1,831	11.5	18.7
Structured Product						
U.S. MBS	4.8	59	51	-7	(0.6)	(1.5)
ABS	5.5	84	68	-16	(0.1)	1.2
CMBS	5.7	142	134	-8	(0.6)	(1.7)

Source: Bloomberg

- Investment grade (IG) corporate bonds returned -0.3% on a yield increase of 30 basis points (commonly abbreviated "bps," with each basis point equal to 1/100th of a percentage point), to 5.5%. Investment grade credit spreads tightened 18 bps to 122 bps, led by bonds rated A and BBB.
- Corporate high yield bonds were up 1.7% to 8.6% as a decline in credit spreads more than offset a higher Treasury curve. High yield spreads fell 77 bps during the quarter.
- Asset-backed securities (ABS) performed best across structured product categories, returning -0.1%. Agency mortgage-backed securities (MBS) and collateralized mortgage-backed securities (CMBS) lagged, with both down 0.6%.

Portfolio Performance & Positioning

During the quarter, we increased our allocation to the banking sector, as well as other corporates and ABS. We also reduced our positions in high yield, and added Treasuries.

Contributors

- Best performers were retailers, wireless, real estate investment trusts (REITs), consumer cyclical services, and pharmaceuticals.
- From a credit perspective, our allocation to high yield and BBB-rated bonds provided the best performance, as did being underweight single-A bonds.

- Allocation and selection added 38 bps to performance. Duration added 40 bps to performance, as the Fund’s portfolio is more laddered than the index, which is concentrated in the 2- to 3-year maturity range.

Detractors

- Sectors that detracted from performance included CMBS, Treasuries, tobacco, construction machinery, and packaging.
- From a credit perspective, bonds rated AAA and AA performed the worst.

Standardized Performance: June 30, 2023

Average Annual Returns (%)

Victory Short-Term Bond Fund	Ticker	Inception Date	Q2 2023	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
								Gross	Net
Fund Shares	USSBX	06/01/93	0.76	2.49	2.10	1.87	3.57	0.56	0.56
A Shares, without sales charge	UASBX	08/02/10	0.71	2.30	1.88	1.65	1.78	0.89	0.76
A Shares, with sales charge (max. 2.25%)	UASBX	08/02/10	-1.54	0.02	1.42	1.42	1.60	0.89	0.76
Institutional Shares	UISBX	08/01/08	0.78	2.59	2.17	1.96	2.77	0.48	0.48
R6 Shares	URSBX	12/01/16	0.82	2.75	2.27	–	2.17	0.33	0.33
Bloomberg 1-3 Year Credit Index	–	–	0.11	1.39	1.58	1.49	–	–	–

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 November 30, 2023.

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) and asset-backed securities (ABS) 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 and ABS. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The Fund may be subject to liquidity risk, which is the risk that the Adviser, in the ordinary course of business, cannot expect to sell Fund investments within seven days at a price that is acceptable to the Adviser. 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. **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.

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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Victory Short-Term Bond Fund, R6 (formerly USAA Short-Term Bond Fund) was selected from among 88 funds and 296 share classes in the Short Investment Grade Debt Funds category over five years for the period ending November 30, 2022.

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