VICTORY TAX EXEMPT INTERMEDIATE-TERM FUND QUARTERLY COMMENTARY

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of March 31, 2025

Performance Summary

Throughout the first quarter of 2025 the Federal Reserve (Fed) kept rates steady, expressing a desire to watch potential changes to trade policy play out before further reducing rates. With weaker growth expectations and increased short- and long-term inflation expectations the Treasury yield curve fell, leading to positive performance for most fixed income asset classes. Municipal yields, however, diverged from Treasuries and rose toward the end of Q1. The lag in yield movement was primarily driven by increased issuance throughout the quarter, but there is a level of uncertainty surrounding future tariff policy and the potential impact for municipal bonds that investors have been considering as well. The municipal market experienced negative returns for the quarter, with the Bloomberg Municipal Bond Index returning -0.22%, lagging the Bloomberg U.S. Aggregate Bond Index, which returned +2.78%. Performance was primarily driven by the move up in yields, which trended upward notably in March. Inflation moved slightly down and unemployment increased from 4.1% at the end of 2024 to 4.2% at the end of Q1. Volatility and uncertainty drove markets throughout the quarter, but generally we saw muni spreads tighten in response versus their taxable counterparts, which widened slightly. Despite the unsteady footing many investors found themselves on, the elevation of muni yields offers a very attractive entry point for tax-conscious investors, and not just those in the highest tax brackets. The yield of the Bloomberg Municipal Bond Index rose to 3.84% at the end of the first quarter from 3.74% at the end of 2024, offering a taxable-equivalent yield of 6.49% (in the highest tax bracket).

Market Review & Outlook

The Bloomberg Municipal Bond Index returned -0.22% for the first quarter of 2025. The fixed income sector saw broad outperformance due to falling yields. The first quarter return for the Bloomberg U.S. Aggregate Bond Index was +2.78%; for the Bloomberg U.S. Universal Index, +2.66%; and for the Bloomberg U.S. Treasury Index, +2.92%.

See below for an update on some of the key metrics in the muni market that we continue to monitor.

- AAA muni yields (the benchmark rate of the safest municipal securities) are higher than they were at the end of 2024 on the longer end of the curve. Bloomberg AAA muni yields on the shorter end decreased somewhat in the first quarter, while longer-term yields rose. Yields have risen year over year, with the largest increases along the belly of the curve. As a reminder, an increase in bond yields means that bond prices decrease and vice versa. See below for yield changes from 12/31/2024 to 3/31/25 at several key maturities.
    - 3-year: 2.83% to 2.74%
    - 10-year: 3.13% to 3.20%
    - 30-year: 3.87% to 4.27%
- Fund flows for municipal bond mutual funds totaled approximately $9.8 billion for the first quarter.
- Credit spreads (the difference between riskier bonds and AAA bonds) tightened throughout the first quarter. The BBB credit spread decreased from 0.89% to 0.86% at the end of Q1 2025.

We believe that the creditworthiness of muni borrowers will remain strong in the near term, as many borrowers have maintained improved financial positions post-pandemic, and rainy day funds remain at or near record highs.

We remain committed to our core competency of evaluating, taking, and managing credit risk in the municipal market. We continue to build our portfolios bond-by-bond, relying on our assessment of fundamental credit risk and attempting to capture and distribute incremental yield in an effort to drive higher long-term income to our investors. While there might be some volatility in the muni market in the short term, we remain confident that the right approach is to focus on what matters in the long term.

We believe municipal bonds continue to represent an attractive investment opportunity on a relative basis. At the end of the first quarter, the yield on the Bloomberg Municipal Bond Index was 3.84%, which is a taxable-equivalent yield of 6.49% (in the highest tax bracket). After factoring in the benefit of the tax exemption, we believe munis look attractive vs. the (taxable) Bloomberg U.S. Aggregate Bond Index, which yielded 4.60% at quarter-end.

Portfolio Performance & Positioning

The Victory Tax Exempt Intermediate-Term Fund (fund shares) underperformed its benchmark, the Bloomberg 1-15 Year Municipal Index, for the quarter ended March 31, 2025. See the table on the next page for more information on returns.

Contributors

- Security selection in the Education sector
- Overweight to A/BBB credits and underweight to AAA/AA credits

Detractors

- Interest rate effect, as the Fund is overweight bonds with maturities of greater than 15 years compared to the benchmark, and the muni yield curve steepened in the 1-25 year range

20250502-4449923

Standardized Performance: March 31, 2025

Average Annual Returns (%)

Victory Tax Exempt Intermediate-Term Fund	Ticker	Inception Date	Q1 2025	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USATX	03/19/82	0.29	2.17	1.58	2.15	5.73	0.50	0.49
A Shares, without sales charge	UTEIX	08/02/10	0.24	1.93	1.33	1.90	2.73	0.89	0.74
A Shares, with sales charge (max. 2.25%)	UTEIX	08/02/10	-2.04	-0.37	0.87	1.67	2.57	0.89	0.74
Institutional Shares	UITIX	06/29/20	0.30	2.28	–	–	1.18	0.53	0.46
Bloomberg 1-15 Year Municipal Index	–	–	0.39	1.57	1.26	1.99	–	–	–
Bloomberg Municipal Bond Index	–	–	-0.22	1.22	1.07	2.13	–	–	–

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 June 30, 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. 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. Some tax-exempt securities, including variable-rate demand notes (VRDNs), are subject to special risks that pose additional liquidity and default risks. 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.

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

The Bloomberg Municipal Bond Index is considered to be generally representative of investment-grade municipal issues having remaining maturities greater than one year and a national scope. **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 U.S. Universal Index** is an index that represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below-investment-grade. **The Bloomberg U.S. Treasury Index** measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills and STRIPS are not included. **The Bloomberg 1-15 Year Municipal Index** is a market-value-weighted index which covers the short and intermediate components of the Bloomberg Municipal Bond Index.

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.**

Funds distributed by Victory Capital Services, Inc., an affiliate of Victory Capital Management Inc.

V20.137 // 1Q 2025 Victory Tax Exempt Intermediate-Term Fund COM

VictoryFunds