Victory Fund For Income Quarterly Commentary

LSEG Lipper Fund Awards
2024 Winner
United States

VICTORY income investors

As of December 31, 2023

Commentary

For the quarter ended December 31, 2023, the Victory Fund for Income (Class A shares, net asset value) had a total return of 2.71%. The Fund's benchmark index, the Bloomberg U.S. 1-5 Year Government Bond Index, had a total return of 3.19%.

Risk markets rallied and rates fell in the fourth quarter of 2023, with the Dow up a whopping 13.1%, the S&P 500® Index up 11.7% and the Nasdaq up 13.6%, as inflation data printed softer than anticipated amid a strong labor market. The U.S. Federal Reserve Bank has continued to hold rates steady since July 27, 2023. The U.S. Treasury yield curve flattened, with the 2s/10s at -0.37%. U.S. Treasury bond yields maturing in two years' time fell 0.79%, fives fell 0.76%, tens fell 0.69%, and the long bond fell 0.67%. Bond prices move opposite yields.

All fixed income sectors had positive total and excess returns in the fourth quarter (excess versus duration-neutral U.S. Treasury bonds). Corporate bonds had the most positive returns relative to U.S. Treasury bonds. MBS (mortgage-backed securities) had the second most positive return relative to duration-neutral U.S. Treasury bonds. CMBS (commercial mortgage-backed securities) and ABS (asset-backed securities) both had moderate positive returns relative to duration-neutral U.S. Treasury bonds. Agency debentures eked out a modest positive return versus duration-neutral Treasuries. Within the mortgage market, Fannie Mae (FNMA) led Ginnie Mae (GNMA), which led Freddie Mac (FHLMC). All had negative total returns and negative returns versus duration-neutral U.S. Treasury bonds.

All our sector returns were strongly positive in the fourth quarter, with our largest allocation, GNMA single-family pass-through bonds (83.2%), contributing the most total return. GNMA structure (3.3%), our smallest allocation, also had a strong positive total return contribution. While our U.S. Treasury bond allocation (13.4%) had the least positive total return contribution, it was strong nonetheless. We continue to selectively buy or create high-coupon GNMA platinum pools as opportunities arise.

Inflation data has come in softer than expected, yet going forward, it is not likely to move in a straight line. The Federal Reserve Board's Summary of Economic Projections, affectionately known as the Dot Plot, on average shows three 25-basis-point interest rate cuts by the end of 2024. As of this writing, the market is anticipating twice that number of rate cuts by the end of 2024. Absent any exogenous shocks, we think economic strength may persist and that the cuts the market currently expects at the end of the first quarter may not occur until the back half of this year, if at all. No matter the weather, the goal of our strategy remains consistent as we seek to deliver high, reliable income and preservation of capital.

Investment Performance (%)
Average Annual Returns as of December 31, 2023

Victory Fund for Income (Class A – IPFIX)	Q4 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Expense Ratio Gross	Expense Ratio Net
A Shares, without sales charge	2.71	4.02	4.02	-1.15	0.61	0.91	2.91	0.96	0.91
A Shares, with sales charge (max. 2.25%)	0.65	1.69	1.69	-1.89	0.15	0.68	2.81	0.96	0.91
Bloomberg U.S. 1-5 Year Government Bond Index	3.19	4.39	4.39	-0.83	1.18	1.13	–	–	–

*Since inception results are as of September 16, 1987.

Source: Victory Capital data analyzed through Zephyr

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. Other share classes are available. 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 October 31, 2024.

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.

All investing involves risk, including the potential loss of principal. 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. 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. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The market value of a security issued on a when-issued, to-be-announced (TBA) or delayed-delivery basis may change before the delivery date, which may adversely impact the Fund's net asset value. There is also the risk that a party fails to deliver the security on time or at all. 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.

The Bloomberg U.S. 1-5 Year Government Bond Index seeks to measure the performance of U.S. Treasuries and Agencies with less than five years to maturity. Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses. One cannot invest directly in an index.

Distributed by Victory Capital Services, Inc., an affiliate of Victory Capital Management Inc., the Fund's investment adviser.

The LSEG Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers.

The LSEG Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The fund with the highest Lipper Leader for Consistent Return (Effective Return) value in each eligible category wins the LSEG Lipper Fund Award.

Victory Fund for Income, R6 was selected from among 13 funds and 52 share classes in the GNMA fund category over three years for the period ending November 30, 2023.

Victory Fund for Income, R6 was selected from among 13 funds and 49 share classes in the GNMA fund category over five years for the period ending November 30, 2023

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For more information about separate accounts and mutual funds, contact Victory Capital Management at 800.991.8191 or visit vcm.com.

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