

## Executive Summary

- Convertibles performed well in the third quarter as participation rates to the S&P 500<sup>®</sup> Index increased significantly from the first half. Both the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) return of 8.04% and the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) return of 8.38% exceeded the S&P 500<sup>®</sup> Index return in the third quarter.
- The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) underperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the third quarter.
- Historically, convertible returns have closely matched or even exceeded equity returns over the long term, with lower volatility.
- We believe that investment grade convertibles are well positioned in a period of economic uncertainty. With stock valuations at elevated levels, the yield and defensive characteristics of convertibles could become increasingly important.

## Market Review

Equity markets continued to climb in the third quarter as leadership shifted and their return profile broadened out. Investors were encouraged during the quarter by progressively falling inflation data, but were several times buffeted by weaker jobs data. Twice during the quarter, tepid job reports fostering hard landing fears led to sharp stock sell-offs. Each time stocks recovered quickly, helped by benign inflation and signals that the Federal Reserve would cut interest rates at its September meeting. The Fed ultimately cut rates by a half-point, surprising some prognosticators that predicted only a quarter-point cut. For the quarter, the S&P 500<sup>®</sup> Index returned 5.89%, bringing its YTD total return to 22.08%. The Bloomberg U.S. Aggregate Index gained 5.20% in the quarter, bringing its YTD total return to 4.45%. Equity sector leadership reversed course in the third quarter with Utilities and Real Estate topping the list of highest gains in the S&P 500<sup>®</sup> Index, while Information Technology and Communication Services were near the bottom, just above Energy. Style leadership also broadened out as smaller-cap and value stocks outperformed recent mega-cap and growth leaders.

### Third Quarter Convertibles

Convertibles performed well in the third quarter as participation rates to the S&P 500<sup>®</sup> Index increased significantly from the first half. Both the Constrained Convertible Index (VX5C) return of 8.04% and the Unconstrained Convertible Index (VXA1) return of 8.38% exceeded the S&P 500<sup>®</sup> Index return in the third quarter. The Utilities sector contributed the most to the Constrained Convertible Index (VX5C) performance, followed by Real Estate and Financials. No sector detracted from Index returns. Top individual index performers included Welltower Inc., NextEra Energy, Ventas Realty, and Wells Fargo. Only Ford Motor Company detracted from index returns.

New convertible issuance slowed modestly in the third quarter, with 18 new issues raising \$10 billion. Two new issues received investment grade ratings, bringing the YTD total to 12 new investment grade issues added to the Constrained Convertible Index (VX5C). Including all new convertibles (rated and unrated), 80 issues have come to market this year, raising \$55 billion. This comes after a very strong year of issuance in 2023 as well.

## Portfolio Performance

The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) underperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the third quarter. Absolute performance was led by the Utilities sector, followed by Financials, Real Estate, and Industrials. Only the Materials sector slightly detracted from performance. Relative performance was helped by positive security selection in Industrials. Relative performance was hurt by underweights in Utilities and Real Estate and by negative security selection in Financials. Top performing individual convertibles included Parsons Corp., NextEra Energy, Bank of America, and Wells Fargo. Bottom performers included Ford

Motor Company, Barclays Bank, Vishay Intertechnology, and Dexcom, Inc.

## Portfolio Characteristics

We strive to invest in high-quality convertibles with attractive underlying common stocks. We structure our portfolios by spreading our holdings across the three types of convertibles: 1) equity-sensitive, high-delta convertibles; 2) total return, middle-of-the-road convertibles; and 3) fixed income-oriented convertibles. This structure provides a balance between upside participation during good markets and downside protection during bad markets.

The holdings in the Strategy portfolio have an average current yield of 2.7%, a delta (sensitivity to common stock) of 46%, and an average credit rating of BBB. The Constrained Convertible Index (VX5C) yields 3.1% and has a delta of 48% and an average credit rating of BBB. The holdings are diversified across all economic sectors. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Information Technology, Industrials, Health Care, and Consumer Discretionary sectors. We maintain an underweight in the Utilities and Real Estate sectors. We maintain approximately neutral exposure to other sectors.

## Buys and Sells

During the third quarter, we initiated positions in Uber Technologies and Welltower Inc. Previously unrated, Uber received its first investment grade rating in August. Best known for its ride hailing services, Uber is leveraging its technology platform to expand into a variety of mobility-related services. Welltower is a REIT specializing in healthcare-related facilities. We added to Meritage Homes, a single-family home builder first purchased as a new issue last quarter. In addition, we added to existing holdings of Apollo Global Management, Ford Motor Company, and Global Payment Networks. Finally, we trimmed Booking Holdings after a considerable period of outperformance.

## Outlook

We believe that investment grade convertibles are well positioned in a period of economic uncertainty. With stock valuations at elevated levels, the yield and defensive characteristics of convertibles could become increasingly important.

The U.S. economy continues to grow but remains in the later stages of an economic cycle. The Bureau of Economic Analysis (BEA) pegged second quarter GDP growth at 3.0%, up from 1.6% in the first quarter. The latest Bloomberg survey of economists shows a forecast of 2.6% real GDP growth for all of 2024, slowing to 1.8% in 2025. Growth has strengthened modestly so far this year, and the likelihood of near-term recession has dissipated.

Inflation, which has been a primary concern, has been trending lower. Although slightly above expectations, the latest Consumer Price Index reading of 2.5% continued a streak of lower numbers.

Softer inflation coupled with concerns of weakening employment promoted a growing expectation that the Federal Reserve would soon cut rates, which happened in September. The Fed cut the federal funds rate by 50 basis points, surprising some forecasters that predicted only a quarter-point cut. Indications are that further cuts are likely later this year. While short-term rates are coming down, a decline in longer-term rates may prove more stubborn.

Economic growth and robust tech results are pushing up S&P 500® Index earnings. Bloomberg's survey of strategists indicates a median S&P 500® Index EPS forecast of \$241 in 2024, putting the index at close to 24 times earnings based on its quarterly closing level of 5762. Current valuation levels may limit upside gains, but valuation on its own is seldom a good market timing indicator.

We remain neutral on stock market prospects, believing markets will continue to be volatile. Stock returns broadened out in the third quarter from the very narrow technology-driven returns of the first half of the year. We believed that a broader market would be good for convertibles, and it clearly was during Q3, as both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) outperformed the S&P 500®.

Historically, convertible returns have closely matched or even exceeded equity returns over long periods, with lower volatility. In general, convertibles have tended to underperform stocks in bull markets, outperform stocks in bear markets, and provide competitive returns in normal markets. In addition, their lack of perfect correlation to either the stock or the bond market makes them a worthy addition to balanced portfolios.

**Investment Performance (%)**

Average Annual Returns as of September 30, 2024

Victory Investment Grade Convertible Securities Strategy	Inception Date	Q3 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Victory Investment Grade Convertible Securities Strategy (Gross)	1/1/87	6.67	11.03	16.94	4.45	8.01	8.44	8.42
Victory Investment Grade Convertible Securities Strategy (Net)	1/1/87	6.52	10.58	16.31	3.88	7.44	7.86	7.78
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	-	8.37	11.91	19.07	4.68	5.95	9.01	-
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	-	8.03	11.86	18.38	5.56	7.21	8.86	-

**Past performance does not guarantee future results.** Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. The composite net-of-fees returns shown reflect gross performance less actual investment management fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

Top 5 Contributors (%)	Contribution to Absolute Return	Top Ten Holdings	% Rep. Account
NextEra Energy, Inc. 4.6 % Equity Units Cons of Deb 01.09.27 + 1 PC 01.09.25	0.7	Booking Holdings Inc. 0.75% 01-may-2025	5.8
Parsons Corporation 0.25% 15-aug-2025	0.7	NextEra Energy, Inc. 4.6 % Equity Units Cons of Deb 01.09.27 + 1 PC 01.09.25	5.5
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	0.5	Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	5.5
Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	0.5	Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	5.2
Kite Realty Group, L.p. 0.75% 01-apr-2027	0.4	Southwest Airlines Co. 1.25% 01-may-2025	4.8
		Ford Motor Company 0.0% 15-mar-2026	4.5
		Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	3.9
		Expedia Group, Inc. 0.0% 15-feb-2026	3.9
		Barclays Bank Plc 1.0% 16-feb-2029	3.8
		Envista Holdings Corporation 1.75% 15-aug-2028	3.6
		<b>Total</b>	<b>46.5</b>
<b>Top 5 Detractors (%)</b>	<b>Contribution to Absolute Return</b>		
Ford Motor Company 0.0% 15-mar-2026	-0.2		
Vishay Intertechnology, Inc. 2.25% 15-sep-2030	-0.1		
Barclays Bank Plc 1.0% 16-feb-2029	-0.1		
Dexcom, Inc. 0.375% 15-may-2028	-0.1		
Jpmorgan Chase Funding, Inc. 0.5% 15-jun-2027	0.0		

**All investments carry a certain degree of risk, including the possible loss of principal**, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

The Victory Investment Grade Convertible Securities Composite includes all accounts, except wrap fee paying accounts, invested in investment grade convertible securities with a minimum convertible commitment goal of 70%-90%. The composite creation date is 1Q93 and the composite inception date is January 1987.

The benchmark of the composite is the ICE BofAML Investment Grade US Convertible 5% Constrained Index (VX5C). Prior to 12/1/2017, the benchmark was the ICE BofAML U.S. Convertible - Investment Grade Index (VXA1). The ICE BofAML Investment Grade US Convertible 5% Constrained Index (VX5C) is a market-capitalization weighted index of domestic corporate convertible securities, with all positions capped at 5% of market value. Bonds and preferred stocks must be convertible only to common stock, ADR's or cash equivalent and have a market value of at least \$50 million. Composed of Coupon, OID, or zero-coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. The ICE BofAML U.S. Convertible - Investment Grade Index (VXA1) is a market capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADR's or cash equivalent and have a market value of at least \$50 million. Composed of Coupon, OID, or zero-coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. The benchmark returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns have been taken from a published source and do not include any transaction fees, management fees, or other costs. Prior to September 2023, the name of this composite was the INCORE Investment Grade Convertible Securities.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

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were not intended as individual investment advice. A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

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