VICTORY HIGH INCOME STRATEGY QUARTERLY COMMENTARY

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2024

Executive Summary

Fixed income experienced a weaker fourth quarter driven largely by an upward swing in the Treasury yield curve. Inflation trended sideways throughout the quarter, and economic data indicated the U.S. economy remains strong. Despite kicking off a monetary easing cycle in September and cutting the federal funds rate by 25 basis points (bps) in November and December, the Federal Reserve ("the Fed") concluded the year on a more hawkish note than markets expected at the beginning of the fourth quarter. Election volatility came and went, but markets have priced in stickier inflation based on the new administration's proposed policies and on expectations for a continued resilient economy. Against this backdrop, the Victory High Income Strategy outperformed its benchmark, the Bloomberg US High Yield 2% Issuer Capped Bond Index, for the quarter ended December 31, 2024, on a gross and net basis.

Market Update & Commentary

Monetary policy uncertainty and election volatility caused yields to seesaw throughout the fourth quarter of 2024, with the 10-year U.S. Treasury yield beginning the quarter at 3.7% and concluding the year at 4.6%. The YoY Consumer Price Index (CPI) decreased throughout much of the year but rose slightly in the fourth quarter, ending at 2.7%. While not necessarily an indicator that inflation will materially rebound, this gave investors, and the Fed, reasons to reconsider the pace of future rate cuts as the risk of re-acceleration is not zero. Throughout the quarter markets reduced rate cut expectations from six cuts in 2025 to merely two cuts in response to uncertainty surrounding future inflation and a U.S. economy that continues to chug along against previously forecasted odds. Unemployment hovered around 4% during the fourth quarter.

In conjunction with monetary policy, election results and potential policy changes colored market sentiment in Q4 2024. Markets began to price in some of the inflationary risk the shift in political power may bring. This caused the yield curve to shift upward as longer-dated Treasuries crept up and short-term yields came down as a result of the Fed's widely anticipated interest rate cuts. As the long end of the Treasury yield curve steepened in December, it finally normalized after spending two years inverted. The rise in longer-term yields is largely driven by rising real yields, which indicates to us that investors are better compensated for taking on inflation risk. While fixed income yields are off the peaks we have seen in the past few years, the recent increase offers an attractive entry point for fixed income investors.

Investor compensation for adding credit risk remains low – credit spreads tightened throughout the quarter amidst a strong economic backdrop.

	Yield (%)	Spreads (bps)			Returns (%)	
		12/31/2024	9/30/2024	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.5	-	-	-	(3.1)	0.6
U.S. Aggregate	4.9	34	36	-2	(3.1)	1.3
U.S. Credit	5.3	77	84	-7	(3.0)	2.0
Corporate	5.3	80	88	-8	(3.0)	2.1
Aa	5.0	44	46	-2	(3.9)	0.2
A	5.2	68	73	-5	(3.3)	1.6
Baa	5.5	97	110	-13	(2.6)	3.0
Crossover	6.1	155	165	-10	(0.9)	5.3
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	7.6	287	300	-12	0.2	8.2
Ba	6.5	179	180	-1	(0.5)	6.3
B	7.6	278	281	-4	0.3	7.4
Caa	10.4	550	689	-139	2.3	15.1
Ca-D	20.2	1,613	1,610	+3	2.2	48.3
Structured Product						
U.S. MBS	5.3	43	42	+1	(3.2)	1.2
ABS	4.7	43	63	-20	(0.1)	5.0
CMBS	5.2	81	94	-13	(1.5)	4.7

Source: Bloomberg

Credit spread levels are a useful pulse check for how the market is perceiving risk, and the historic levels of tightness currently seen demonstrate that fixed income markets are not pricing in a dislocation in the short term. Fixed income yields rose, which drove negative performance across asset classes over the quarter, with credit sectors being the top performers in Q4. Year-to-date fixed income performance was positive across asset classes. The Bloomberg U.S. Aggregate Bond Index concluded the quarter at -3.1%.

Portfolio Performance & Positioning

During the quarter, we increased our allocation to cash by reducing our allocation to the following sectors: healthcare, leisure, and automotive. We reduced our holdings in lower-rated CCC and low-B credits and added higher-quality BB+ credits and floating rate bank loans.

Contributors

- Sector-related factors that added to performance were underweights to healthcare and cable satellite-related names and an overweight allocation to wireless.
- From a credit perspective, our security selection within B-rated credits aided performance, as did our allocation to BB-rated credits.
- Our allocation to cash holdings contributed to performance.

Detractors

- Sector factors that detracted from performance were an overweight to the media entertainment sector and security selection within that sector.
- From a credit perspective, security selection in the higher-rated BB/BBB sectors detracted from performance.

Performance

Average Annual Returns (%) as of December 31, 2024

Victory High Income Strategy	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (September 1999)
Gross of Fees	0.44	7.69	7.69	3.27	4.14	4.88	6.97
Net of Fees	0.24	6.87	6.87	2.47	3.34	4.04	6.05
Bloomberg US High Yield 2% Issuer Capped Bond Index	0.17	8.19	8.19	2.92	4.20	5.16	–

Past performance cannot 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. Performance prior to July 1, 2019, occurred while the team was affiliated with a prior firm. The investment management team has managed the composite strategy since inception and the investment process has not changed. Composite and benchmark returns are presented net of non-reclaimable withholding taxes. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. The composite net-of-fees returns shown reflect 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.

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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 High Income Composite includes all institutional and retail portfolios invested in a broad range of U.S. dollar- denominated high-yield securities, including bonds (often referred to as “junk” bonds), convertible securities, leveraged loans, or preferred stocks, with an emphasis on noninvestment-grade debt securities. Although the composite will invest primarily in U.S. securities, it may invest without limit in dollar-denominated foreign securities and to a limited extent in non-dollar-denominated foreign securities, including in each case emerging-markets securities. The strategy aims to deliver a total return primarily through a yield focused portfolio that offers a high level of current income. High yield bonds carry increased levels of credit and default risk and are less liquid than government and investment grade bonds. Portfolios in the composite have a target average maturity of 5-10 years. Beginning September 1st, 2023, the minimum account size for the composite is $25 Million. The composite creation date is July 2019, and the composite inception date is September 1999. The benchmark of the composite is the Bloomberg U.S. High Yield 2% Issuer Capped Bond Index. Prior to 4/24/2023, the name of this composite was the USAA High Income Fixed Income Composite.

The benchmark of the composite is the **Bloomberg U.S. High Yield 2% Issuer Capped Bond Index**. The Bloomberg U.S. High Yield 2% Issuer Capped Bond Index is an index comprised of fixed rate, non-investment grade debt securities that are dollar denominated and nonconvertible. The index limits the maximum exposure to any one issuer to 2%. 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.

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. **Past performance does not guarantee future results.**

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.

Victory Capital Management Inc. (VCM) is a diversified global investment adviser registered under the Investment Advisers Act of 1940 and comprises multiple investment franchises: Integrity Asset Management, Munder Capital Management, New Energy Capital Partners, NewBridge Asset Management, RS Investments, Sophus Capital, Sycamore Capital, THB Asset Management, Trivalent Investments, Victory Income Investors (formerly USAA Investments, a Victory Capital Investment Franchise), and the VictoryShares & Solutions Platform. Munder Capital Management and Integrity Asset Management became part of the VCM GIPS firm effective November 1, 2014; RS Investments and Sophus Capital effective January 1, 2017; Victory Income Investors, effective July 1, 2019; THB Asset Management, effective March 1, 2021; and New Energy Capital effective November 1, 2021. Effective September 1, 2023, INCORE Capital Management is no longer part of the VCM GIPS firm.

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Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

The opinions are as of the date indicated 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.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

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