

As of March 31, 2025

Executive Summary

Fixed income experienced a strong first quarter driven by a downward move in the Treasury yield curve. Inflation trended downward during the quarter while short- and long-term inflation expectations rose, pushed up by the unknown and potentially far-reaching impacts of future tariff policies. Markets that entered 2025 with a risk-on attitude faced much uncertainty amidst various policy developments and reduced growth expectations. The Federal Reserve (“the Fed”) did not reduce rates throughout the quarter, holding the upper bound steady at 4.50%. Markets priced in a slightly quicker pace of rate reductions through the end of the year, primarily due to concerns of a weakening economy. Against this backdrop, the Victory Ultra Short-Term Fixed Income Strategy outperformed its benchmark, the Bloomberg U.S. Treasury Bellwethers 3-Month Index, for the quarter ended March 31, 2025, on a gross and net basis.

Market Update & Commentary

At the beginning of the quarter, risk markets were priced to perfection – both fixed income and equity valuations were extended and pricing in a benign environment. While credit spreads remained below long-term averages for the majority of the quarter, we saw movement in response to uncertainty surrounding potential trade wars, higher inflation expectations, and slower growth forecasts toward the end of March. Yields moved down throughout Q1; long-term yields decreased more relative to the front of the curve in the middle of the quarter as investors sought to balance weaker economic data and a slight increase in inflation. Come March, the front end of the curve decreased as well, due (in our view) to markets pricing in a quicker pace of rate cuts. The 10-year U.S. Treasury yield began the quarter at 4.7% and concluded at 4.2%.

Forecasting rate cuts took a back seat in the news cycle amidst rising volatility. The VIX Index rose steadily throughout the quarter, most notably in March as market participants’ concerns surrounding future U.S. trade policy increased. The YoY Consumer Price Index (CPI) decreased throughout the quarter from 2.9% to 2.4%, while the unemployment rate increased from 4.1% at the end of 2024 to 4.2% at the end of Q1. While there were improvements seen on the inflation front, the focus of many market participants turned to the aggressive approach the Trump administration outlined to address trade deficits and more protectionist policies. Considering the material number of unknowns faced by markets, the Fed did not reduce rates throughout the quarter and has emphasized their “wait and see” approach to future monetary policy decisions. Short- and long-term inflation expectations rose, and consumer and business confidence dropped during the quarter, which may pose a threat to U.S. exceptionalism in the markets. However, between the swell in volatility and risk asset sell-off in mid-March, fixed income reclaimed its role as both an income generator and a valuable diversifier to equity risk.

	Yield (%)	Spreads (bps)			Returns (%)	
		3/31/2025	12/31/2024	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.1	-	-	-	2.9	4.5
U.S. Aggregate	4.6	35	34	+1	2.8	4.9
U.S. Credit	5.1	88	77	+12	2.4	4.9
Corporate	5.2	93	80	+13	2.3	4.9
Aa	4.8	54	44	+10	2.4	3.7
A	5.0	79	68	+11	2.4	4.6
Baa	5.4	114	97	+17	2.2	5.4
Crossover	6.1	187	155	+33	1.7	6.5
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	7.9	345	287	+58	1.0	7.7
Ba	6.5	217	179	+38	1.5	6.7
B	7.9	347	278	+70	0.7	6.7
Caa	11.2	671	550	+121	(0.4)	12.2
Ca-D	21.9	1,757	1,613	+144	1.6	33.1
Structured Product						
U.S. MBS	4.9	36	43	-7	3.1	5.4
ABS	4.6	59	43	+16	1.5	5.9
CMBS	4.9	88	81	+7	2.6	6.5

Source: Bloomberg

Investor compensation for adding credit risk improved throughout the quarter but remained below average, which in our view showed that investors were pricing in a generally optimistic, but very narrow outlook. While fixed income yields lowered, driving positive returns across asset classes for the quarter, the real yields on offer and diversification benefits provide an attractive opportunity for fixed income investors seeking a cushion against potential volatility. The Bloomberg U.S. Aggregate Bond Index concluded the quarter at +2.8%.

Portfolio Performance & Positioning

During the quarter, we increased our allocation to industrials, asset-backed securities (ABS), utilities, and collateralized mortgage obligations (CMOs), while reducing exposure to cash, financial institutions, government-related securities, collateralized loan obligations (CLOs), and Treasury securities.

Contributors

- Best performers were in transportation, technology, airports, basic industry, financials, energy, higher education, and consumer non-cyclical.
- Asset allocation added to performance.
- Longer duration added to performance.

Detractors

- Sectors that detracted from performance included agency commercial mortgage-backed securities (CMBS), municipally owned utilities, and other industrial.
- Yield curve positioning with 2-year key rates was a modest detractor from performance.

Performance

Average Annual Returns (%) as of March 31, 2025

Victory Ultra Short-Term Fixed Income Strategy	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (November 2010)
Gross of Fees	1.48	1.48	6.51	5.42	5.12	3.12	2.86
Net of Fees	1.34	1.34	5.90	4.81	4.50	2.52	2.26
Bloomberg U.S. Treasury Bellwethers 3-Month Index	1.04	1.04	5.02	4.32	2.60	1.90	–

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.



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 Ultra Short-Term Fixed Income Composite includes all institutional and retail portfolios invested primarily in a broad range of debt securities that have a dollar-weighted average portfolio maturity of 18 months or less. The debt securities in which the composite portfolio may invest include, among others, obligations of U.S., state, and local governments, their agencies and instrumentalities; mortgage- and asset-backed securities; corporate debt securities; repurchase agreements; and other securities believed to have debt-like characteristics. The strategy aims to deliver high current income with preservation of principal. Portfolios in the composite will invest primarily in investment-grade securities, but also may invest in below investment-grade securities, which are sometimes referred to as high-yield or “junk” bonds. High yield bonds carry increased levels of credit and default risk and are less liquid than government and investment grade bonds. 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 November 2010. The benchmark of the composite is the Bloomberg U.S. Treasury Bellwethers 3 Month Index. Prior to 5/1/2021, the benchmark of this composite was the FTSE 3 Month T Bill Index. Prior to 4/24/2023, the name of this composite was the USAA Ultra Short-Term Bond Fixed Income Composite.

The benchmark of the composite is the **Bloomberg U.S. Treasury Bellwethers: 3 Month Index**. The index measures the performance of Treasury bills with a maturity of less than three months. 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 5/1/2021, the benchmark of this composite was the FTSE 3 Month T Bill Index.

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.

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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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