



Executive Summary

Fixed income concluded 2023 with a bang! Fourth quarter inflation reports trended lower, and as the Federal Reserve (the Fed) kept rates stable the market regained confidence after a frustrating third quarter. Positive performance was driven by a downward swing in the Treasury curve, pushing yields down. Against this backdrop, the Victory Government Securities Fund (Institutional Shares) underperformed its benchmark, the Bloomberg U.S. Aggregate Government Intermediate & MBS Index, for the quarter ended December 31, 2023. See next page for other share classes.

Market Update & Commentary

Shifts in monetary policy expectations defined the fourth quarter of 2023, leading to a sense of optimism going into 2024. Unemployment slid to 3.7%, and the Consumer Confidence Index rose in December to highs not seen since 2021. All these factors, taken together, fostered greater investor confidence in a soft-landing narrative.

The Consumer Price Index, a popular measure of prices paid (and, thus, inflation), declined to 3.1% from 3.7% during the fourth quarter, indicating that the Fed continues to inch toward its target of 2% inflation. As a result of moderating inflation and a resilient economy, the Fed held rates steady during its meetings during the quarter. These factors led to positive returns within the fixed income market, with November turning out to be the best month for bonds since the 1980s. The remarkable returns can largely be attributed to the downward shift seen in Treasury yields from the 10-year Treasury's peak of 5% in October. This historic rally continued through December and was sufficient to swing fixed income's performance for the full calendar year to the black for the first time since 2020. While the dramatic shifts along the yield curve observed during the fourth quarter might give investors pause when considering fixed income, current yields still present a historically attractive opportunity, even if not at October's high of 5%.

Market expectations for rate cuts in 2024 steadily increased throughout 4Q23 on the Fed's decision to pause and a belief that the hiking cycle has reached completion. Many market participants believe rate cuts are coming soon, and this confidence was an important factor in the positive momentum that drove fixed income and equities higher. At the beginning of the quarter the market priced in two to three 25-basis-point* cuts in 2024, but the quarter ended with interest rate traders pricing federal funds futures for nearly seven cuts. Victory Income Investors, though, believes that the Fed remains data dependent, as it was reiterated at the December Federal Open Market Committee meeting that future monetary policy decisions will hinge on seeing "further evidence to build confidence that inflation is moving down sustainably." Chairman Powell also emphasized the Committee's meeting-by-meeting decision process in his reminder that should economic circumstances change, keeping rates higher for longer is not off the table entirely.

	Yield (%)	Spreads (bps)			Returns (%)	
		12/31/2023	9/30/2023	Δ (+/-)	3M	1YR
Investment Grade (Moody's Ratings)						
U.S. Treasury	4.1	-	-	-	5.7	4.1
U.S. Aggregate	4.5	42	52	-10	6.8	5.5
U.S. Credit	5.0	93	111	-19	8.2	8.2
Corporate	5.1	98	120	-22	8.5	8.5
Aa	4.6	47	57	-10	8.3	7.0
A	4.9	84	105	-20	8.2	7.7
Baa	5.3	121	146	-25	8.8	9.5
Crossover	6.0	183	235	-52	8.0	11.2
High Yield (Moody's Ratings)						
U.S. Corporate High Yield	7.8	323	395	-72	7.2	13.4
Ba	6.4	201	265	-64	7.4	11.6
B	7.7	317	396	-79	7.0	13.8
Caa	12.6	751	846	-94	6.9	19.8
Ca-D	19.5	1,173	1,145	-271	5.1	16.4
Structured Product						
U.S. MBS	4.7	46	66	-20	7.5	5.0
ABS	5.0	68	66	+2	3.5	5.5
CMBS	5.3	126	131	-5	5.2	5.4

Source: Bloomberg

Credit spreads tightened across fixed income asset classes apart from asset-backed securities (ABS) in the fourth quarter. Tighter credit spreads indicate lower compensation for taking on additional risk. Fixed income outperformed in the fourth quarter, driven by a falling yield curve. The decline was sufficient to swing full-year returns in the Bloomberg U.S. Aggregate Bond Index to +5.5% when the index had concluded the first nine months of 2023 at -2.1%.

*A basis point is 1/100th of a percentage point.

Portfolio Performance & Positioning

During the quarter we increased our allocation to agency mortgage-backed securities and Treasuries while reducing our exposure to commercial mortgage-backed securities.

Contributors

- A higher allocation to mortgage-backed securities and a lower allocation to Treasuries contributed positively to performance.
- A higher duration relative to the index within our Treasury holdings contributed positively to performance.

Standardized Performance: December 31, 2023

Average Annual Returns (%)

Victory Government Securities Fund	Ticker	Inception Date	Q4 2023	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
								Gross	Net
Fund Shares	USGNX	02/01/91	5.27	4.46	1.10	1.42	4.35	0.53	0.53
Institutional Shares	UIGSX	08/07/15	5.31	4.57	1.19	–	1.19	0.42	0.42
R6 Shares	URGSX	12/01/16	5.32	4.63	1.30	–	1.29	1.81	0.49
Bloomberg U.S. Aggregate Government Intermediate & MBS Index	–	–	5.49	4.62	0.68	1.31	–	–	–

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, 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.

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. Mortgage-backed securities (MBS) 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. In certain circumstances, a lack of a ready market may make it difficult for the Fund to purchase or sell particular investments within a reasonable time and/or at a fair price. **An investment in the Fund(s) is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.** 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. 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.

Consumer Price Index (CPI), a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers.

Detractors

- Less exposure to lower-coupon mortgage-backed securities relative to the index was the primary detractor from performance during the quarter.

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. Aggregate Government Intermediate & MBS Index seeks to measure intermediate U.S. Treasury and Agency unsecured notes and securities backed by pools of mortgages issued by U.S. government agencies, GNMA, Fannie Mae or Freddie Mac.

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. (VCS), an affiliate of Victory Capital Management Inc.

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 Government Securities, R6 was selected from among 13 funds and 58 share classes in the Intermediate U.S. Government fund category over three years for the period ending November 30, 2023.

Victory Government Securities, R6 was selected from among 12 funds and 55 share classes in the Intermediate U.S. Government fund category over five years for the period ending November 30, 2023.

©2024 Victory Capital Management Inc.

V19.031 // 4Q 2023 Victory Government Securities Fund COM