VICTORY HIGH INCOME FUND 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 Fund (Institutional Shares) underperformed its benchmark, the Bloomberg US High Yield 2% Issuer Capped Bond Index, for the quarter ended December 31, 2024.

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%.

* A basis point is one-hundredth of a percentage point (0.01%) and is abbreviated as "bp" (singular) or "bps" (plural).

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.

Standardized Performance: December 31, 2024

Average Annual Returns (%)

Victory High Income Fund	Ticker	Inception Date	Q4 2024	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USHYX	08/02/99	0.24	6.87	3.34	4.04	6.06	0.81	0.81
Institutional Shares	UIHIX	08/01/08	0.12	6.82	3.39	4.12	6.41	0.73	0.72
R6 Shares	URHIX	12/01/16	0.13	6.86	3.58	–	4.52	2.17	0.68
Bloomberg US High Yield 2% Issuer Capped Bond Index	–	–	0.17	8.19	4.20	5.16	–	–	–

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 August 31, 2025.

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. 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. High yield securities may be more volatile, be subject to greater levels of credit or default risk, and may be less liquid and more difficult to sell at an advantageous time or price than higher-rated securities of similar maturity. 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. Convertible securities rank senior to the issuer's common stock, but may be subordinate to senior debt obligations. In part, the total return for a convertible security may depend upon the performance of the underlying stock into which it can be converted. Synthetic convertibles may respond differently to market fluctuations than traditional convertible securities. They are also subject to counterparty risk. Derivatives may not work as intended and may result in losses. 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.

The Bloomberg U.S. High Yield 2% Issuer Capped Bond Index seeks to measure 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 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.

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.**

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