

Victory California Bond Fund // Victory New York Bond Fund // Victory Virginia Bond Fund

Performance Summary

The municipal market experienced negative returns this quarter. Throughout the fourth quarter the Federal Reserve (Fed) continued with easing monetary policy, reducing rates by 25 basis points* (bps) in November and December. Markets experienced notable volatility pre-election, but much subsided heading into December. While markets were uncertain on the number of rate cuts to expect in 2025, a strong economy and increased inflationary pressures linked to policies of the incoming administration caused investors to shift gears and reduce the number of cuts expected from four to two in the next year. The Bloomberg Municipal Bond Index returned -1.22% for the fourth quarter of 2024, beating the Bloomberg U.S. Aggregate Bond Index, which returned -3.06%. Performance was largely driven by the Treasury yield curve, which seesawed throughout the quarter, trending downward prior to the presidential election in November but pushed higher toward the end of the year. Inflation trended sideways while the labor market remained stable, which resulted in the market pricing in stickier inflation and a rise in term premiums. However, the economy continues to show resilience, and credit spreads remained tight. The yield of the Bloomberg Municipal Bond Index rose from 3.32% at the end of the third quarter to 3.74% at the end of the fourth quarter of 2024, which is a taxable-equivalent yield of 6.32% (in the highest tax bracket). We continue to believe that current yield levels offer investors an attractive entry point into the muni market and are even more attractive when you consider the tax-free treatment of most municipal bonds.

Market Review & Outlook

The Bloomberg Municipal Bond Index returned -1.22% for the fourth quarter of 2024 and 1.05% for the year. The fixed income sector saw a broad underperformance due to rising yields. The fourth quarter return for the Bloomberg U.S. Aggregate Bond Index was -3.06%; for the Bloomberg U.S. Universal Index, -2.73%; and for the Bloomberg U.S. Treasury Index, -3.14%.

See below for an update on some of the key metrics in the muni market that we continue to monitor.

- AAA muni yields (the benchmark rate of the safest municipal securities) are higher than they were at the close of 2023. Bloomberg AAA muni yields rose across the yield curve in the fourth quarter. Yields have risen year over year, with the largest increases along the belly of the curve. As a reminder, an increase in bond yields means that bond prices decrease and vice versa. See below for yield changes from 12/31/2023 to 12/31/2024 at several key maturities.
 - 3-year: 2.35% to 2.83%
 - 10-year: 2.27% to 3.13%
 - 30-year: 3.40% to 3.87%

- Fund flows for municipal bond mutual funds totaled approximately \$41 billion for the year, compared to last year's slightly negative flows of approximately -\$16 billion (according to Lipper).
- Credit spreads (the difference between riskier bonds and AAA bonds) tightened slightly throughout the fourth quarter. The BBB credit spread decreased from 0.91% to 0.89% at the end of 2024.

We believe that the creditworthiness of muni borrowers will remain strong in the near term, as many borrowers have maintained improved financial positions post-pandemic, and rainy day funds remain at or near record highs.

We remain committed to our core competency of evaluating, taking, and managing credit risk in the municipal market. We continue to build our portfolios bond-by-bond, relying on our assessment of fundamental credit risk and attempting to capture and distribute incremental yield in an effort to drive higher long-term income to our investors. While there might be some volatility in the muni market in the short term, we remain confident that the right approach is to focus on what matters in the long term.

We believe municipal bonds continue to represent an attractive investment opportunity on a relative basis. At the end of the fourth quarter, the yield on the Bloomberg Municipal Bond Index was 3.74%, which is a taxable-equivalent yield of 6.32% (in the highest tax bracket). After factoring in the benefit of the tax exemption, we believe munis look attractive vs. the (taxable) Bloomberg U.S. Aggregate Bond Index, which yielded 4.91% at quarter-end.

Fund Performance and Positioning

During the fourth quarter, the Victory Virginia Bond Fund (Fund Shares) outperformed its respective benchmark, the Bloomberg Municipal Bond - Virginia Index, for the period ended December 31, 2024. The Victory New York Bond Fund (Fund Shares) and Victory California Bond Fund (Fund Shares) underperformed their respective benchmark indices. See page 3 for other share classes.

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

Victory California Bond Fund

With 39 million people, California has the largest economy in the United States. Its economy is vast, broad, and diverse and continues to recover from the economic and fiscal impact from the peak of the pandemic. The preliminary November seasonally adjusted unemployment rate for California was 5.3% (versus 4.1% for the U.S.), which ranked 48th among the states, but it is a marked improvement from the high in May of 2020 and back to pre-COVID levels.

Governor Newsom sent the State's 2025-2026 balanced budget plan to the Legislature. Even after a tough couple of years resulting in the Legislature having to take significant actions (it withdrew reserves, delayed spending, reduced spending, implemented reversions, and shifted costs to other funds), California's budgetary reserves and liquidity are strong. With that said, the Governor is looking to bolster the state's reserves by increasing the required deposits in the Budget Stabilization Account (BSA) from ten percent to twenty percent of General Fund Taxes. Under Governor Newsom's budget, the State's reserves are expected to be \$26.3 billion at the end of fiscal 2025 and nearly \$17 billion at the end of fiscal 2026. During the third quarter of 2024, California's GDP grew by an annual rate of 3.1%, which is on par with the U.S. GDP growth rate. California's fiscal outlook remains vulnerable to economic performance.

We will continue to monitor the overall performance of the state; however, we continue to view the state as AA- with a stable outlook. The state currently maintains strong ratings of Aa2 with a stable outlook by Moody's, AA- with a stable outlook by S&P, and AA with stable outlook by Fitch Ratings.

Victory New York Bond Fund

The State of New York, with a population of roughly 19.6 million, is the fourth largest state in the nation. A sizable and diverse economic base includes total personal income of more than \$1.6 trillion and is further anchored by New York City, which is a center for world commerce and culture. Steady economic gains are noted, but employment and GDP growth have lagged the nation as a whole. Employment finally returned to pre-pandemic levels in 2024.

Financial performance continues to be sound as fiscal 2025 is expected to be well-balanced. The year is also projected to conclude with substantial financial reserves which ensure future budgetary flexibility. An institutionalized budget process including a multi-year financial plan coupled with quarterly adjustments is an important feature driving ongoing stable operating performance. Material contingent liabilities related to the Metropolitan Transportation Authority are noted. Concern is mitigated, nevertheless, due to the recent implementation of congestion pricing for traffic in portions of Manhattan, which provides funding for a portion of the Authority's expenditure needs.

General Obligation bonds are rated a strong Aa1 (stable) by Moody's, AA+ (stable) by Standard & Poor's, and AA+ (stable) by Fitch.

Victory Virginia Bond Fund

The Commonwealth of Virginia has stabilized after the economic and fiscal impact felt from the COVID-19 pandemic. According to the November 2024 preliminary data, unemployment in Virginia is at 3.0%, slightly higher than last quarter's rate of 2.8%. Labor force participation in the Commonwealth is roughly equivalent to what it was pre-pandemic. The unemployment rate in the U.S. is relatively higher at 4.1%, unchanged since last quarter.

Virginia's GDP growth of 3.2% (annualized) during the third quarter of 2024 was steady versus the previous quarter. The GDP growth rate of the U.S. sped up slightly to 3.1% during the third quarter of 2024, ranking Virginia 22nd by state. The sector that experienced the most GDP growth in both Virginia and the U.S. during the quarter was the retail trade sector. The largest contraction in GDP in Virginia during the quarter was in the finance and insurance sector, while nationally the largest contraction in GDP was in the agriculture, forestry, fishing and hunting sector.

Fiscal 2025 year-to-date results affirm the Commonwealth's solid financial position. Virginia's general fund revenue collections were \$11.2 billion for the period July 2024-November 2024, a 7.3% increase over prior year revenue collections for the same period. Net individual income tax collections, the largest component of general fund revenue collections, were 12% higher year over year. Virginia has \$14.8 billion in cash and investments available as of November 2024 (43% of the 2025 general fund budget). In addition, Virginia's pension burden is one of the lowest in the nation in terms of state GDP. Moody's Investors Service determined that Virginia has a low pension risk based on FY 2023 data.

We continue to view the underlying credit quality of Virginia as exceptionally strong. Presently Virginia remains rated AAA by Fitch, Moody's, and Standard & Poor's.

Standardized Performance: December 31, 2024

Average Annual Returns (%)

Victory California Bond Fund		Ticker	Inception Date	Q4 2024	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
									Gross	Net
Fund Shares		USCBX	08/01/89	-1.11	1.35	0.91	2.21	4.90	0.58	0.57
A Shares, without sales charge		UXABX	08/02/10	-1.17	1.13	0.67	1.97	3.32	0.86	0.78
A Shares, with sales charge (max. 2.25%)		UXABX	08/02/10	-3.38	-1.13	0.21	1.73	3.16	0.86	0.78
Institutional Shares		UCBIX	06/29/20	-1.10	1.40	–	–	0.79	0.60	0.52
Bloomberg Municipal Bond Index		–	–	-1.22	1.05	0.99	2.25	–	–	–
Bloomberg Municipal Bond - California Exempt Index		–	–	-1.09	1.02	0.96	2.23	–	–	–

Victory New York Bond Fund		Ticker	Inception Date	Q4 2024	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
									Gross	Net
Fund Shares		USNYX	10/10/90	-1.60	1.71	0.87	2.02	4.86	0.70	0.63
A Shares, without sales charge		UNYBX	08/02/10	-9.59	-6.78	-0.99	0.96	2.12	0.90	0.75
A Shares, with sales charge (max. 2.25%)		UNYBX	08/02/10	-11.59	-8.86	-1.44	0.73	1.96	0.90	0.75
Institutional Shares		UNYIX	06/29/20	-1.51	1.75	–	–	0.91	0.71	0.60
Bloomberg Municipal Bond Index		–	–	-1.22	1.05	0.99	2.25	–	–	–
Bloomberg Municipal Bond - New York Exempt Index		–	–	-1.20	0.84	0.97	2.17	–	–	–

Victory Virginia Bond Fund		Ticker	Inception Date	Q4 2024	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
									Gross	Net
Fund Shares		USVAX	10/10/90	-0.96	2.05	0.86	1.93	4.65	0.59	0.58
A Shares, without sales charge		UVABX	08/02/10	-1.12	1.82	0.60	1.69	2.68	0.87	0.80
A Shares, with sales charge (max. 2.25%)		UVABX	08/02/10	-3.30	-0.44	0.15	1.46	2.52	0.87	0.80
Institutional Shares		UVAIX	06/29/20	-1.04	2.10	–	–	0.72	0.59	0.52
Bloomberg Municipal Bond Index		–	–	-1.22	1.05	0.99	2.25	–	–	–
Bloomberg Municipal Bond - Virginia Index		–	–	-1.24	0.82	0.84	2.02	–	–	–

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. Fee waivers and/or expense reimbursements may have been in place for some or all periods shown, without which fund performance would have been lower. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index. Investing involves risk including loss of principal. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through June 30, 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.

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. Because the Funds each invest primarily in tax-exempt securities of the states in each of their names, they are more vulnerable to unfavorable economic, political and regulatory changes affecting issuers in each of those respective states. Some income may be subject to local taxes and could be declared taxable and/or subject to the federal alternative minimum tax (AMT) if federal or state tax laws change. 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. 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.

The Bloomberg Municipal Bond Index is considered to be generally representative of investment-grade municipal issues having remaining maturities greater than one year and a national scope.

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 Municipal Bond – California Exempt Index is an unmanaged index considered representative of California investment-grade municipal bonds.

The Bloomberg Municipal Bond – New York Exempt Index is an unmanaged index considered representative of New York investment-grade municipal bonds.

The Bloomberg Municipal Bond – Virginia Index is an unmanaged index considered representative of Virginia investment-grade municipal bonds.

The Bloomberg U.S. Universal Index is an index that represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below-investment-grade.

The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills and STRIPS are not included.

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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