VICTORY TAX EXEMPT INTERMEDIATE-TERM FUND QUARTERLY COMMENTARY

VICTORY income investors®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2024

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.

Portfolio Performance & Positioning

The Victory Tax Exempt Intermediate-Term Fund (fund shares) outperformed its benchmark, the Bloomberg 1-15 Year Municipal Index, for the quarter ended December 31, 2024. See the table on the next page for more information on returns.

Contributors

- Security selection in the Healthcare and Tax Revenue sectors.
- Security selection within AA and A rated bonds.

Detractors

- Slightly longer duration as municipal rates underperformed this quarter.

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

Standardized Performance: December 31, 2024

Average Annual Returns (%)

Victory Tax Exempt Intermediate-Term Fund	Ticker	Inception Date	Q4 2024	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USATX	03/19/82	-0.89	2.29	1.20	2.19	5.76	0.50	0.49
A Shares, without sales charge	UTEIX	08/02/10	-0.95	2.06	0.95	1.94	2.76	0.89	0.74
A Shares, with sales charge (max. 2.25%)	UTEIX	08/02/10	-3.16	-0.24	0.49	1.71	2.60	0.89	0.74
Institutional Shares	UITIX	06/29/20	-0.88	2.33	–	–	1.18	0.53	0.46
Bloomberg 1-15 Year Municipal Index	–	–	-1.06	0.88	1.08	2.04	–	–	–
Bloomberg Municipal Bond Index	–	–	-1.22	1.05	0.99	2.25	–	–	–

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, 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. Some tax-exempt securities, including variable-rate demand notes (VRDNs), are subject to special risks that pose additional liquidity and default risks. 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.

Discussion based on the Fund share class. Other classes have different performance characteristics.

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 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. **The Bloomberg 1-15 Year Municipal Index** is a market-value-weighted index which covers the short and intermediate components of the Bloomberg Municipal Bond Index.

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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