Victory Investment Grade Convertible Fund Quarterly Commentary

VICTORY income investors

As of December 31, 2024

Executive Summary

- After handily outperforming stocks in the third quarter, investment grade convertible returns were more subdued during the final quarter. For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the "Constrained Convertible Index") (VX5C) declined 0.25%, while the ICE BofA Investment Grade U.S. Convertible Index (the "Unconstrained Convertible Index") (VXA1) slipped 1.75%.
- The Victory Investment Grade Convertible Fund (Class A shares without sales charge) underperformed the Constrained Convertible Index (VX5C) and outperformed the Unconstrained Convertible Index (VXA1) in the fourth quarter.
- Historically, convertible returns have closely matched or even exceeded equity returns over the long term, with lower volatility.
- We believe that investment grade convertibles are well positioned in a period of economic uncertainty. With stock valuations at elevated levels, the yield and defensive characteristics of convertibles could become increasingly important.

Market Review

Convertibles participated in the stock market gains in 2024 with the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the "Constrained Convertible Index") (VX5C) posting a 11.59% total return, compared to the S&P 500® Index return of 25.02 %, for an equity participation rate of 46%. Both stocks and convertibles easily bested the Bloomberg U.S. Aggregate Total Return Index ("Bloomberg Aggregate") return of 1.25 %.

Again, led by mega-cap technology names, stocks continued to prosper in 2024, with the S&P 500® Index posting its best back-to-back gains since the late 1990s. Stocks began the year with a modest rise in January, but gains accelerated in February as both Meta and Nvidia spiked after reporting blockbuster earnings, thus setting the tone for much of the year. The S&P 500® Index closed the first quarter up over 10%, its best first quarter since 2019. Inflation concerns and weaker-than-expected GDP growth pressured markets in April, but stocks quickly continued their upward trajectory after Apple announced a large stock buyback and Nvidia released another colossal earnings report. Not all earnings reports were positive, however, as Nike fell 20% late in June on disappointing results. The S&P 500 returned 15.29% in the first half, but returns were very narrow as evidenced by the fact that the group of stocks nicknamed the "Magnificent Seven" – Alphabet (Google), Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla – accounted for approximately 60% of the gains. Equity markets continued to climb in the third quarter as leadership shifted and the narrow return profile experienced in the first half began to broaden out. Progressively falling inflation data and stronger GDP reports bolstered stocks during the quarter. Notable in the third quarter, the Federal Reserve (the Fed) began an easing cycle by cutting the federal funds rate by a half point, surprising some prognosticators who predicted only a quarter-point cut. The Fed ultimately cut rates a further quarter-point in November and December as well.

Stocks fell on the first day of the fourth quarter after Iran sent missiles into Israel. They quickly rebounded, however, spurred on by a positive start to the earnings season, with several large banks reporting good results. As October progressed earnings reports became decidedly mixed, with a balance of positive and negative surprises. Just as it looked like October would be another up month, markets nosedived on the last day as several tech companies, including Meta and Microsoft, relayed disappointing outlooks. Investors reacted positively to the November election results, believing that the prospect of lower taxes and reduced regulation would propel stocks higher. Equities first started moving up on election day, before climbing sharply after the results became known. Stocks rolled over mid-month, retracing nearly half their recent gains as strong retail sales and hawkish comments out of the Federal Reserve reduced hopes of a December rate cut. However, they soon turned upward again, drifting higher for the balance of November. Despite the quarter-point Fed rate cut, stocks fell in December, giving back a good portion of November's election rally. The November 5.87% S&P 500® Index gain was followed by a 2.39% loss in December, which still left returns up a stellar 25.02% on the year.

Like in 2023, equity returns were again quite narrow in 2024. Whereas the "Magnificent Seven" accounted for nearly 60% of 2023 S&P 500® Index returns, they accounted for approximately 53% of returns in 2024. Total return would have been 11.75% in 2024 without the "Magnificent Seven" contribution. Also like in 2023, S&P 500® Index returns were most narrow in the first half of the year before broadening out during the second half.

Fourth Quarter Convertibles

After handily outperforming stocks in the third quarter, investment grade convertible returns were more subdued during the final quarter. For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the "Constrained Convertible Index") (VX5C) declined 0.25%, while the ICE BofA Investment Grade U.S. Convertible Index (the "Unconstrained Convertible Index") (VXA1) slipped 1.75%. The Financials sector contributed the most to returns, followed by Consumer Discretionary. The Utilities, Real Estate, and Industrials sectors subtracted from returns. Top individual index performers included Apollo Global, Booking Holdings, and Ares Management. Bottom performers included NextEra Energy, Uber Technologies, Wells Fargo, and Meritage Homes. For the year, the Constrained Convertible Index (VX5C) returned 11.59% and the Unconstrained Convertible Index (VXA1) returned 9.96%.

New convertible issuance was strong in 2024, with 112 new issues during the year raising $88.6 billion. While most convertible issues are unrated, 17 of the new issues were rated investment grade and added to the Constrained Convertible Index (VX5C). This comes after a very strong year of issuance in 2023 as well.

Portfolio Performance

The Victory Investment Grade Convertible Fund (Class A shares without sales charge) underperformed the Constrained Convertible Index (VX5C) and outperformed the Unconstrained Convertible Index (VXA1) in the fourth quarter. Absolute performance was led by the Financials and Consumer Discretionary sectors. Utilities and Industrials subtracted the most from performance, although the Real Estate and Information Technology sectors also declined. Relative performance was helped by an underweight in Utilities and an overweight in Consumer Discretionary.

Relative performance was hurt by an overweight in Information Technology and by negative security selection in Financials and Industrials. Top performing individual convertibles included Apollo Global, Booking Holdings, and Expedia Group. Bottom performers included NextEra Energy, Parsons Corp., and Uber Technologies.

Portfolio Characteristics

We strive to invest in high-quality convertibles with attractive underlying common stocks. We structure our portfolios by spreading our holdings across the three types of convertibles: 1) equity-sensitive, high-delta convertibles; 2) total return, middle-of-the-road convertibles; and 3) fixed income-oriented convertibles. This structure provides a balance between upside participation during good markets and downside protection during bad markets.

The holdings in the Fund portfolio have an average current yield of 2.9%, a delta (sensitivity to common stock) of 46%, and an average credit rating of BBB. The Constrained Convertible Index (VX5C) yields 3.3% and has a delta of 46% and an average credit rating of BBB. The holdings are diversified across all economic sectors. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Consumer Discretionary, Health Care, Information Technology, and Industrials sectors. We maintain an underweight in the Utilities and Real Estate sectors. We maintain approximately neutral exposure to other sectors.

Buys and Sells

During the fourth quarter, we initiated positions in new issue convertible bonds from Capital Southwest and Digital Realty. Capital Southwest is a Texas-based business development company (BDC) providing debt and equity capital to a variety of companies. Digital Realty is a REIT specializing in technology-related properties. We also initiated a position in a new issue mandatory convertible preferred from alternative asset management company Ares Management. We continued to add to Uber Technologies, which received its first investment grade rating in August. We swapped portions of both NextEra Energy and Parsons Corp. for similar issues with longer maturities. We eliminated our position in a Barclays bond exchangeable into Visa Inc. Finally, we trimmed positions in Booking Holdings, Euronet Worldwide, and Southwest Airlines.

Outlook

We believe that investment grade convertibles are well positioned in a period of economic uncertainty. With stock valuations at elevated levels, the yield and defensive characteristics of convertibles could become increasingly important.

The U.S. economy continues to grow but remains in the later stages of an economic cycle. The Bureau of Economic Analysis (BEA) pegged second quarter GDP growth at 3.0%, up from 1.6% in the first quarter. The latest Bloomberg survey of economists shows a forecast of 2.6% real GDP growth for all of 2024, slowing to 1.8% in 2025. Growth has strengthened modestly so far this year, and the likelihood of near-term recession has dissipated.

Inflation, which has been a primary concern, has been trending lower. Although slightly above expectations, the latest Consumer Price Index reading of 2.5% continued a streak of lower numbers.

Softer inflation coupled with concerns of weakening employment promoted a growing expectation that the Federal Reserve would soon cut rates, which happened in September. The Fed cut the federal funds rate by 50 basis points, surprising some forecasters that predicted only a quarter-point cut. Indications are that further cuts are likely later this year. While short-term rates are coming down, a decline in longer-term rates may prove more stubborn.

Economic growth and robust tech results are pushing up S&P 500® Index earnings. Bloomberg's survey of strategists indicates a median S&P 500® Index EPS forecast of $241 in 2024, putting the index at close to 24 times earnings based on its quarterly closing level of 5762. Current valuation levels may limit upside gains, but valuation on its own is seldom a good market timing indicator.

We remain neutral on stock market prospects, believing markets will continue to be volatile. Stock returns broadened out in the third quarter from the very narrow technology-driven returns of the first half of the year. We believed that a broader market would be good for convertibles, and it clearly was during Q3, as both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) outperformed the S&P 500®.

Historically, convertible returns have closely matched or even exceeded equity returns over long periods, with lower volatility. In general, convertibles have tended to underperform stocks in bull markets, outperform stocks in bear markets, and provide competitive returns in normal markets. In addition, their lack of perfect correlation to either the stock or the bond market makes them a worthy addition to balanced portfolios.

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Investment Performance (%)

Average Annual Returns as of December 31, 2024

Victory Investment Grade Convertible Fund	Ticker	Inception Date	Q4 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
A Shares, without sales charge	SBFCX	4/14/88	-0.50	9.48	9.48	1.46	5.21	6.63	7.43	1.25	1.25
A Shares, with sales charge (max. 2.25%)	SBFCX	4/14/88	-2.75	6.99	6.99	0.69	4.73	6.39	7.36	1.25	1.25
I Shares	VICIX	8/31/07	-0.41	9.84	9.84	1.77	5.59	7.04	6.05	0.94	0.94
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	–	–	-0.25	11.58	11.58	3.74	6.10	8.31	–	–	–
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	–	–	-1.75	9.95	9.95	2.37	4.97	8.39	–	–	–

Source: Victory Capital data analyzed through Zephyr.

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. Other share classes are available. 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 October 31, 2025.

Top 5 Contributors (%)	Contribution to Absolute Return
Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	1.1
Booking Holdings Inc. 0.75% 01-may-2025	1.0
Expedia Group, Inc. 0.0% 15-feb-2026	0.2
Barclays Bank Plc 0.0% 18-feb-2025	0.1
Southwest Airlines Co. 1.25% 01-may-2025	0.1

Top 5 Detractors (%)	Contribution to Absolute Return
NextEra Energy, Inc. 4.6 % Equity Units Cons of Deb 01.09.27 + 1 PC 01.09.25	-0.4
Uber Technologies, Inc. 0.875% 01-dec-2028	-0.3
Parsons Corporation 0.25% 15-aug-2025	-0.3
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	-0.3
Meritage Homes Corporation 1.75% 15-may-2028	-0.3

Top Ten Holdings	% Rep. Account
Booking Holdings Inc. 0.75% 01-may-2025	6.6
Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	5.2
Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	5.0
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	4.9
Ford Motor Company 0.0% 15-mar-2026	4.4
Expedia Group, Inc. 0.0% 15-feb-2026	4.0
NextEra Energy, Inc. 4.6 % Equity Units Cons of Deb 01.09.27 + 1 PC 01.09.25	3.7
Envista Holdings Corporation 1.75% 15-aug-2028	3.5
Southwest Airlines Co. 1.25% 01-may-2025	3.3
Uber Technologies, Inc. 0.875% 01-dec-2028	3.3
Total	44.0

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. 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. 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. 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. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors. Companies in the financial services sector are subject to extensive government regulation that may affect the scope of their activities, the prices they can charge and capital maintenance. The industry is subject to severe competition and can be significantly affected by market conditions, including interest rate changes. 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.

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

The ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C) is a market-capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADRs or cash equivalent and have a market value of at least $50 million. It includes Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. All positions are capped at 5% of market value. **The ICE BofA Investment Grade U.S. Convertible Index (VXA1)** is a market-capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADRs or cash equivalent and have a market value of at least $50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher.

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