A VICTORY CAPITAL INVESTMENT FRANCHISE

INCORE | CAPITAL MANAGEMENT℠

INDEPENDENT • COMPREHENSIVE • REPEATABLE

Victory INCORE Fund for Income Quarterly Commentary

As of December 31, 2018

Commentary

For the quarter ended December 31, 2018, the Fund (Class A shares at net asset value) had a total return of 1.56%. The Fund's benchmark index, the Bloomberg Barclays U.S. 1-5 Year Government Bond Index, had a total return of 1.74%.

Equity markets tanked in the fourth quarter as the Dow fell 11.8%, the S&P lost 14.0% and the Nasdaq dropped 17.5%. Rates fell across the yield curve and still managed to flatten as the Fed raised rates again in December. Potential causes for the meltdown run the gamut from the Fed's quantitative tightening (hiking rates while shrinking the balance sheet), slowdown in China (lead to dramatically lower oil prices) and the ongoing tariff war with China and Europe. Bond prices move opposite yields.

During the quarter, all credit spread sectors underperformed US Treasury bonds, with corporate debt leading the way, (i.e. underperformed most relative to duration neutral US Treasury bonds). Commercial mortgage backed bonds and agency debt were the next in line for underperformance of US Treasury bonds. Mortgage backed securities and asset backed securities were also negative relative to US Treasuries, but decidedly less so. Within the mortgage market, Fannie and Freddie were the same and led GNMA.

Our modest (1.1%) exposure to multi-family GNMA was our most positive contributor to performance. Our 88% allocation to seasoned, high coupon GNMA pass through bonds also had strong positive performance. Our 4% allocation to GNMA structure was positive. Our 7% allocation to US Treasury bonds also contributed positively to our performance in the final quarter of 2018. We continue to buy or create GNMA platinum pools as opportunities arise.

The tariffs and trade war are hampering the global economic expansion. While the Chinese government attempts to mitigate the slowdown, we expect it to continue. Historically, domestic economic data for the first quarter is weak, a fact which may be exacerbated by the prolonged government shutdown. While softer economic data already caused the Fed to acknowledge a data dependent role, expect the yield curve to continue to flatten, as we expect tightening to remain on course despite the dovish rhetoric. Should the yield curve invert further, perhaps recession is on the not so distant horizon. No matter the weather, the goal of our strategy remains consistent to deliver high, reliable income and preservation of capital.

				ANNUALIZED RETURNS					
Investment Performance (%)	**QTR**	**YTD**	**1-YR**	**3-YR**	**5-YR**	**10-YR**	**Since Inception**	**Expense Ratio Gross**	**Net**
Class A, without load	1.56	0.96	0.96	0.75	1.20	2.33	3.50	0.88	0.88
Class A, with max. sales load (2.00%)	-0.52	-1.02	-1.02	0.07	0.80	2.13	3.39	0.88	0.88
Bloomberg Barclays U.S. 1-5 Year Government Bond Index	1.74	1.53	1.53	1.08	1.07	1.39	—		

Since inception results are as of the Fund's inception date, March 26, 1999.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal 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 please visit www.vcm.com. Investment returns reflect total fund operating expenses, net of all fees, waivers, and/or expense reimbursements. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index. Performance for other share classes will vary. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year are annualized.

Risks Associated with Investing in the Fund: There is no guarantee that the Fund will achieve its objective. All investing involves risk, including potential loss of principal. Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price, especially for longer-term issues and in environments of rising interest rates. When interest rates rise bond prices fall. To the extent the Fund invests a greater amount in any one sector, the Fund's performance will depend to a greater extent on the overall condition of that sector, and there is increased risk to the Fund if conditions adversely affect that sector. A significant portion of the Fund is invested in mortgage-backed securities, which are subject to higher prepayment risk than corporate bonds and notes, particularly in periods of declining interest rates, and are subject to the risk that an unexpected rise in interest rates will extend the life of the security beyond the expected repayment time, typically reducing the security's value. In addition, the Fund invests in to-be-announced (TBA) and dollar-roll transactions, which involve the risk that the security will decline in value between the purchase date and the delivery or issue date, the risk that value of the security the Fund is required to buy will be less than an identical security, and the risk that the counterparty will fail to deliver. The return of principal in bond funds is not guaranteed.

Indexes Defined Bloomberg Barclays U.S. 1-5 Year Government Bond Index: Composed of U.S. Treasuries and Agencies with less than five years to maturity. This Index does not include the effect of expenses, is not representative of any specific fund or product and cannot be invested in directly.

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