Victory INCORE Fund for Income
Quarterly Commentary

A VICTORY CAPITAL INVESTMENT FRANCHISE

INCORE | CAPITAL MANAGEMENT℠

INDEPENDENT • COMPREHENSIVE • REPEATABLE

As of September 30, 2019

Investment Considerations:

The return of principal in bond funds is not guaranteed. The principal value of a bond falls when interest rates rise and rises when interest rates fall. During periods of rising interest rates, the value of a bond investment is at greater risk than during periods of stable or falling rates. Bond funds have the same interest rate, inflation, reinvestment, credit, and prepayment risks associated with the underlying bonds in the portfolio.

Commentary:

For the quarter ended September 30, 2019, the Victory INCORE Fund for Income (Class A shares at net asset value) had a total return of 0.44%. The Fund's benchmark index, the Bloomberg Barclays U.S. 1-5 Year Government Bond Index, had a total return of 0.77%.

Most equity markets outperformed in the third quarter, as the Dow Industrials and S&P 500® Index gained 1.2%, while the Nasdaq lost a scant 0.1%. The yield curve flattened as rates fell more at the long end, due to reduced expectations for global growth, while inflation expectations remain well anchored. Bond prices move opposite yields.

During the quarter, agency debt outperformed most relative to duration-neutral U.S. Treasury bonds. Asset-backed bonds and commercial-backed debt were the next in line for outperformance vs. U.S. Treasury bonds. Mortgage-backed securities were slightly positive relative to U.S. Treasuries, and corporate debt returns were flat, neither gaining nor losing ground versus duration-neutral U.S. Treasury bonds. Within the mortgage market, Fannie barely led Freddie in modest gains over duration neutral US Treasury bonds, GNMA slightly lagged duration neutral US Treasury bonds.

Our primary performance driver is the 81% allocation to seasoned, high-coupon GNMA pass-through bonds, which had strong positive performance. Our 5.9% allocation to GNMA CMO bonds was our most positive contributor to performance. Our 12.3% allocation to U.S. Treasury bonds also had strong positive performance. Our relatively modest 1.0% allocation to GNMA multi-family bonds was positive. We continue to selectively buy or create GNMA platinum pools as opportunities arise, and now have slightly more dry powder to deploy should GNMA/MBS take a breather after strong performance over the last few quarters.

The ongoing tariffs/trade wars are not encouraging economic expansion globally. Economic data globally continued to soften, and the Fed slashed rates again by 0.25%. Current consensus is for a 0.25% cut at the October meeting. Expect risk assets to rally on the prospects for lower rates, which means the expansion could potentially be maintained a while longer. Beware the level and quality of corporate debt. While consumers have delivered since the crisis, corporations have gone the other way. No matter the weather, the goal of our strategy remains consistent: to deliver high, reliable income and preservation of capital.

				ANNUALIZED RETURNS				Expense Ratio	
Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception	Gross	Net
Class A, without load	0.44	3.70	5.32	1.15	1.58	2.17	3.55	0.93	0.91
Class A, with max. sales load (2.00%)	-1.61	1.57	3.16	0.47	1.17	1.96	3.45	0.93	0.91
Bloomberg Barclays U.S. 1-5 Year Government Bond Index	0.77	3.88	5.69	1.63	1.69	1.68	—		

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.victoryfunds.com.

Net expense ratio reflects the waiver, reimbursement or recoupment, as applicable, contractually agreed to through February 29, 2020. 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.

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.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice.

SHARES OF THE FUND MAY BE SUBJECT TO SALES CHARGES AND OTHER FEES. AN INVESTOR SHOULD CONSIDER THE FUND'S INVESTMENT OBJECTIVES, RISKS AND CHARGES AND EXPENSES CAREFULLY BEFORE INVESTING OR SENDING MONEY. THIS AND OTHER IMPORTANT INFORMATION ABOUT THE INVESTMENT COMPANY CAN BE FOUND IN THE FUND'S PROSPECTUS. TO OBTAIN A PROSPECTUS, PLEASE CALL 1-800-539-FUND OR VISIT WWW.VICTORYFUNDS.COM. PLEASE READ THE PROSPECTUS CAREFULLY BEFORE INVESTING.

THE FUNDS ARE DISTRIBUTED BY VICTORY CAPITAL ADVISERS, INC. ("VCA"), MEMBER FINRA AND SIPC. VICTORY CAPITAL MANAGEMENT INC., AN AFFILIATE OF VCA, IS THE INVESTMENT ADVISOR TO THE FUNDS AND RECEIVES A FEE FROM THE FUNDS FOR ITS SERVICES.

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