VICTORY HIGH INCOME MUNICIPAL BOND FUND QUARTERLY COMMENTARY

As of September 30, 2019

Fund Performance Summary

The Victory High Income Municipal Bond Fund (the "Fund") (Class A shares without sales charge) outperformed its primary benchmark, the Bloomberg Barclays Municipal Bond Index[1] (the "Index"), in the third quarter of 2019. The Fund returned 1.7% in the quarter, while the Index returned 1.6%.

Yield curve effects had a strong positive impact on performance relative to the Index, as a rally in longer-maturity bonds benefited our longer-duration holdings. An out-of-Index allocation to unrated bonds was a strong contributor. Security selection, particularly in special tax issues, local general obligations, and Baa-rated bonds (most notably those from Chicago, Illinois) also contributed to the Fund's relative performance.

Asset allocation had a negative impact on relative performance, particularly an out-of-Index allocation to bonds rated below Baa3 and an underweight in Aa-rated bonds. Security selection in housing and healthcare also detracted, as one of our healthcare holdings was downgraded.

In the third quarter, the Fund underperformed its secondary index, the Bloomberg Barclays High Yield Municipal Bond Index,[2] which returned 2.8%. That index is composed of bonds that are unrated or rated below investment grade, whereas the Fund is primarily investment grade.

Market Review

Returns were positive, although diminished from prior quarters, in most segments of the securities markets in the third quarter of 2019 as volatility escalated in response to trade tensions and signs of economic weakness at home and abroad.

While employment and consumer spending remained solid in the U.S., and few economists viewed a recession as imminent, sluggish inflation, reduced spending by businesses, and weakening exports helped prompt the U.S. Federal Reserve (the "Fed") to cut its benchmark interest rate twice during the quarter.

With the Fed and other central banks around the world offering support against an increasingly uncertain backdrop that included formal impeachment proceedings against President Trump, a looming Brexit deadline, slowdowns in major global economies, and rising geopolitical risks, the S&P 500 Index[3] returned 1.7% in the third quarter. In fixed income, long-term Treasurys and investment grade corporate bonds outperformed, while high yield bonds, leveraged loans, and some global indexes lagged.

The 10-year Treasury returned 3.2%, while the Bloomberg Barclays US Aggregate Bond Index[4] returned 2.3%. That index's investment grade corporate component returned 3.1%, making it the strongest performer in fixed income except for the 30-year Treasury, which returned 9.2%. The S&P/LSTA Leveraged Loan Index[5] was the weakest of the major domestic indexes, returning 1.0% as floating rate loans lost appeal amid rate cuts.

U.S. Economic Outlook

Global and domestic economic growth is slowing, and U.S. inflation remains modestly but stubbornly below the Fed's target of 2%. The Fed is estimating 2020 economic growth at or slightly below 2.0%. Unemployment, most recently at 3.7%, is expected to remain below 4.0%.

Throughout the third quarter, yields for 3-month Treasurys consistently exceeded yields on 10-year Treasurys, a phenomenon not seen since 2007. During the past 30 years, this type of inversion has been a reliable early indicator of a recession within two years.

While most economists are not forecasting a recession within the year given the very low unemployment rate and positive, if slowing, economic momentum, we believe it would be unwise to ignore signs, including this one, that risks are tilted to the downside.

Rates and Central Banks

Investors have been looking to central banks for stability and support, and central banks in both developed and emerging markets around the world have obliged.

In its September statement, the Fed reiterated an earlier pledge to "act as appropriate to sustain the expansion."

We believe that much will depend on whether investors continue to view the Fed and other key central banks as both committed to supporting growth and capable of doing so. Relatively low rates now leave them with less room to cut rates later should they need to fight a recession.

Market Outlook

We believe that while the Fed's renewed focus on supporting economic growth may bear fruit slowly for the U.S. economy, it is already having a meaningful impact on securities markets. For the time being, investors appear wary but reassured that they will be somewhat protected by accommodative monetary policy, which helps soothe credit market volatility and encourage risk taking.

However, recent volatility and inverted Treasury yields serve as a reminder that fundamental economic and business cycle risks may be growing, and a market leaning too heavily on central bank support could be fragile if the Fed proves unwilling or unable to prevent a downturn. We continue to view global growth concerns, domestic politics, trade tensions, energy prices, and Brexit as key potential catalysts for shifts in risk.

Portfolio Review

During a generally solid third quarter for municipal bonds, we continued to focus on longer-duration issues, while maintaining overweight exposures to Baa-rated and unrated bonds. As spreads compressed at the lower end of the ratings spectrum due to relatively tight supply and strong demand for mutual funds, this positioning had a favorable impact on performance relative to the Index.

We remained substantially underweight in state general obligations and overweight in industrial bonds.

Municipal Outlook

We expect supply to remain ample in most ratings categories as issuers take advantage of steady demand and low rates. Individual investors dominate the municipal market, and many who live in high-tax states are seeking out municipal assets to offset the loss of other tax deductions.

We continue to favor bonds from those states since we believe the relatively stable retail demand there can allow us to react quickly to rising interest rates or other negative developments in the market.

As always, we seek bonds that we believe represent a good value. Due to the number of issuers and the inherent inefficiencies in the municipal market, in-depth research remains a top priority.

Performance

AVERAGE ANNUAL TOTAL RETURNS AS OF 9/30/19

Victory High Income Municipal Bond Fund (Class A – RSHMX)	QTR	1-YR	3-YR	5-YR	Since Inception*
without sales charge	1.66%	7.47%	3.19%	4.35%	5.24%
with maximum sales charge (2.00%)	-0.38%	5.35%	2.49%	3.92%	5.02%
Bloomberg Barclays Municipal Bond Index[1]	1.58%	8.55%	3.19%	3.66%	—
Bloomberg Barclays High Yield Municipal Bond Index[2]	2.84%	10.02%	5.88%	5.99%	—

*Since inception results are as of the Fund's inception date, 12/31/09.
Returns include reinvestment of dividends and capital gains. Performance returns for periods greater than one year are annualized.

Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. Performance current to the most recent month-end is available at www.vcm.com.

The Fund's total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.02%/0.80%. Net expense ratio reflects the waiver, reimbursement or recoupment, as applicable, contractually agreed to through April 30, 2020. See the prospectus for details.

There is no guarantee that the Fund will achieve its objective. 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. The Fund may invest in below-investment-grade debt securities ("junk bonds"), which may be less liquid and are subject to greater risk of loss than investment-grade securities. Such securities may experience greater price volatility and higher default rates during periods of adverse market conditions.

Bond credit quality ratings are provided by Barclays and reflect the middle rating received from Moody's, Standard & Poor's, and Fitch in cases where all three agencies have provided a rating. If only two agencies rate a security, the lowest rating is used. If only one agency rates a security, that rating is used. Ratings are measured on a scale that ranges from AAA (highest) to D (lowest). Ratings are subject to change.

[1] The Bloomberg Barclays Municipal Bond Index is an unmanaged index considered to be generally representative of investment grade municipal issues having remaining maturities greater than one year and a national scope.

[2] The Bloomberg Barclays High Yield Municipal Bond Index is an unmanaged index that is generally considered to be representative of the high yield municipal bond market and is composed of nonrated bonds and bonds rated below investment grade.

[3] The S&P 500® Index is an unmanaged market-capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

[4] The Bloomberg Barclays US Aggregate Bond Index is generally considered to be representative of U.S. investment grade bond market activity.

[5] The S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index covers more than 1,100 loan facilities and reflects the market-value-weighted performance of U.S. dollar–denominated institutional leveraged loans.

A Fund's portfolio differs significantly from the securities held in an index. An index is unmanaged and not available for direct investment.

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. The securities highlighted, if any, were not intended as individual investment advice.

An investor should consider the fund's investment objectives, risks, charges and expenses carefully before investing or sending money. This and other important information about the fund can be found in the fund's prospectus, or, if applicable, the summary prospectus. To obtain a copy, visit www.vcm.com. Please read the prospectus carefully before investing.

The Funds are distributed by Victory Capital Advisers, Inc., member FINRA and SIPC, an affiliate of Victory Capital Management Inc.

Park Avenue Institutional Advisers LLC is the Fund's sub-adviser.

For more information about separate accounts and mutual funds, contact Victory Capital Management at 800.991.8191 or visit vcm.com.

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