VICTORY HIGH YIELD FUND QUARTERLY COMMENTARY

As of September 30, 2019

Fund Performance Summary

The Victory High Yield Fund (the "Fund") (Class A shares without sales charge) returned 2.3% in the third quarter of 2019, outperforming its benchmark, the Bloomberg Barclays US Corporate High Yield Bond Index[1] (the "Index"), which returned 1.3%.

Security selection was the main source of the outperformance. Asset allocation was also positive, with an underweight in the energy sector an important contributor to the outperformance. The Fund's overweight in CCC-rated bonds and underweight in BB-rated bonds detracted from relative performance, but strong security selection in both areas more than offset the negative impacts.

Security selection in healthcare detracted from relative performance, as did an underweight in wireless.

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[2] 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[3] 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[4] 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.

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.

High Yield Market Recap

The updraft that lifted the high yield market in the first quarter and most of the second exhausted itself in the third quarter. Excluding some significant crimson that was gushing from the energy sector, high yield returned only its coupon and a smidgen of capital appreciation.

The Treasury rally that prevailed throughout the third quarter served as a headwind for high yield. Unrelenting until the end of August, the Treasury rally paused briefly in early September, only to renew when the missile attack on Saudi refining assets in mid-September triggered another flight to safety. The Index ended up significantly underperforming both Treasurys and investment-grade corporate bonds, demonstrating the return disparity between rate-sensitive assets like Treasurys and fixed-coupon levered bonds.

Market technicals remained strong and steady during the quarter. Flows into high yield mutual funds were nearly 2.5 times the second quarter's volume. New issues were generally well-received and new-issuance volumes continued to outpace 2018 levels by over 20%. We view it as a positive that proceeds are largely being used to refinance and extend existing debt maturities, thus pushing out near-term refinancing risk and enhancing corporate liquidity. An increase in the high yield default rate to 3.1% during the quarter was largely due to trouble in the high yield energy sector, which returned -4.6% in the quarter.

Portfolio Review

We did not make significant tactical changes to the portfolio during the third quarter, and that produced both negative and positive results.

We slightly increased our already-significant exposure to floating rate loans during the quarter by adding to existing positions. The S&P/LSTA Leveraged Loan Index underperformed high yield by 30 basis points, creating some compelling relative value opportunities among the loans of companies we already viewed favorably.

After some breathtaking volatility in September, oil prices ended the quarter approximately 7% lower and high yield energy bonds continued to underperform. Our continued underweight in energy as a whole (and our complete absence from the exploration & production and oil services segments) allowed us to again sidestep that rout. Despite the possibility of idiosyncratic rallies in energy, we anticipate further market capitulation to what we believe is an unfavorable supply-and-demand dynamic for oil.

Rating shifts within the Fund were limited given our view that tighter spreads are making some sections of the market less attractive. We remained underweight in BB-rated bonds, which we view as most vulnerable to interest rate and duration risk and which remain highly valued compared with loans. We roughly maintained the level of CCC-rated exposure in the third quarter, recognizing our desire to capture excess return from credit-specific opportunities while remaining nimble enough to reduce this exposure quickly if we experienced sustained economic weakness.

High Yield Market Outlook

The dynamic playing out at the upper end of the high yield market reminds us a little bit of the midnight rush at the only pizza place in town that's still open when the bars close. It may be an overpriced joint with indifferent service and a product on par with the frozen foods section at the local supermarket, but it's where the action is at a certain time of night.

High yield has attracted some groups of investors in much the same way. They don't seem to mind overpaying for limited value since they view highly liquid, highly rated bonds as the only game in town. As a result, demand at the upper end of the high yield market has squeezed spreads and new issue coupons to the brink of investment grade levels.

We suspect that those gorging on these slices of the market may end up with reflux in the form of interest rate (duration) risk. At current levels, BB-rated bonds carry unprecedented duration risk, which is sensitivity to changes in interest rates. We view this risk as far and away the most significant current threat to total return. At present levels, recent newly issued BB-rated bonds will surrender an entire year of coupon income with only a 60-basis-point upward shift in the yield curve.

We believe the outlook for the fourth quarter is mixed. Given high yield's strong overall performance in 2019, weaker issues may be subject to selling pressure as portfolio managers attempt to avoid negative surprises at year-end. The impeachment proceedings against President Trump could create all manner of unintended consequences for investors, some of them potentially positive. For instance, the hearings could put additional pressure on the administration to ease the trade dispute with China; they could also distract lawmakers from passing legislation such as drug price controls that could increase regulatory risks in healthcare and other sectors.

We are continuing to focus on mid- to lower-rated issues that we believe have clear catalysts for improvement. At the same time, we continue to choose certain high-quality secured loans over bonds, often from the same issuer, when the bonds carry substantial duration risk.

Despite some high valuations in high yield, we believe we can continue to find attractive total return opportunities beyond simply "coupon-clipping."

Performance

AVERAGE ANNUAL TOTAL RETURNS AS OF 9/30/19

Victory High Yield Fund (Class A – GUHYX)	QTR	1-YR	3-YR	5-YR	10-YR	Since Inception*
without sales charge	2.31%	7.22%	8.04%	5.43%	7.46%	6.03%
with maximum sales charge (2.00%)	0.33%	5.14%	7.30%	5.00%	7.25%	5.93%
Bloomberg Barclays US Corporate High Yield Bond Index[1]	1.33%	6.36%	6.07%	5.37%	7.94%	6.89%

*Since inception results are as of the Fund's inception date, 9/1/98.
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 1.12%/1.00%. 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 invests 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 US Corporate High Yield Bond Index is generally considered to be representative of the investable universe of the U.S. dollar–denominated high-yield debt market.

2 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.

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

4 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.

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.

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

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.victoryfunds.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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