

VICTORY STRATEGIC INCOME FUND QUARTERLY COMMENTARY



As of September 30, 2019

Fund Performance Summary

In the third quarter of 2019, the Victory Strategic Income Fund (the "Fund") returned 2.0% (Class A shares without sales charge), underperforming its benchmark, the Bloomberg Barclays US Aggregate Bond Index¹ (the "Index"), which returned 2.3%.

An out-of-benchmark allocation to a high yield exchange-traded fund (ETF) was the chief detractor from performance relative to the benchmark. Security selection, particularly in BBB-rated corporate bonds with maturities of 3 to 10 years, also detracted. As reflected in an underweight in investment grade corporate bonds with maturities over 10 years, the Fund had a shorter duration than the Index, and this also detracted from relative performance.

Despite negative security selection in 3- to 10-year BBB-rated corporates, this section of the market contributed to relative performance as the positive impact of a substantial overweight offset the negative effect of security selection. Strong security selection in BBB-rated corporates with maturities over 25 years also contributed to relative performance, as did an underweight in Treasuries.

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 Index² returned 1.7% in the third quarter. In fixed income, long-term Treasuries 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 returned 2.3%. The 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 Index³ 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 2.0%. 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 Treasuries consistently exceeded yields on 10-year Treasuries, 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.

Global Outlook

Economic growth in much of the world appears to be slowing. The Organization for Economic Cooperation and Development forecasts 2019 global economic growth of 2.9%, compared with 3.6% in 2018. Trade-related uncertainty remains a key issue. Most investors still appear to expect that all sides will ultimately shy away from an all-out trade war that is in no one's best interest, but should that assumption prove wrong, the consequences for U.S. and global economic growth could be severe.

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 quarter when we believed that risks were increasing and we viewed 10-year Treasuries as somewhat overvalued, we sought to reduce risks within the Fund by adding to Treasuries of various maturities, moving up in credit ratings, and eliminating the allocation to a high yield exchange-traded fund.

We maintained an underweight in agency mortgage-backed securities (MBS) and pass throughs, while reducing (but not eliminating) a modest overweight in non-agency MBS.

As we attempt to balance the genuine benefit of current Fed policy and the minimal risk of imminent recession with the fact that the economy is decelerating and there are few obvious catalysts to boost returns, we believe it is important to take a disciplined approach to risk. We are not counting on broad-based spread tightening or short-term trading. We currently see the greatest potential benefit in generating carry, which means holding

investments for yield where we believe that the yield compensates well for credit risks. We currently see most of those opportunities in investment grade corporate bonds.

As always, we believe that careful research and active portfolio management are the keys to investment success.

Victory Strategic Income Fund (Class A – RSIAX)	QTR	1-YR	3-YR	5-YR	Since Inception*
without sales charge	2.02%	9.62%	4.48%	3.52%	4.54%
with maximum sales charge (2.00%)	-0.03%	7.42%	3.76%	3.11%	4.32%
Bloomberg Barclays US Aggregate Bond Index ¹	2.27%	10.30%	2.92%	3.38%	—

*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 1.09%/0.95%. 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.

¹The Bloomberg Barclays US Aggregate Bond Index is generally considered to be representative of U.S. investment grade bond market activity.

²The 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.

³The 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.

©2019 Victory Capital Management Inc.

V17.109 // 3Q 2019 VC Strategic Income Fund COM

