IN BRIEF

INCORE | CAPITAL MANAGEMENT℠

INDEPENDENT • COMPREHENSIVE • REPEATABLE

Anything but ordinary

Three reasons to diversify with an investment grade convertibles allocation.

Convertible bonds give some investors pause, which is interesting when you realize that convertibles have existed since the 1800s, when the nascent U.S. railroad industry began issuing them to raise much-needed capital.

Despite rumors of its demise after the 2008 financial crisis, the convertibles market is sizable and growing; issuance in the U.S. totaled $52 billion in 2018, and is expected to exceed that number in 2019.* Convertibles have a demonstrated resilience that should surprise no one given their potential benefits.

THE POTENTIAL BENEFITS

1. Historically attractive, risk-adjusted returns
2. Potentially lower interest rate risk
3. Uncommon diversification features

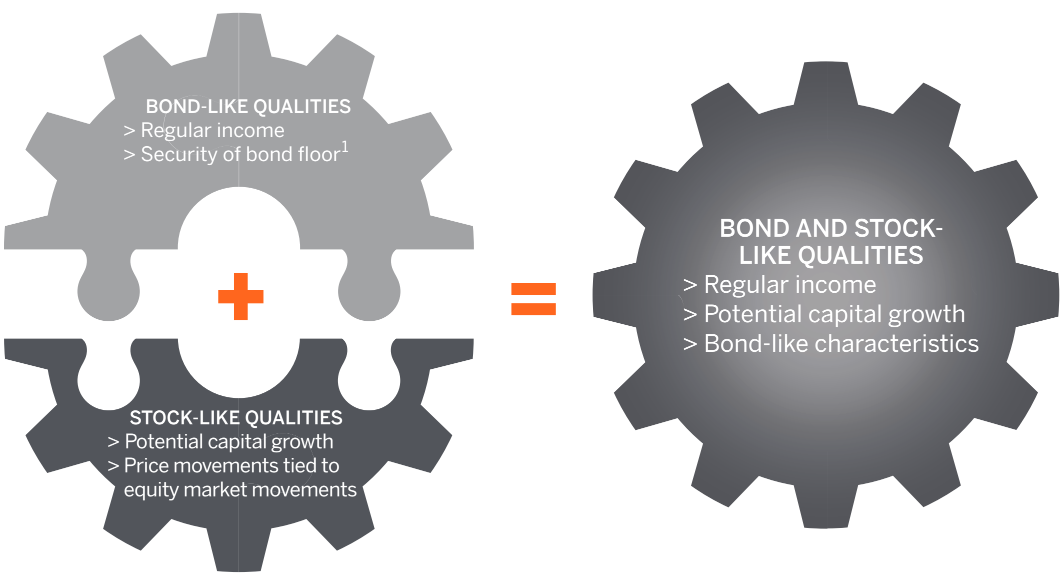
While it's true that convertibles don't fit neatly into the traditional asset class boxes, INCORE Capital Management believes this is precisely what makes them attractive. In fact, their approach seeks to capitalize on the benefits of the asset class by focusing on high-quality credit, or investment grade convertibles.

CONVERTIBLES, DECONSTRUCTED

Convertibles are simply corporate bonds with an embedded call option on the stock of the issuing firm, meaning they can be converted into a fixed number of common stock shares at a specified price.

As a result, they can exhibit qualities of both bonds and stocks, and give investors a unique opportunity to diversify by changing the risk-return profile of a portfolio.

A convertible is comprised of a bond component and an equity component (in the form of an embedded call feature).



** Source: Bank of America Merrill Lynch, as of March 31, 2019.*

Investing involves risk including loss of principal. Convertible securities rank senior to the issuer's common stock, but may be subordinate to senior debt obligations. In part, the total return for a convertible security may depend upon the performance of the underlying stock into which it can be converted. Synthetic convertibles may respond differently to market fluctuations than traditional convertible securities. They are also subject to counterparty risk.

Diversification neither assures a profit nor eliminates the risk of experiencing investment loses.

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1 Historically attractive, risk-adjusted returns

Due to their non-traditional composition, convertibles have the potential to earn equity-like returns with significantly less volatility over total market cycles. Standard deviations[2] and sharpe ratios[3] for the asset class have been attractive relative to equities over both the long and short term.

As a result, convertibles may provide a measure of downside protection against falling equity markets. Over the long term, investment grade convertibles have lost less in falling markets while capturing commensurate upside returns.

Potential to capture stock-like returns with less risk

Investment grade (IG) convertibles captured 64% of the equity upside[4] with nearly 40% less risk vs. the S&P 500® Index,[5] as measured by standard deviation between January 2012 and March 2019.

UPSIDE/DOWNSIDE CAPTURE[4]		STANDARD DEVIATION		SHARPE RATIO	
Upside capture	Downside capture	IG Convertibles	S&P 500	IG Convertibles	S&P 500
64.20%	52.40%	6.83%	10.81%	1.59	1.27

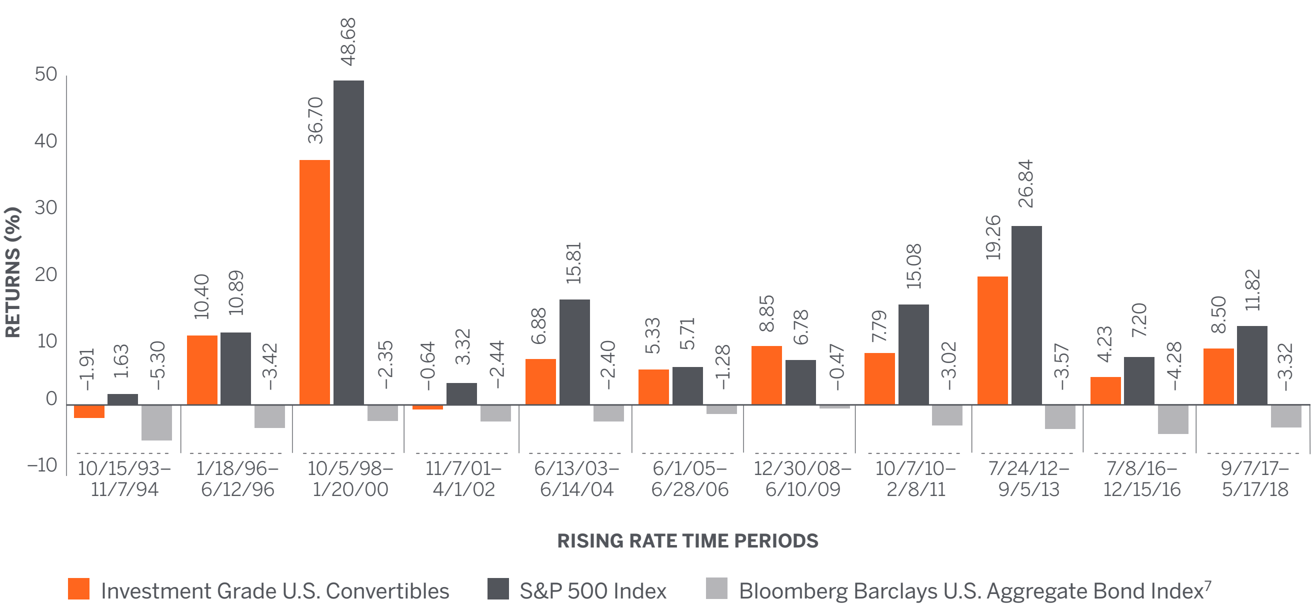
Source: Zephyr, as of March 31, 2019, IG convertibles represented by VX5C Index.[6]

2 Potentially lower interest rate risk

Due to their low correlation to traditional bonds, investment grade convertibles may be an effective hedge against rising interest rates. During the most significant rising rate periods of the last 20 years (when rates rose by 100 basis points or more) they outperformed traditional bonds. And, during some turbulent times (like the tech bubble of the late 1990s and the global financial crisis of 2008–09) investment grade convertibles also outperformed the S&P 500 Index.

Investment grade convertibles have historically outperformed traditional bonds in rising rate environments

While traditional bond returns were negative in all 11 rising rate periods below, investment grade convertible returns were positive in 9 out of those 11 periods.



Sources: Morningstar, Bloomberg, and U.S. Department of the Treasury. **Past performance does not guarantee future results.**

Traditional bond returns represented by Bloomberg Barclays U.S. Aggregate Bond Index. Investment Grade U.S. Convertible returns represented by the VX5C Index in rising rate periods after the index inception date of 1/12/2012. In periods prior to 1/12/2012, Investment Grade U.S. Convertible returns are represented by the VXA1 Index.[8]

③ Uncommon diversification features

Whether investors are looking to capture equity-like returns in their fixed income portfolio, mitigate downside risk in their equity portfolio, or potentially hedge against rising interest rates, convertibles present an opportunity to diversify with a uniquely-correlated asset class.

May reduce overall portfolio volatility

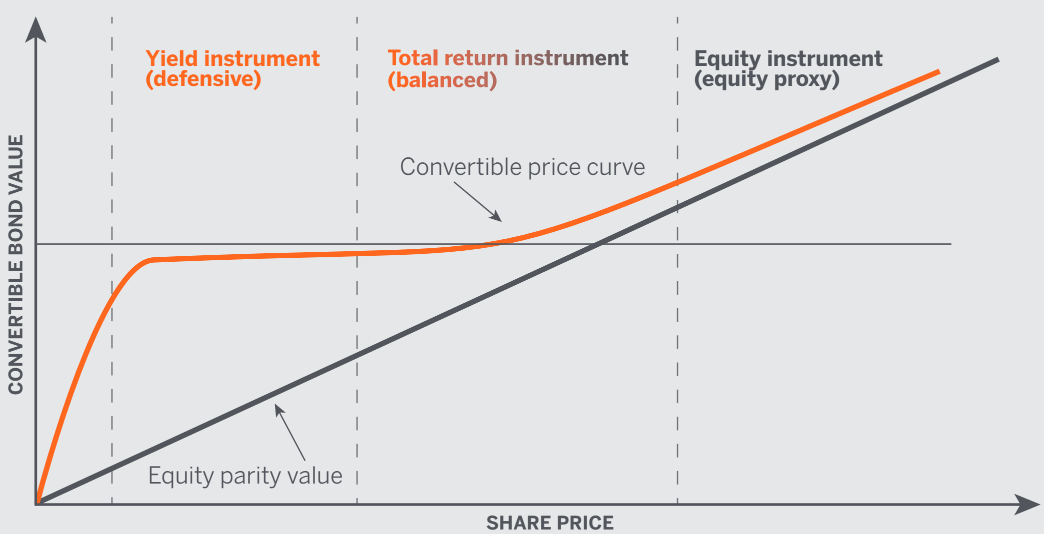
Since they are not perfectly correlated to traditional asset classes like bonds or stocks, investment grade convertibles have the potential to provide additional and distinctive diversification.

CORRELATION MATRIX *January 2012–March 2019*	1	2	3
1—Investment Grade U.S. Convertibles	1.00		
2—S&P 500 Index	0.87	1.00	
3—Bloomberg Barclays U.S. Aggregate Bond Index	0.05	−0.08	1.00

Source: Zephyr.
Correlation Matrix illustrates results for the period between January 2012–March 2019.
Investment Grade U.S. Convertibles represented by VX5C Index.

Hybrid behavior of convertible bonds

Convertibles behave on a spectrum of bond-like to equity-like. At issuance, they are typically in the balanced zone, and shift based on movements in the underlying share price on interest rates movements in the bond market.



Convertibles can be classified in one of three ways: as a yield instrument, a total return instrument, or an equity instrument. How a portfolio balances these three types of convertibles determines its behavior on the spectrum of bond-like to stock-like (often illustrated by delta[9]).

The example provided is hypothetical and used for illustration purposes only.

THE INCORE ADVANTAGE

OUR PHILOSOPHY We believe that the optimal manner in which to enhance the volatility-reducing behavior of the convertible asset class is through high-quality companies, with stable to improving credit profiles, that may maintain their financial flexibility during both favorable and unfavorable markets conditions.

OUR APPROACH We take a balanced approach to portfolio construction, by ensuring that all three types of convertibles are represented within the portfolio. We focus on high-quality credit, which seeks to reduce volatility relative to all-quality credit.

OUR EXPERIENCE We have employed the same investment process and philosophy since our team's inception 25 years ago, which has resulted in a record of accomplishment throughout numerous market cycles.

2018
THOMSON REUTERS
LIPPER FUND AWARDS
UNITED STATES

	SHARE CLASS	TICKER
Victory INCORE Investment Grade Convertible Fund	I	VICIX

Class I shares are not available to all investors. Please see prospectus for details.

For more information on the INCORE Investment Grade Convertible Fund, please contact your financial advisor or visit **www.vcm.com**

1 **Bond Floor** is the level at which a bond with the same maturity and credit risk would trade.

2 **Standard deviation** measures historical volatility. Higher standard deviation implies greater volatility.

3 **Sharpe ratio** measures risk-adjusted performance by dividing the portfolio's excess returns (returns above a "risk-free" rate such as a Treasury bill) by the standard deviation of those returns. The higher the ratio, the better the portfolio's return per unit of risk.

4 **Upside/Downside capture** shows what percentage of the market's performance (as evidenced by an appropriate market index) the manager "captured." Up market capture is the extent to which the strategy gained value relative to the index over months when the index achieved gains. Down market capture is the extent to which the strategy lost value over months when the index declined. A measure of 100% means the strategy results went up (or down) exactly the same amount as the broader market index.

5 The **S&P 500® Index** is a market capitalization-weighted index that measures the performance of the common stocks of 500 leading U.S. companies.

6 The **ICE BofAML Investment Grade US Convertible 5% Constrained Index (VX5C) Index** is a market capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADRs or cash equivalent and have a market value of at least $50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. This Index does not include the effect of expenses and is not representative of the Fund and cannot be invested in directly. All positions are capped at 5% of market value.

7 The **Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index of publicly issued investment grade corporate, U.S. Treasury and government agency securities with remaining maturities of 1 to 3 years.

8 The **ICE BofAML All Investment Grade US Convertibles (VXA1) Index** is a market capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADR's or cash equivalent and have a market value of at least $50 million. Composed of Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. This Index does not include the effect of expenses and is not representative of the Fund and cannot be invested in directly.

9 **Delta** is used to measure equity sensitivity. Deltas can range from 0.0 to 1.0, and ultimately represent the relationship between a convertible and a stock's behavior. The higher the delta, the more equity-like the behavior. The lower the delta, the more debt-like the behavior. Specifically, delta measures how a percentage change in stock price impacts the corresponding expected percentage change in convertible price. A convertible with a delta of 0.60, for example, will capture 60% of a 1% move in the underlying common stock.

The Fund may invest in below-investment-grade securities, sometimes known as "junk bonds." These securities generally offer higher yields than investment-grade securities but carry a higher risk of default and may be considered speculative. Investors should be able to assume the risks of investing in below-investment-grade securities.

The return of principal in bond funds is not guaranteed. The principal value of a bond falls when interest rates rise and rise 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.

Political and economic risks, along with other factors, could adversely affect the Fund's investments in U.S.-traded foreign companies, ADRs and GDRs.

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 investment company can be found in the fund's prospectus, or, if available, the summary prospectus. To obtain a copy, visit *www.vcm.com*. Read the prospectus carefully before investing.

Thomson Reuters Lipper Fund Awards: Lipper classification averages are calculated with all eligible share classes for each eligible classification. The calculation periods extend over 36, 60 and 120 months. The highest Lipper Leader for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner over three, five, or 10 years. Victory INCORE Investment Grade Convertible Fund Class I Shares was selected from among 14 funds and 63 share classes in the convertible securities category over five years for the period ending November 30, 2017. For a detailed explanation, please review the Lipper Leaders methodology document on *http://lipperalpha.financial.thomsonreuters.com/lipper/our-methodology/*.

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. INCORE Capital Management is a Victory Capital Management Franchise.

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