

INCORE Short Government Quarterly Commentary

As of September 30, 2019

Investment Considerations:

The return of principal in our strategy 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. Our strategy has 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 strategy (gross of fees) had a total return of 0.67%. The strategy's benchmark index, the Bloomberg Barclays U.S. 1-5 Year Government Bond Index, had a total return of 0.77%.

Most equity markets had positive total return 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.

Composite Performance (%)	QTR	YTD	1-YR	ANNUALIZED RETURNS			
				3-YR	5-YR	10-YR	Since Inception*
INCORE Short Government (gross of fees)	0.67	4.41	6.09	2.00	2.47	3.10	6.18
INCORE Short Government (net of fees)	0.59	4.14	5.72	1.64	2.12	2.74	5.65
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 October 1, 1987

Investing involves risk and there is no guarantee any investment will be profitable specifically in extreme market conditions. Past performance should not be considered indicative of future results. Gross and Net returns were calculated on a total return basis, including all dividends and other earnings and are net of non-reclaimable taxes, if any, and transaction costs.

Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. The composite net-of-fees returns shown reflect gross performance less actual investment management fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part II of its Form ADV.

Index returns are provided to represent the investment environment during the periods shown.

Information related to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

The Short Government strategy invests in 2-10 year weighted average maturity mortgage-backed obligations and collateralized mortgage obligations issued by the Government National Mortgage Association and normally less than 5 year weighted average maturity obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities.

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.

Issued in the USA by Victory Capital Management, Inc. 4900 Tiedeman Road 4th Floor, Brooklyn, OH, 44144, which is regulated by the U.S. Securities and Exchange Commission.

V17.042 // 3Q 2019 INCR Short Govt Strategy COM

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

FOR INSTITUTIONAL INVESTOR USE ONLY. NOT FOR USE WITH RETAIL INVESTORS.

