

Executive Summary

- For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) declined 0.17%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) declined 0.19%.
- The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the fourth quarter.
- Historically, convertible returns have closely matched or even exceeded equity returns over the long term, with lower volatility.
- Investment grade convertibles appear well positioned within an environmental backdrop of positive economic growth, elevated valuations, and continued volatility. We believe that the yield and defensive characteristics of convertibles are increasing in importance.

Market Review

Investment grade convertibles advanced in 2025, participating in the strong stock and bond markets. For the year, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) gained 7.43%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) gained 8.14%. The S&P 500® Index gained 17.88% and the Bloomberg U.S. Aggregate Total Return Index (“Bloomberg Aggregate”) returned 7.30% in 2025.

Stocks continued to advance in the fourth quarter, capping off a third year of strong gains in the markets. For the quarter the S&P 500® Index gained 2.66%, the majority of which came in October, but that month did not start out well. President Trump’s threat of massive tariffs on Chinese goods in reaction to tightened controls on rare-earth minerals caused stocks to tumble. The S&P 500® Index and the Nasdaq Composite Index dropped 2.7% and 3.6%, respectively, on Friday, October 10, the day of Trump’s threats. The president soothed investors’ nerves over the weekend and stocks quickly bounced back, beginning a run higher that lasted for most of the month. As expected, the Federal Reserve cut the discount rate by a quarter point during its October meeting. November was an up-and-down month that finished basically flat. A furious late-month rally based on increasing hopes of a Fed rate cut counteracted weakness in AI-related technology stocks that at one point had the S&P 500® Index down over 4% month-to-date. Stocks drifted higher over the first half of December, reacting to anticipation and eventually realization of a Fed rate cut. The Fed signaled it may be finished cutting rates for now, indicating a balanced situation between its dual mandate of price stability and maximum employment. Stocks dropped sharply during a weeklong rout triggered initially by Broadcom’s quarterly report that dampened enthusiasm for AI infrastructure spending, and later by concerns about Oracle’s AI-related debt buildup. Stocks reversed course again, beginning a Santa Claus rally that pushed the S&P 500 to an all-time intraday high on December 26. Santa Claus apparently left a few lumps of coal, as stocks trailed off during the last few days of the year. Notable in the month: After a two-month delay, the Commerce Department reported that in the third quarter GDP rose 4.3%, a percentage point above expectations.

Fourth Quarter Convertibles

For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) declined 0.17%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) declined 0.19%. Sector performance was led by the Real Estate sector, followed closely by Financials. The Industrials sector was the largest drag on returns, followed by Utilities and Consumer Discretionary. Top individual index performers included NextEra Energy, Apollo Global Management, Ventas Realty, and Expedia Group. Bottom performers included Uber Technologies, WEC Energy Group, Southern Company, and Euronet Worldwide.

New convertible issuance was very strong in 2025, with 151 new issues during the year, raising a record \$118.9 billion. While most convertible issues are unrated, 12 of the new issues were rated investment grade and added to the Constrained Convertible Index (VX5C). This comes after strong years of issuance in 2023 and 2024 as well.

Portfolio Performance

The Victory Investment Grade Convertible Securities Strategy (the “Strategy”) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the fourth quarter. Absolute performance was led by the Real Estate sector, followed by Materials and Financials. The Industrials sector subtracted from returns. Relative performance was helped by an underweight in Utilities and by positive security selection in Materials, Real Estate, and Consumer Discretionary. Relative performance was hurt by an overweight in Industrials. Top-performing individual convertibles included Albemarle Corp., Apollo Global Management, Ventas Realty, and NextEra Energy. Bottom performers included Uber Technologies, Parsons Corp., Barclays Bank, and Meritage Homes.

Portfolio Characteristics

We strive to invest in high-quality convertibles with attractive underlying common stocks. We structure our portfolios by spreading our holdings across the three types of convertibles: 1) equity-sensitive, high-delta convertibles; 2) total return, middle-of-the-road convertibles; and 3) fixed income-oriented convertibles. This structure provides a balance between upside participation during good markets and downside protection during bad markets.

The holdings in the Strategy’s portfolio have an average current yield of 3.3%, a delta (sensitivity to common stock) of 50%, and an average credit rating of BBB. The Constrained Convertible Index (VX5C) yields 3.5% and has a delta of 50% and an average credit rating of BBB. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Health Care, Industrials, and Information Technology sectors. We maintain an underweight in the Utilities sector. We maintain approximately neutral exposure to other sectors.

Buy & Sells

During the fourth quarter, we initiated positions in convertible bonds from Exelon Corp. and Zoetis Inc. We also initiated a position in a mandatory convertible preferred from Southern Company. Exelon is an electric utility holding company serving the Chicago and Mid-Atlantic regions. Zoetis specializes in animal health medicines. Southern Company is an Atlanta-based electric utility. We added positions in two other utilities – CMS Energy Corp. and WEC Energy Group. We added to positions in alternative asset managers Apollo Global Management and KKR & Co.

We also added to positions in payment processor Euronet Worldwide, ride-hailing company Uber Technologies, and home builder Meritage Homes. During the quarter we trimmed several holdings, including Expedia Group, Ford Motor Company, NextEra Energy, and Kite Realty. We allowed New Mountain Finance Corp. to mature at par.

Outlook

Investment grade convertibles appear well positioned within an environmental backdrop of positive economic growth, elevated valuations, and continued volatility. We believe that the yield and defensive characteristics of convertibles are increasing in importance.

The U.S. economy continues to grow, but despite a better-than-expected third quarter GDP release, full-year growth is expected to have slowed in 2025 from the previous year. The current consensus calls for 2.0% GDP growth in 2025, and a further 2.1% expansion in 2026. Growth in 2026 is likely to be supported by the fiscal stimulus built into the One Big Beautiful Bill Act (OBBBA). Economic growth continues to translate into strong earnings growth, although this growth is largely driven by large technology companies. Bloomberg's latest survey of strategists indicates a median S&P 500® Index EPS forecast of \$308 in 2026, a double-digit increase over 2025. This puts the index at over 22 times earnings based on its quarter-end closing level of 6845. Healthy earnings growth may continue to drive stocks higher; however, elevated valuation levels may limit potential equity upside.

Inflation has been moving in the right direction lately but remains above the Federal Reserve's 2.0% target. We expect inflation to continue to moderate as some tariff pressures dissipate over time. Balancing falling inflation and a stagnant labor market, the Federal Reserve has moved to cut the federal funds rate three times in recent months, and we anticipate a further two to three cuts in 2026.

We believe that investment grade convertibles are well positioned in that they should participate in upward movements in the stock market but could provide valuable downside cushioning during more difficult markets. Strong earnings could propel the market higher, but we feel that with the concentrated nature of the market, the margin for error is small and the risk of disappointment is high. Credit spreads remain tight, and this could favor high-quality securities.

Historically, convertible returns have closely matched or even exceeded equity returns over extended periods, with lower volatility. In general, convertibles have tended to underperform stocks in bull markets, outperform stocks in bear markets, and provide competitive returns in normal markets. In addition, their lack of perfect correlation to either the stock or the bond market makes them a worthy addition to balanced portfolios.

Investment Performance (%)

Average Annual Returns as of December 31, 2025

Victory Investment Grade Convertible Securities Strategy	Inception Date	Q4 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Victory Investment Grade Convertible Securities Strategy (Gross)	1/1/87	0.59	6.76	6.76	8.96	5.58	8.79	8.33
Victory Investment Grade Convertible Securities Strategy (Net)	1/1/87	0.45	6.18	6.18	8.37	5.00	8.20	7.69
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	–	-0.17	7.43	7.43	8.56	6.17	8.92	–
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	–	-0.19	8.14	8.14	7.93	5.08	9.05	–

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual 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 2A of its Form ADV.

Top 5 Contributors (%)	Contribution to Absolute Return (Gross of Fees)	Top Ten Holdings	% Rep. Account
Albemarle Corporation Depository Shs Repr 1/20th 7.25 % Conv Pfd Registered Shs	0.5	Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	5.0
Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	0.4	Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	4.9
Ventas Realty Limited Partnership 3.75% 01-jun-2026	0.3	Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	4.9
Welltower Inc. 2.75% 15-may-2028	0.3	Uber Technologies, Inc. 0.875% 01-dec-2028	4.8
Expedia Group, Inc. 0.0% 15-feb-2026	0.2	Barclays Bank Plc 1.0% 16-feb-2029	4.0
Top 5 Detractors (%)	Contribution to Absolute Return (Gross of Fees)	Welltower Inc. 2.75% 15-may-2028	3.9
Uber Technologies, Inc. 0.875% 01-dec-2028	-0.6	KKR & Co Inc 6.25% Mandatory Conv Pfd Registered Shs Series D	3.8
Parsons Corporation 2.625% 01-mar-2029	-0.3	NextEra Energy, Inc. Corporate Unit Const of 1 Deb 06.29 + 1 PC 06.27	3.6
Barclays Bank Plc 1.0% 16-feb-2029	-0.1	Envista Holdings Corporation 1.75% 15-aug-2028	3.6
Meritage Homes Corporation 1.75% 15-may-2028	-0.1	Ares Management Corporation Pfd Registered shs Series B	3.4
Ppl Capital Funding, Inc. 2.875% 15-mar-2028	-0.1	Total	42.0

Holdings are subject to change and should not be construed as investment advice or a recommendation to buy, sell, or hold any security.

All investments carry a certain degree of risk, including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

The Victory Investment Grade Convertible Securities Composite includes all accounts, except wrap fee paying accounts, invested in investment grade convertible securities with a minimum convertible commitment goal of 70%-90%. The composite creation date is 1Q93 and the composite inception date is January 1987.

The benchmark of the composite is the ICE BofAML Investment Grade US Convertible 5% Constrained Index (VX5C). Prior to 12/1/2017, the benchmark was the ICE BofAML U.S. Convertible - Investment Grade Index (VXA1). The ICE BofAML Investment Grade US Convertible 5% Constrained Index (VX5C) is a market-capitalization weighted index of domestic corporate convertible securities, with all positions capped at 5% of market value. 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. The ICE BofAML U.S. Convertible - Investment Grade Index (VXA1) 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. The benchmark returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns have been taken from a published source and do not include any transaction fees, management fees, or other costs. Prior to September 2023, the name of this composite was the INCORE Investment Grade Convertible Securities.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

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.

Information relating 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 top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

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