

Market Commentary

The global financial markets produced healthy returns in the fourth quarter, wrapping up a positive year for the major asset classes. Investors' appetite for risk improved considerably in early November, when the approval of vaccines for COVID-19 raised expectations that the world economy could gradually return to normal in 2021. The conclusion of the U.S. elections, which removed a source of uncertainty that had depressed performance in September and October, was an additional tailwind. The markets were also aided by continued indications that the U.S. Federal Reserve and other central banks would maintain their highly accommodative policies indefinitely. Not least, an agreement on a new round of U.S. fiscal stimulus further cheered investors in late December. Together, these developments outweighed negative headlines surrounding renewed lockdowns and the persistence of the coronavirus.

The favorable environment was particularly helpful for equities, which delivered impressive returns across all geographies, styles, and sectors. The quarter was notable for the broadening of market leadership. Mega-cap U.S. technology stocks—which dominated other market segments in the first ten months of the year due to elevated investor demand for relative safe havens—fell somewhat out of favor as the vaccine encouraged market participants to search for opportunities elsewhere. This translated to outperformance for the value style versus growth, and for small companies in relation to large caps. In another notable departure from recent trends, the international markets (both developed and emerging) outpaced the United States. This shift largely reflected the continued decline in the U.S. dollar, boosting the returns of foreign stocks for U.S.-based investors.

Fund Performance and Positioning

The USAA Global Managed Volatility Fund generated a robust absolute return in the fourth quarter, but it finished behind its primary benchmark.

The Fund seeks to provide diversified exposure to global equities through investments in individual stocks and exchange-traded funds (ETFs). We strive to construct a portfolio that can participate in equities' longer-term returns, while also seeking to manage the risk of large market downturns. This approach typically leads to

underperformance when sentiment is as strong as it was in the most recent quarter. Investors displayed an usually high appetite for risk, leading to substantial gains in speculative "story" stocks and companies lacking current earnings. Recognizing that there will always be times when short-term returns are unusually high, we stayed true to our strategy.

Consistent with the Fund's objective, we have a sizable weighting in equities with lower historic volatility. We achieve this via holdings in factor ETFs and individual stocks that have displayed this characteristic over time. As would be expected given the nature of recent market conditions, this aspect of our strategy was a headwind for relative performance.

The Fund also has a tilt toward the value factor over growth. This element of our positioning, after detracting from results through most of 2020, paid off in the fourth quarter. We continue to see a potential performance advantage for the value style on the belief that it is poised for to make up its large gap versus growth over the past several years. The benefit of our preference for value was offset by allocations to other factors that lagged somewhat in the quarter, such as quality and momentum. We maintain this positioning on the view that the combination of value, momentum, and quality factors should outperform the broader market, particularly if investors continue to rotate away from the growth style.

The Fund's option-overlay strategy, which is designed to manage "tail risk," detracted modestly given the strength in equities.

The fundamental backdrop for stocks remains favorable thanks to highly supportive central bank policies and continued fiscal stimulus in the United States and elsewhere. We think this indicates that the world economy is moving into a period of synchronized global growth for the first time in more than ten years. At the same time, however, valuations have become fairly rich in certain pockets of the market. This may translate to a lower margin of error for stocks if economic growth, corporate earnings, or the efficacy of the COVID-19 vaccine fail to live up to expectations. In our view, these circumstances mean that volatility could increase from its low level in the second of half of 2020 even if broader investment conditions remain positive. We believe the Fund, through its focus on managing downside risk, is well positioned to add value in this environment.

Carefully consider a fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus or summary prospectus containing this and other important information, visit www.vcm.com/prospectus. Read it carefully before investing.

Not all share classes are available to all investors.

All investing involves risk, including the potential loss of principal.

Asset allocation and diversification do not promise any level of performance or guarantee against loss of principal. The Fund will reflect the risks and incur the expenses of the underlying funds in which it invests. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The Fund may frequently change its holdings, resulting in higher fees, lower returns, and more capital gains. Derivatives may not work as intended and may result in losses. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

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

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Discussion based on the Fund share class. Other classes have different performance characteristics.

Holdings, if any, are subject to change without notice and should not be considered purchase recommendations.

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