STATE TAX EXEMPT BOND FUNDS QUARTERLY COMMENTARY

USAA INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of June 30, 2022

USAA California Bond Fund // USAA New York Bond Fund // USAA Virginia Bond Fund

Market Review & Outlook

The Bloomberg Municipal Bond Index returned -2.94% for the second quarter, which brought YTD performance to -8.98%. Negative returns also plagued other fixed income asset classes this quarter, which brought YTD returns for the Bloomberg U.S. Aggregate Bond Index to -10.35%, the Bloomberg U.S. Universal Index to -10.93%, and the Bloomberg U.S. Treasury Index to -9.14%.

See below for an update on some of the key metrics in the muni market that we continue to monitor.

- AAA muni yields (the benchmark rate of the safest municipal securities) increased materially during the first half of the year. As a reminder, an increase in bond yields means that bond prices decrease. Bloomberg AAA muni yields increased across the yield curve; see below for yield changes from 12/31/2021 to 6/30/2022 at several key maturities.
  - 3-year: 0.32% to 2.08%
  - 10-year: 1.04% to 2.75%
  - 30-year: 1.48% to 3.25%
- Fund flows for municipal bond mutual funds have remained negative (after last year's record-setting inflows). Total fund flows year to date in 2022 are roughly -$76 billion.
- Demand across the new-issue market has slowed considerably from last year. Deals are not as oversubscribed as they were in 2021, and some deals require improved pricing to be placed in the market.
- Credit spreads (the difference between riskier bonds and AAA bonds) rose a bit in the first quarter but widened more in the second quarter. The BBB credit spread increased from 0.72% at the beginning of the quarter (up from 0.61% at the start of the year) to 1.15% at the end of the second quarter.

Returns were negative across the USAA Investments tax-exempt funds, alongside their peer groups and most respective indices (the Bloomberg Short Muni Index was slightly positive in Q2), again due largely to rising rates. While rising rates were a drag on performance during this quarter, we believe the higher rates should drive higher returns over the long term.

We believe that the creditworthiness of muni borrowers will remain strong in the near term, as many borrowers have improved their financial position coming out of the corona virus-induced slowdown (often helped by generous amounts of federal stimulus aid).

We remain committed to our core competency of evaluating, taking, and managing credit risk in the municipal market. We continue to build our portfolios bond-by-bond, relying on our assessment of fundamental credit risk and attempting to capture and distribute incremental yield in an effort to drive higher long-term income to our investors. While there might be some volatility in the muni market in the short term, we remain confident that the right approach is to focus on what matters in the long term.

We believe municipal bonds continue to represent an attractive investment opportunity on a relative basis. At the end of the second quarter, the yield on the Bloomberg Municipal Bond Index was 3.21%, which is a taxable-equivalent yield of 5.42% (in the highest tax bracket). After factoring in the benefit of the tax exemption, munis look attractive vs. the (taxable) Bloomberg U.S. Aggregate Bond Index, which yielded 3.72% at quarter-end.

Fund Performance and Positioning

During the second quarter, the USAA California Bond Fund, the USAA New York Bond Fund, and the USAA Virginia Bond Fund underperformed the benchmark and their respective benchmark indices.

During the quarter, our commitment to independent credit research continued to help us seek to identify attractive opportunities for the Funds. As always, we worked with our in-house team of credit analysts to select investments for the Funds on a bond-by-bond basis. Our team carefully analyzes and continually monitors every bond in the Funds, selectively choosing issues with coupons and structures that can contribute to the Funds' yield. We employ fundamental analysis that emphasizes an issuer's ability and willingness to repay its debt. Through our credit research, we strive both to recognize relative value and to avoid potential pitfalls. The Funds remain well diversified across positions and sectors.

USAA California Bond Fund

California's fundamental credit strength derives from a broad and diverse economy that accounts for nearly 15% of the U.S. gross domestic product. The state's estimated 39.37 million residents as of July 2021, by far the largest among all the states, comprised approximately 12% of the total U.S. population.

The state's revenue performance continues to be favorable as evidenced by the governor's "May Revise" budget projections that demonstrated fiscal 2022 revenues will be 23% higher than the existing, enacted budget. Recent fiscal strength has been driven largely by positive personal income tax performance following significant one-time funding relief during the COVID-19 pandemic. The new fiscal 2022-23 budget was signed by Governor Newsom on June 27, with approximately one-half of the current surplus money going to public schools and community colleges pursuant to state law and the remainder for other selected purposes. While recent performance has been favorable, California's fiscal outlook remains vulnerable to recession as future fiscal forecasts are predicated on continued growth in the economy and that the wealthy will continue to generate taxable investment capital gains that contribute to personal income tax performance.

While we maintain a stable outlook on California's credit rating, pandemic related vulnerabilities are still present and chronically above average unemployment rates remain troublesome. The May preliminary (seasonally adjusted) unemployment rate for California was 4.3%, which ranked a low 42nd among the states. Furthermore, longer-term budget pressures, a high dependence upon revenues generated from the cyclical and concentrated personal income tax and a rising trend of outmigration, while still small relative to the population, remain areas of potential fiscal concern.

The state currently maintains strong ratings of Aa2 with stable outlook by Moody's, AA- with positive outlook by S&P, and AA with stable outlook by Fitch Ratings.

USAA New York Bond Fund

New York State has a sizable population of nearly 20 million with recent declines occurring. Although uncertainty is related to the slow pace of employees returning to the office post-pandemic, the economic base remains diverse and substantial as it is anchored by New York City. Residents also benefit from above average personal income. The State had been experiencing steady growth since the low point of the pandemic, but it has now recently posted an economic contraction, albeit, slightly less negative than the nation as a whole. May 2022 employment, however, has remained on an upward trajectory since the pandemic lows, but still not yet returning to pre-pandemic numbers.

The State continues to follow prudent budgetary policies which include a multi-year financial plan and quarterly adjustments. Fiscal 2022 closed with a strong unaudited surplus driven by solid tax collections with sizable federal aid related to the pandemic also being noted. Robust financial reserves additionally provide financial stability. Outstanding debt and pension liabilities are manageable relative to the State's economic resources. Other contingent liabilities are highlighted as operating stress related to vital agencies, such as the Metropolitan Transportation Authority, may require future State funding to avoid service disruption.

General obligation bonds issued by the State of New York carry strong ratings of Aa1 (stable outlook) by Moody's, AA+ (stable outlook) by Standard & Poor's, and AA+ (stable outlook) by Fitch.

USAA Virginia Bond Fund

The Commonwealth of Virginia continues to recover from the economic and fiscal impact felt at the peak of the COVID-19 pandemic. Unemployment in Virginia is still above the pre-pandemic low of 2.5% in February 2020. However, preliminary May 2022 unemployment numbers from the Bureau of Labor Statistics are at 3.0% versus 3.6% for the U.S., down from the high of 11.6% in April 2020. For now, it appears unemployment has stabilized.

An increase in Covid-19 cases in 1st quarter 2022 had negative economic effects in Virginia and across the U.S. During the quarter, Virginia's GDP contracted 1.7% (annualized) vs. the US GDP contraction of 1.6%, ranking Virginia 25th by state. The largest contractions in GDP growth statewide and nationwide were in the nondurable goods manufacturing sector, followed by the retail trade sector and the finance and insurance sector. The sectors that experienced the most growth during the quarter were the utilities and real estate sectors.

Fiscal 2022 year to date results affirm the commonwealth's solid financial position. Virginia's year to date general fund revenue collections were $25.9B for the period July 2021-May 2022, a 17.8% increase over prior year revenue collections for the same period. Virginia has $16.4B in cash and investments available as of May 2022 (65% of the 2022 general fund budget).

While we will continue to monitor the ongoing impact from the current pandemic as well as the overall performance of the state, we continue to view the underlying credit quality of Virginia as exceptionally strong. Presently Virginia remains rated Aaa by Moody's, and AAA by S&P and Fitch.

Standardized Performance: June 30, 2022

Average Annual Returns (%)

USAA California Bond Fund	Ticker	Inception Date	Q2 2022	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USCBX	08/01/89	-4.34	-9.55	1.31	2.71	5.01	0.56	0.56
A Shares, without sales charge	UXABX	08/02/10	-4.51	-9.89	1.04	2.45	3.34	0.88	0.81
A Shares, with sales charge (max. 2.25%)	UXABX	08/02/10	-6.67	-11.93	0.59	2.22	3.14	0.88	0.81
Institutional Shares	UCBIX	06/29/20	-4.42	-9.58	–	–	-2.52	0.94	0.50
Bloomberg Municipal Bond Index	–	–	-2.94	-8.57	1.51	2.38	–	–	–
Bloomberg Municipal Bond - California Exempt Index	–	–	-2.79	-8.58	1.43	2.58	–	–	–

USAA New York Bond Fund	Ticker	Inception Date	Q2 2022	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USNYX	10/10/90	-4.55	-10.20	0.99	2.00	4.97	0.66	0.66
A Shares, without sales charge	UNYBX	08/02/10	-4.60	-10.42	0.76	1.75	2.59	0.96	0.89
A Shares, with sales charge (max. 2.25%)	UNYBX	08/02/10	-6.73	-12.41	0.30	1.52	2.39	0.96	0.89
Institutional Shares	UNYIX	06/29/20	-4.53	-10.17	–	–	-2.27	0.77	0.61
Bloomberg Municipal Bond Index	–	–	-2.94	-8.57	1.51	2.38	–	–	–
Bloomberg Municipal Bond - New York Exempt Index	–	–	-3.08	-9.07	1.18	2.22	–	–	–

USAA Virginia Bond Fund	Ticker	Inception Date	Q2 2022	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USVAX	10/10/90	-4.03	-8.81	1.02	2.13	4.76	0.50	0.50
A Shares, without sales charge	UVABX	08/02/10	-4.08	-8.96	0.78	1.90	2.63	0.81	0.76
A Shares, with sales charge (max. 2.25%)	UVABX	08/02/10	-6.23	-11.01	0.32	1.66	2.44	0.81	0.76
Institutional Shares	UVAIX	06/29/20	-3.92	-8.70	–	–	-2.31	0.58	0.49
Bloomberg Municipal Bond Index	–	–	-2.94	-8.57	1.51	2.38	–	–	–
Bloomberg Municipal Bond - Virginia Index	–	–	-2.97	-8.25	1.23	2.12	–	–	–

Past performance does not guarantee future results. The performance quoted represents past performance and current performance may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, visit *www.vcm.com*. Fee waivers and/or expense reimbursements may have been in place for some or all periods shown, without which, fund performance would have been lower. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index. Investing involves risk including loss of principal. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through June 30, 2023.

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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. Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. Bonds and bond funds will decrease in value as interest rates rise and vice versa. Credit risk refers to the possibility that debt issuers may not be able to make principal and interest payments or may have their debt downgraded by ratings agencies. Some income may be subject to local taxes and could be declared taxable and/or subject to the federal alternative minimum tax (AMT) if federal or state tax laws change. 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.

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.

The Bloomberg Municipal Bond Index is considered to be generally representative of investment-grade municipal issues having remaining maturities greater than 1 year and a national scope.

The Bloomberg U.S. Aggregate Bond Index measures the investment grade, USD-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Bloomberg Municipal Bond – California Exempt Index is an unmanaged index considered representative of California investment-grade municipal bonds.

The Bloomberg Municipal Bond – New York Exempt Index is an unmanaged index considered representative of New York investment-grade municipal bonds.

The Bloomberg Municipal Bond – Virginia Index is an unmanaged index considered representative of Virginia investment-grade municipal bonds.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance does not reflect management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

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