USAA HIGH INCOME FUND QUARTERLY COMMENTARY

USAA INVESTMENTS
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of March 31, 2021

Performance Summary

Higher interest rates and a steeper Treasury curve caused returns to be negative for investment grade bonds during the first quarter. Even so, investment grade spreads tightened 5 basis points (bps) and high yield corporate spreads tightened 50 bps, offsetting some of the increase in Treasury rates. For the rest of 2021, we expect "carry"—the return from the yield of a bond portfolio—to be the principal driver of returns from fixed income markets on sustained central bank support, a continuing global search for yield, and an economy recovering from the COVID-19 pandemic. The USAA High Income Fund outperformed its benchmark, the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Bond Index, for the quarter. Returns were driven by corporate bond credit selection and allocation to bank loans and equities.

Market Review & Outlook

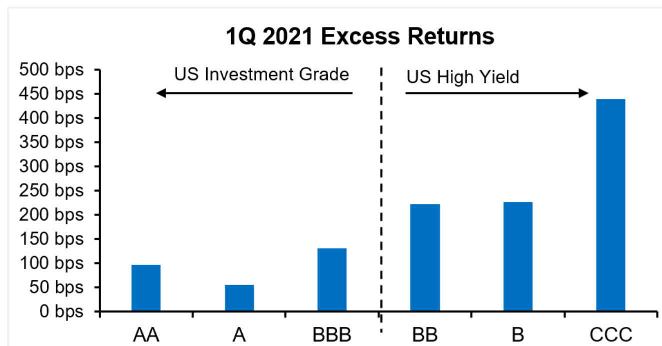
After a volatile 2020, investors can be forgiven for hoping for a more sedate 2021. After all, 2020 was marked by the onset of a global pandemic, a significant, if brief, recession, and the seizing up of capital markets, followed swiftly by extraordinary monetary easing and expansionary fiscal policies. The combination whip-sawed fixed income markets—even if, in the end, investors benefited from strong returns across all sectors.

But markets are ever in a state of flux, and change is the only constant. In the first quarter of 2021, and on the rollout of multiple COVID-19 vaccines, another federal stimulus package, an improving corporate earnings outlook, and positive revisions to GDP growth, we saw divergence in fixed income returns. The Bloomberg Barclays U.S. Aggregate Bond Index lost 3.4% during Q1 2021 after returning 7.5% across 2020, and all investment grade components (those rated BBB- or better by the rating agencies) had negative returns. The high yield market, in the form of the Bloomberg Barclays U.S. Corporate High Yield Index, with its lower duration and higher spreads, in contrast eked out a positive (if paltry) return of 0.85%.

Further analysis of quarterly returns reveals a more complex story. Rising rates on U.S. Treasuries and a steepening yield curve caused returns to go negative across investment grade sectors. Some of that can be put down to expectations of higher inflation in the future on a continued accommodative monetary policy, the new administration's more expansive fiscal policy, and higher GDP growth forecasts, with the U.S. Federal Reserve ("the Fed") recently publishing median economic projections for real GDP growth in 2021 to top 6.5%. That's 2.3 percentage points higher than the December 2020 projection of 4.2%; the Fed's preferred measure for inflation, which focuses on core personal consumption, increased 40 bps from the December estimate. These rising expectations for inflation, coupled with a commitment to keep the near-term federal funds rate close to zero, caused the market to push longer Treasury rates higher and steepened the yield curve.

A steepening yield curve hurts investment grade corporate bonds more than high yield bonds. This is because investment grade corporate bonds, as represented by the Bloomberg Barclays U.S. Corporate Index, have longer maturities, with a duration more than two years longer than the Aggregate Index, while high yield bonds are shorter. The increase in rates overwhelmed the incremental yield, or credit spread, offered by investment grade corporate bonds and almost did the same for high yield bonds. Credit spreads are the additional compensation investors require to hold securities that aren't as safe and liquid as those issued by the U.S. Treasury. Thus, investment grade bonds had negative returns during the quarter and high yield bonds returned a small 0.85%.

We believe that the longer duration of corporate bonds distorts analysis, so we prefer to focus on returns in excess of those of a duration-matched Treasury security to better assess performance.



Source: Bloomberg, as of March 31, 2021. See disclosure for more information.

On a duration-matched basis, investment grade corporates outperformed Treasury securities on their better incremental carry. Investment grade corporate credit spreads, as measured by the Bloomberg Barclays U.S. Corporate Index, closed Q1 at 91 bps after closing 2020 at 96 bps. Below-investment-grade rated corporate bonds performed stronger still, ending Q1 at 310 bps after finishing 2020 at 360 bps. Excess returns closely tracked credit quality. CCC-rated bonds (those considered to have the greatest credit risk) had the greatest excess returns of all rating categories, while AA-rated and A-rated bonds (those deemed to have much lower credit risk) had the lowest. See the graph above.

The first quarter also saw high new issuance volumes. According to Citigroup, issuance of investment grade rated debt in Q1 2021 was $431.6 billion, 3% more than in Q1 2020. High yield issuance, according to JP Morgan, totaled $186.5 billion, more than twice Q1 2020.

We expect market conditions to remain supportive for credit in 2021. With credit spreads at or near pre-COVID levels, we also believe strongly that carry will drive returns.

We also think the "beta" trade in credit is about over, with lower spread volatility in the coming months, just as we saw in the first quarter of 2021 when there was only a 12 bps difference between the widest and the tightest closing spread. But we also believe this means potentially greater opportunity for credit selection, an

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environment ideal for active managers who can and do selectively invest across credit quality buckets, sectors, and asset classes.

Portfolio Performance & Positioning

During the first quarter, the USAA High Income Fund outperformed its benchmark, the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Bond Index. Quarterly returns for the Fund and Index were 1.27% and 0.86%, respectively.

High yield outperformed all other fixed income asset classes during the quarter due to investor focus on inflation expectations. High yield bonds have short durations and high coupons, attributes which are favored by fixed income investors during times of increasing rates. Also notable are high yield's strong one-year average returns. For the year ended March 2021, the Fund was up 25.5% versus 23.7% for the Index.

During the quarter, the Fund sold longer-maturity holdings and investment grade holdings in order to bring the Fund's overall duration closer to that of the Index. The Fund also participated in the high-yield new issue calendar, which met an all-time-high quarterly sales record. We continued to review and fine-tune our holdings in various industries, including media, gaming and leisure. We also have been selectively selling bonds that seem to be overbought after high yield tightened to its current spread level of 311 basis points versus 882 basis points a year ago.

Contributors

- The Fund's outperformance was mainly driven by its selection in corporate bonds and its allocation to preferred stock, equity and bank loans.
- The largest sector contributors to performance were our metals & mining holdings, natural gas preferred stock, and exploration and production bonds (including strong performance from a defaulted holding as it exited bankruptcy).
- Selection among BB-rated names was the largest driver of performance in terms of credit rating, followed by CCC- and B-rated holdings.

Detractors

- Positions held in the off-index government related sector (mainly Pemex), in addition to cash and high-yield ETFs held for liquidity, detracted from performance.
- Performance was tempered by the Fund's positioning in Cable & Satellite, Oil Field Services and Auto.
- The Fund's allocation to A- and BBB-rated credits detracted from performance.
- Yield curve positioning had a negative 18 basis point impact on returns.

Standardized Performance: March 31, 2021

Average Annual Returns

USAA High Income Fund Fund: USHYX	Inception Date	QTR	1-Year	5-Year	10-Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund	08/02/1999	1.27%	25.53%	7.13%	5.45%	6.58%	0.84%	0.84%
Bloomberg Barclays U.S. High Yield 2% Issuer Capped Bond Index (Net)	—	0.86%	23.65%	8.04%	6.47%	—		

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 were 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. Net expense ratios reflect the contractual waiver and/or reimbursement of management fees through November 30, 2021.

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.

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. 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 **US Investment Grade** category consists of the following indices: Bloomberg Barclays US Aggregate Aa Total Return Value Unhedged USD, Bloomberg Barclays US Aggregate A Total Return Value Unhedged USD, and Bloomberg Barclays US Aggregate Baa Total Return Value Unhedged USD.

The **US High Yield** category consists of the following indices: Bloomberg Barclays Ba US High Yield Total Return Index Value Unhedged USD, Bloomberg Barclays B US High Yield Total Return Index Value Unhedged USD, and Bloomberg Barclays Capital Caa US High Yield Total Return Unhedged USD.

The Bloomberg Barclays U.S. High Yield 2% Issuer Capped Bond Index seeks to measure fixed rate, non-investment-grade debt securities that are dollar denominated and nonconvertible. The index limits the maximum exposure to any one issuer to 2%.

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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