CORNERSTONE FUNDS
QUARTERLY COMMENTARY

This fund underwent a name change. Visit vcm.com/MFNameChanges to learn more. As of June 30, 2023

Victory Cornerstone Equity Fund // Victory Cornerstone Aggressive Fund // Victory Cornerstone Moderately Aggressive Fund // Victory Cornerstone Moderate Fund // Victory Cornerstone Moderately Conservative Fund // Victory Cornerstone Conservative Fund

Market Commentary

Building on the momentum of an impressive first quarter rebound, equities continued to rally in each of the three months of the second quarter. Many of the market leaders and underlying investing themes have remained in place. The tech sector and other growth-oriented stocks—especially large-cap tech—moved sharply higher. Value-oriented equities also enjoyed positive results, though their gains were much more subdued during the quarter and the first half of the year by comparison.

Investors cheered the notion that the Federal Reserve would finally pause its long streak of consecutive rate hikes. After raising the federal funds rate by yet another 25 basis points in May (a basis point is one hundredth of a percentage point) , the Fed has taken a breather, thanks largely to signs that inflation is cooling. All this fueled stocks, especially growth-oriented stocks that tend to struggle in an environment of rising interest rates (and higher capital costs). Strong labor markets and resilient consumer spending—both of which continued to surprise economists during the second quarter—have also pushed stocks higher while diminishing any near-term talk of recession.

Another byproduct of the Federal Reserve's "pause" was that it helped assuage the unusual turmoil seen in the banking sector earlier in the year. With more stability prevalent across the financial sector and lower overall market volatility, it's not difficult to see why sentiment improved throughout the second quarter.

In terms of the numbers, the S&P 500® Index—the most popular proxy for our domestic stock market—returned 8.74% during the quarter. The yield on 10-year Treasuries ended the second quarter at 3.84%, while the yield on 2-year Treasuries ended the quarter at 4.90%. It's notable that this yield inversion—whereby shorter-term yields are more attractive than those further out the curve—remains in place. There is considerable debate whether or not this is a precursor to slowing economic growth or even recession. For now, however, it appears that the market is discounting this possibility and is comfortable with the status quo.

Fund Performance and Positioning

During the second quarter, all Funds in the Cornerstone Series finished the quarter with positive absolute returns. Victory Cornerstone Conservative Fund and Victory Cornerstone Moderately Conservative Fund outperformed their respective primary benchmarks, while Victory Cornerstone Moderate Fund,

Victory Cornerstone Moderately Aggressive Fund, Victory Cornerstone Aggressive Fund and Victory Cornerstone Equity Fund underperformed their respective primary benchmarks.

It is important to note, however, that since these Funds are diversified between both equities and bonds and their primary benchmarks are not, these benchmarks do not necessarily align with the Funds' true strategies.

As we've mentioned previously, the Cornerstone strategies tend to tilt toward value- and quality-oriented stocks in terms of investment style and overall risk profile. Thus, when large-cap growth materially outperforms other segments of the market as it did in the second quarter, our comparative performance tends to lag slightly. Also hindering second quarter performance was our exposure to commodities. With inflation receding, many stocks with commodities exposure declined. And gold, which we use as tactical exposure, also declined during the quarter. The pull back in gold prices may reflect the greater stability in the banking sector, lower market turmoil in general, and a receding inflation threat.

There were several factors that made positive contributions to second quarter performance. Our overweight allocation to equities proved beneficial, particularly as stocks raced much higher versus bonds. Moreover, our positioning within emerging markets, which includes longer-term allocations to both small-cap and value-oriented stocks, was a net positive. It's interesting that market leadership in emerging markets was driven by these smaller, value-oriented stocks—a very different dynamic than what we witnessed domestically.

In terms of fixed income, the Funds' overweight allocation to shorter-duration investment-grade credit proved beneficial.

Looking Ahead

There's no arguing that the second quarter—and the entire first half of 2023—was a welcome respite from the difficulties experienced in 2022. Yes, stocks have rallied sharply, the Federal Reserve has paused its rate cuts, and the overall tenor of the market is much more constructive. Yet ample challenges remain. For example, investors are wondering if the Fed will resume with rate hikes later this year. Others wonder if the impact of higher interest rates is merely lagging, and whether that might lead to declining corporate earnings (and stock valuations). Whatever the case, we will be watching the economic data and the Federal Reserve's policy statements, both of which are likely to impact equity and fixed income performance during the second half of the year.

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.

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. The Adviser is subject to conflicts of interest in allocating the Fund's assets among affiliated Underlying Funds (the Victory Funds), unaffiliated Underlying Funds, or a combination of both. The Adviser may have an incentive to allocate the Fund's assets to those Victory Funds for which the net advisory fees payable to the Adviser are higher than the fees payable by other Victory Funds, or unaffiliated Underlying Funds. 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. 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. Real estate investment trusts (REITs) are subject to changes in economic conditions, credit risk and interest rate fluctuations. 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.

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.

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

An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

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