

Victory INCORE Investment Grade Convertible Fund

Quarterly Commentary

INCORE | CAPITAL MANAGEMENT™

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As of September 30, 2022

Executive Summary

- Investment grade convertibles fell in the third quarter, but not nearly as much as the stock market or the bond market. The ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C) declined 2.37%, participating in 48% of the S&P 500 decline. The ICE BofA Investment Grade U.S. Convertible Index (VXA1) declined 1.24%, or 25% of the S&P 500 drop.
- The INCORE Investment Grade Convertible Fund (“the Fund”) underperformed the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the third 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 in the current environment in that they can continue to provide a measure of downside cushioning, while providing upside potential if markets rally.

Market Review

Markets experienced an up-and-down third quarter that saw the S&P 500 rise by 9.22% in July and fall by the same amount in September. Following dreadful second quarter losses, stocks bounced back in July to post their best month since November of 2020. Faced with conflicting economic signals, investors chose to focus on better than feared earnings reports and the prospect that a slowing economy may shorten the tightening cycle. So, despite a 9.1% June Consumer Price Index (CPI) report, a Fed rate hike, and a negative second quarter GDP release, stocks managed to rally in July. The rally continued halfway through August, but began to reverse course in anticipation of Fed Chair Powell’s Jackson Hole speech. The Dow Jones Industrial Average (DJIA) fell over 1000 points the day of Powell’s speech, which was more hawkish than anticipated, emphasizing the need to stomp out inflation even at the expense of economic growth. September began with a glimmer of hope as bargain hunting initially pushed stocks higher. However, this abruptly changed midway through the month coincident with the August CPI report showing 8.5% inflation. That day the DJIA fell 1.276 points, or 3.9%; the S&P 500 fell 4.3%; and the Nasdaq Composite dropped 5.2%. Later in the month, a 21% drop in the stock of Federal Express, an ill-advised tax plan out of the U.K., and another 75-basis-point federal funds rate hike further rattled investors. All in all, the S&P 500 fell -4.88% in the third quarter to bring its YTD total return to -23.87%. Bonds also suffered from higher inflation and Fed rate hikes, and provided little solace during the third quarter. For the quarter, the Bloomberg U.S. Aggregate Total Return Index declined 4.75% to bring its YTD total return to -14.61%.

Third Quarter Convertibles

Investment grade convertibles also fell in the third quarter, but not nearly as much as the stock market or the bond market. The Constrained Convertible Index (VX5C) declined 2.37%, participating in 48% of the S&P 500 decline. The Convertible Index (VXA1) declined 1.24%, or 25% of the S&P 500 drop. Only the Energy sector provided positive returns in the quarter. The Industrials sector was easily the worst performing sector, followed equally by the Information Technology and Utilities sectors. Energy convertible EQT Corp. was the real star of the quarter adding 70 basis points to returns. Utility Southern Company added another 36 basis points by spiking higher immediately prior to its August 1 maturity. Stanley Black & Decker was the biggest loser, subtracting 72 basis points from quarterly performance. Other big detractors included Euronet Worldwide, NiSource Inc., and American Electric Power.

Portfolio Performance

The INCORE Investment Grade Convertible Fund underperformed the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the third quarter. While providing a positive return, the underweighted Energy sector showed the worst relative performance in the quarter. Performance was also hurt by negative security selection in the Financials, Health Care, and Utilities sectors. Relative performance was helped by positive security selection in what was the worst performing sector, Industrials. Top performing individual convertibles included EQT Corp., NextEra Energy, and Booking Holdings. Bottom performing individual convertibles included Stanley Black & Decker, Euronet Worldwide, NiSource, Inc., and Elevance Health.

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 Fund had a delta (sensitivity to common stock) of 44%, while the Constrained Convertible Index (VX5C) had a delta of 47%. The portfolio is diversified across all economic sectors. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Information Technology sector. We maintain an underweight in the Energy, Financials, and Utilities sectors. We maintain approximately neutral sector exposure to all other sectors.

Buys & Sells

During the third quarter, we added to current convertible bond positions in Ares Capital, a business development company, and Euronet Worldwide, a financial transactions company. We also added to a Barclays Capital bond exchangeable into Microsoft common stock. We added to mandatory convertible preferreds from utilities American Electric Power and Next Era Energy, as well as from investment company KKR & Co. American Electric Power partially replaced utility Southern Co., which matured in August. NextEra Energy replaced a similar NextEra mandatory convertible preferred that matured in September. In addition, we converted a bond of business development company Sixth Street Capital and sold the common stock.

Outlook

Investment grade convertibles appear well positioned in the current environment in that they can continue to provide a measure of downside cushioning, while providing upside potential if markets rally.

With two consecutive quarters of negative GDP growth, indicating at least a technical recession, economic growth in the U.S. has slowed dramatically. Furthermore, worldwide economic growth appears to be in worse shape than here at home. Inflation remains a persistent threat, with the several recent CPI readings in the 8% to 9% range. Determined to curtail inflation, the Federal Reserve increased the federal funds rate by 150 basis-points in the third quarter, which will further slow the economy. Whether or not we are currently in recession, we believe economic growth will be slow over the next several quarters, causing continued market volatility.

Despite the gloom, the labor market remains tight, with continued job growth and an unemployment rate of just 3.5%. Plus, earnings have been surprisingly resilient considering the weak economy. While estimates often prove optimistic, a recent Bloomberg survey indicates a median S&P 500 2022 EPS estimate of \$225, above the \$208 operating figure of 2021. At its quarter-end close of 3585.6, the S&P 500 P/E ratio stood at a reasonable 16 times the 2022 estimate.

The investing environment has gone from one with considerable tailwinds, including fiscal and monetary stimulus, a reopening economy, and rising earnings, to a more hostile environment of rising

rates, inflation, and a slowing economy. Negative equity prices so far this year have at least partially reflected this change in environment. Furthermore, bond yields have been rising and are at levels that could provide some competition to stocks. While stocks may fall further, the fourth quarter is often seasonally strong, and we are looking for opportunities to add to select convertibles. Investment grade convertibles have done an excellent job of lessening the downward impacts of the stock market and appear well positioned in the current environment in that they can continue to provide a measure of downside cushioning, while providing upside potential if markets rally.

Historically, convertible returns have closely matched or even exceeded equity returns over long 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.

ANNUALIZED RETURNS

Investment Performance (%)	Inc. Date	QTR	YTD	ANNUALIZED RETURNS					Expense Ratio	
				1-YR	3-YR	5-YR	10-YR	Since Inception	gross	net
A Shares, without sales charge	4/14/88	-3.62	-14.53	-11.26	3.73	5.47	7.64	7.31	1.41	1.39
A Shares, with sales charge (max. 2.25%)	4/14/88	-5.82	-16.48	-13.27	2.95	4.99	7.40	7.24	1.41	1.39
I Shares	8/31/07	-3.63	-14.38	-11.00	4.14	5.92	8.09	5.52	0.93	0.93
ICE BofA Investment Grade US Convertible 5% Constrained Index (VX5C)	—	-2.37	-10.00	-5.41	4.44	6.93	9.24	—	—	—
ICE BofA All Investment Grade US Convertibles Index (VXA1)	—	-1.24	-10.87	-6.35	2.91	6.72	10.14	—	—	—

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.

Returns include reinvestment of dividends and capital gains. Fee waivers were in place for all or some of the periods shown, without which, performance would have been lower. Net expense ratio reflects the fee waivers and or expense reimbursements contractually agreed to through February 28, 2023. Source: Zephyr

Top 5 Contributors (%)	
Eqt Corporation 1.75% 01-may-2026	0.3
NextEra Energy, Inc. Corporate Units Cons of Debenture 01.09.24 + 1 PC 01.09.22	0.2
Booking Holdings Inc. 0.75% 01-may-2025	0.1
Gsk Finance (no. 3) Plc 0.0% 22-jun-2023	0.0
Sixth Street Specialty Lending, Inc. 4.5% 01-aug-2022	0.0
Top 5 Detractors (%)	
Stanley Black & Decker Inc Units Cons of 1 PC + 1/10 0% CCRPP Rg-D	-0.7
Euronet Worldwide, Inc. 0.75% 15-mar-2049	-0.6
Nisource Inc Purchase Contract 2021-01.12.23 (Exp.17.11.23) on Nisource	-0.4
Elevance Health, Inc. 2.75% 15-oct-2042	-0.3
American Electric Power Company, Inc. Equity Units Cons of USD 50 Nom Nts 15.08.25 + 1 PC 15.08.23	-0.3

Top Ten Holdings		% Fund
Pioneer Natural Resources Company 0.25% 15-may-2025		5.4
Euronet Worldwide, Inc. 0.75% 15-mar-2049		5.2
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L		5.1
Western Digital Corporation 1.5% 01-feb-2024		5.1
Booking Holdings Inc. 0.75% 01-may-2025		4.9
Southwest Airlines Co. 1.25% 01-may-2025		4.9
Elevance Health, Inc. 2.75% 15-oct-2042		4.9
Expedia Group, Inc. 0.0% 15-feb-2026		4.5
Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L		4.4
Illumina, Inc. 0.0% 15-aug-2023		4.4
Total		48.7

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. High yield securities may be more volatile, be subject to greater levels of credit or default risk, and may be less liquid and more difficult to sell at an advantageous time or price than higher-rated securities of similar maturity. Convertible securities rank senior to the issuer's common stock, but may be subordinate to senior debt obligations. In part, the total return for a convertible security may depend upon the performance of the underlying stock into which it can be converted. Synthetic convertibles may respond differently to market fluctuations than traditional convertible securities. They are also subject to counterparty risk. 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. 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 ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C) is a market-capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADRs or cash equivalent and have a

market value of at least \$50 million. It includes Coupon, OID, or zero coupon convertible bonds rated by Moody's and/or S&P with an average rating of Baa3/BBB- or higher. All positions are capped at 5% of market value. **The ICE BofA Investment Grade U.S. Convertible Index (VXA1)** is a market-capitalization-weighted index of domestic corporate convertible securities. Bonds and preferred stocks must be convertible only to common stock, ADRs 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.

This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be construed as a recommendation or solicitation to buy or sell any security or to adopt any particular investment strategy.

The top ten holdings are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed is percent of total portfolio weight.

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. The percent displayed is contribution to return.

Holdings are as of the date shown and are subject to change.

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