STATE TAX EXEMPT BOND FUNDS QUARTERLY COMMENTARY

VICTORY income investors
A VICTORY CAPITAL® INVESTMENT FRANCHISE

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As of June 30, 2023

Victory California Bond Fund // Victory New York Bond Fund // Victory Virginia Bond Fund

Market Review & Outlook

The Bloomberg Municipal Bond Index returned -0.10% for the second quarter of 2023, which brought the YTD performance to 2.67%. The fixed income sector as a whole experienced some volatility this quarter, but maintained positive returns for the year overall. Second quarter and YTD returns for the Bloomberg U.S. Aggregate Bond Index were -0.84% and 2.09%, respectively; for the Bloomberg U.S. Universal Index, -0.59% and 2.32%; and for the Bloomberg U.S. Treasury Index, -1.38% and 1.59%.

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) are now higher than they were at the end of the first quarter and the close of 2022. Bloomberg AAA muni yields increased across the yield curve last year to, in many cases, levels not seen in decades. While yields have come down slightly from peaks seen in the fall of 2022, they remain high. As a reminder, an increase in bond yields means that bond prices decrease. See below for yield changes from 6/30/2022 to 6/30/2023 at several key maturities.
    - 3-year: 2.08% to 2.77%
    - 10-year: 2.75% to 2.54%
    - 30-year: 3.25% to 3.56%
- Fund flows for municipal bond mutual funds are slightly negative for the year so far at approximately -$8.1 billion (according to Lipper), but remarkably improved compared to last year's record-setting outflows of roughly $120 billion.
- Credit spreads (the difference between riskier bonds and AAA bonds) remain largely unchanged over the past few months, although wider over this time last year, providing some good opportunities, particularly for investors willing to buy lower-rated investment grade bonds. The BBB credit spread increased to 1.27% from 1.15% at the end of second quarter 2022.

Returns across the Victory Income Investors tax-exempt funds for the second quarter were roughly in line with or in some cases slightly better than the Bloomberg Municipal Bond Index.

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 coronavirus-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 3.52%, which is a taxable-equivalent yield of 5.94% (in the highest tax bracket). After factoring in the benefit of the tax exemption, we believe munis look attractive vs. the (taxable) Bloomberg U.S. Aggregate Bond Index, which yielded 4.81% at quarter-end.

Fund Performance and Positioning

During the second quarter, the Victory California Bond Fund, the Victory New York Bond Fund, and the Victory Virginia Bond Fund all outperformed their respective benchmark indices.

During the quarter, our commitment to independent credit research continued to help us 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 each Fund's dividend 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.

Victory California Bond Fund

Governor Newsom recently signed the aggregate $310 billion state budget for the 2023-24 fiscal year. The overall spending plan includes $224 billion for the General Fund and resolves an earlier projected $32 billion deficit, which was a notable reversal from the state's recent trend of budget surpluses. Spending cuts, delayed spending, and revised revenue estimates contributed to the deficit-closing measures. While budget reserves and liquidity remain sound, a recession would cause significant credit concerns due to the state's heavy dependence on the cyclical personal income tax for operating revenues.

California's broad and diverse economy accounts for a substantial 14% of U.S. GDP. However, California also has quality-of-life and affordability issues, which include the highest rate of homelessness in the country.

The state currently maintains strong ratings of Aa2 with negative outlook by Moody's (outlook revised from stable on May 19, 2023), AA- with positive outlook by S&P, and AA with stable outlook by Fitch Ratings. We continue to view the state as an AA- credit with stable outlook.

Sources:
Governor Newsom's budget release
Homeless comment source: Carolyn Coleman, California League of Cities, 7/3/32023
Moody's report dated May 19, 2023
LA Times article on California budget passage dated 6/26/2023

Victory New York Bond Fund

New York State enjoys a substantial and diverse economic base which features New York City, a center for world trade and culture. The state's economic progress has been fairly steady; nevertheless, real GDP growth has lagged the nation in recent months. Total employment is nearing a return to pre-pandemic levels, but the rebound has also been slower than the U.S. norm. Hybrid work-from-home schedules could cause a longer-term economic headwind as demand for commercial real estate may be negatively affected, especially in New York City.

Financial performance has typically been stable due to an institutionalized multi-year budgeting process coupled with quarterly adjustments. Fiscal 2023, based on unaudited data, should close with a sizable operating surplus. The budget for fiscal 2024 was enacted about one month late but appears to be adequately balanced after an anticipated modest use of reserves. While weakening tax collections are driving projected outyear budget gaps, it is expected state officials will take necessary actions at the appropriate time to ensure fiscal balance. Concern is further mitigated as the availability of significant budgetary reserves provides additional financial flexibility. Contingent liabilities are highlighted as vital agencies, such as the Metropolitan Transportation Authority, may require supplemental support until operations fully recover from the pandemic.

General obligation bonds continue to be rated a strong Aa1 (stable) by Moody's, AA+ (stable) by Standard & Poor's, and AA+ (stable) by Fitch.

Victory 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 in February 2020 of 2.5%, though the preliminary May 2023 2.9% number indicates that unemployment is falling in the Commonwealth once again after being in a 3-3.2% range for several months, according to the Bureau of Labor Statistics.

Growth in the GDP slowed down during the first quarter of 2023. Virginia's GDP grew 1% (annualized) vs. the previous quarter's 2.1% annualized growth, while the U.S. GDP growth of 2% during the first quarter of 2023 ranks Virginia 39th by state. The sector that experienced the most GDP growth in the state and nationwide during the quarter was the health care and social assistance sector. The largest contraction in GDP in the state and nationwide during the quarter was in the finance and insurance sector.

Fiscal 2023 year-to-date results affirm the commonwealth's solid financial position but also reflect a forecasted decline in general fund revenues versus fiscal 2022. Virginia's general fund revenue collections were $25 billion for the period July 2022–May 2023, a 3.4% decrease over prior year revenue collections for the same period. The commonwealth's finance department had forecasted an 8.8% decline. Virginia has $17.9 billion in cash and investments available as of May 2023 (61% of the 2023 general fund budget). In addition, Virginia's pension burden is one of the lowest in the nation in terms of state GDP. Moody's Investors Service determined that Virginia has a low pension risk based on FY 2021 data.

We continue to view the underlying credit quality of Virginia as exceptionally strong. Presently Virginia remains rated AAA by Fitch, Moody's, and Standard & Poor's.

Standardized Performance: June 30, 2023

Average Annual Returns (%)

Victory California Bond Fund	Ticker	Inception Date	Q2 2023	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USCBX	08/01/89	0.15	3.47	1.52	2.90	4.97	0.59	0.59
A Shares, without sales charge	UXABX	08/02/10	0.24	3.33	1.27	2.65	3.34	0.97	0.89
A Shares, with sales charge (max. 2.25%)	UXABX	08/02/10	-2.03	0.97	0.82	2.42	3.16	0.97	0.89
Institutional Shares	UCBIX	06/29/20	0.24	3.63	–	–	-0.51	0.59	0.51
Bloomberg Municipal Bond Index	–	–	-0.10	3.19	1.84	2.68	–	–	–
Bloomberg Municipal Bond - California Exempt Index	–	–	-0.11	3.49	1.76	2.84	–	–	–

Victory New York Bond Fund	Ticker	Inception Date	Q2 2023	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USNYX	10/10/90	0.49	3.15	1.28	2.38	4.91	0.71	0.67
A Shares, without sales charge	UNYBX	08/02/10	0.37	2.88	1.06	2.15	2.61	0.99	0.86
A Shares, with sales charge (max. 2.25%)	UNYBX	08/02/10	-1.91	0.55	0.60	1.92	2.43	0.99	0.86
Institutional Shares	UNYIX	06/29/20	0.41	3.10	–	–	-0.51	0.70	0.61
Bloomberg Municipal Bond Index	–	–	-0.10	3.19	1.84	2.68	–	–	–
Bloomberg Municipal Bond - New York Exempt Index	–	–	0.16	3.93	1.74	2.63	–	–	–

Victory Virginia Bond Fund	Ticker	Inception Date	Q2 2023	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USVAX	10/10/90	0.10	2.46	1.14	2.38	4.69	0.56	0.55
A Shares, without sales charge	UVABX	08/02/10	0.05	2.14	0.90	2.13	2.59	0.85	0.79
A Shares, with sales charge (max. 2.25%)	UVABX	08/02/10	-2.20	-0.16	0.44	1.89	2.41	0.85	0.79
Institutional Shares	UVAIX	06/29/20	0.12	2.42	–	–	-0.76	0.57	0.51
Bloomberg Municipal Bond Index	–	–	-0.10	3.19	1.84	2.68	–	–	–
Bloomberg Municipal Bond - Virginia Index	–	–	-0.14	2.75	1.60	2.44	–	–	–

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, 2024.

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. Because the Funds each invest primarily in tax-exempt securities of the states in each of their names, they are more vulnerable to unfavorable economic, political and regulatory changes affecting issuers in each of those respective states. 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.

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.

The Bloomberg U.S. Universal Index is an index that represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below-investment-grade.

The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills and STRIPS are not included.

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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