TARGET FUNDS
QUARTERLY COMMENTARY

As of March 31, 2025

Victory Target Retirement 2030 Fund // Victory Target Retirement 2040 Fund // Victory Target Retirement 2050 Fund // Victory Target Retirement 2060 Fund // Victory Target Retirement Income Fund

Market Commentary

Once again, we were reminded that change is the one true constant in financial markets. Only one quarter ago we marveled at the incredible run enjoyed by U.S. equities, which clocked in with back-to-back years of more than 20% annual gains, as measured by the S&P 500® Index. Fast forward to today, and we see a different story.

The S&P 500® Index declined 4.3% during the first three months of the year, making it the worst-performing quarter since the second quarter of 2022. The growth-oriented and tech-heavy Nasdaq Composite fared even worse, losing approximately 10% during the quarter. Particularly notable was the reversal of fortune for the "Magnificent Seven," the mega-cap tech stocks that had been leading the market higher over the past several years. As momentum for this former leadership group waned, investors were quick to lock in profits and rotate into more value-oriented names or into fixed income and cash instruments altogether. Risk shifted from on to off.

The excitement for a perceived low-regulation, pro-business climate after the presidential election has been replaced by the specter of sweeping tariffs that might fundamentally alter the nature of global trade and near-term economic growth. These tariffs might also rekindle inflation, which might keep the Federal Reserve on the sidelines with regard to future interest rate cuts. Naturally, the corporate profit outlook is cloudy at best. All this uncertainty, coupled with the elevated valuations at the beginning of 2025, made domestic equities vulnerable to a pullback.

There were some notable shifts within the equity landscape during the first quarter. We continued to see a rotation, both geographically and among industry sectors. For starters, international stocks finally grabbed the leadership mantle from domestic stocks. The MSCI ACWI ex USA Index returned 5.2% in the first quarter, compared to the negative returns of most major U.S. stock indexes. Looking at the internals of our domestic market, the Technology and Communication Services sectors were spurned during the first quarter in favor of more mundane Health Care, Energy, Consumer Staples and Utilities. Thus, we're not surprised that value as an investment style outperformed growth during the quarter. The Russell 3000® Value Index, the key benchmark for the value style, actually increased by a respectable 1.6% during the first quarter. By contrast, the Russell 3000® Growth Index declined by 10.0% during the first quarter. In terms of market capitalizations, smaller-cap stocks, which are often viewed as riskier and more interest rate sensitive, fell more than large-caps, which are often considered more stable.

Given the risk-off mindset that many investors adopted, bond prices moved higher during the first quarter as rates across the Treasury yield curve declined. Still, bonds also experienced above-average volatility during the first three months of the year as investors tried to anticipate future GDP growth and the Federal Reserve's next move. Yields on the 10-year U.S. Treasury began the year around 4.6% and ended the first quarter at 4.2%. Yields on the 2-year note started the year at 4.3% and ended the quarter at roughly 3.9%. Corporate credit spreads widened during the first quarter as fixed income investors wanted to be properly compensated for taking on greater credit risk given the uncertain outlook.

Fund Performance and Positioning

It was a challenging quarter for all investors, but our commitment to diversification, as well as our portfolio positioning, has helped us manage volatility across the Target Date Series. Security selection within both U.S. large- and small-cap equities was a net positive, as our holdings outperformed their respective benchmarks. This may reflect the fact that the Target Date Series is managed with a slight tilt to quality and value investment styles, which fared well compared to the growth style box. Also noteworthy was our tactical allocation to gold and gold mining stocks, which acted as a portfolio ballast during the elevated volatility. Finally, our overweight position to international developed equities in the Target Date Series was also a net positive, as global equities outperformed U.S. stocks after several years of lagging performance.

Our tactical allocation within equities, however, as well as security selection within international developed equities, were net detractors during the first quarter as our holdings in these areas underperformed their respective benchmarks.

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Looking Ahead

The first quarter was a challenging time for investors, and the market continued to be volatile as we entered the second quarter. We truly don't know if global growth—and the trajectory of stocks—will reverse and continue higher later this year, or if we are entering a new era of lower global trade and slow (or no) growth. We would not be surprised if periods of elevated volatility continue in the near term.

That said, it is important for investors to remain focused on their long-term goals, not the daily moves of a volatile market. When markets correct, we all may feel the urge to sell stocks and run for safety. However, it's critical to resist the urge to act emotionally. We've managed portfolios through many economic cycles and many challenging times, including a very difficult period just a few years ago when inflation and interest rates were moving sharply higher in 2022.

We remain steadfast in our risk-managed approach that slightly favors quality- and value-oriented stocks, and we are committed to keeping our portfolios broadly diversified. We also intend to use any periods of elevated volatility to build or add to positions opportunistically. For your part, we suggest you stay calm in the face of any turmoil and focus on the long term.

Past performance does not guarantee future results. For current performance of the Cornerstone Funds visit www.vcm.com.

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. Neither asset allocation nor diversification promise any level of performance or guarantee against loss of principal. The Funds will reflect the risks and incur the expenses of the underlying funds in which they invest. The Adviser may be subject to conflicts of interest in allocating the Fund's assets among affiliated Underlying Funds or ETFs (Affiliated Funds), unaffiliated Underlying Funds, or a combination of both. The Adviser may have an incentive to allocate the Fund's assets to those Affiliated Funds for which the net advisory fees payable to the Adviser are higher than the fees payable by other Affiliated Funds, or unaffiliated Underlying Funds. The Adviser or its affiliates receive fees for managing and administering the Affiliated Funds, which also creates a conflict of interest. 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. Investments in smaller companies typically exhibit higher volatility. 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. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors. Technology companies are particularly vulnerable to rapid changes in technological product cycles, severe competition and government regulation. Precious metals and minerals industries can be significantly affected by global economic, financial, and political developments. Investments in companies related to precious metals and minerals may fluctuate in price substantially over short periods of time, so the Fund's share price may be more volatile than other types of investments. 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.

Index performance includes reinvestment of dividends and other income but does not reflect management fees, transaction costs or expenses. One cannot invest directly in an index. Past performance does not guarantee future results.

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