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As of June 30, 2023

Performance Summary

The municipal market experienced negative returns this quarter as a result of some continued market volatility; however, munis did fare more favorably compared to the rest of the fixed income industry, and despite some fluctuations during the quarter, YTD returns remain strong. The Bloomberg Municipal Bond Index returned -0.10% for the second quarter of 2023, a decline from the 2.78% return experienced in the first quarter of 2023. The big story at the end of this quarter was the Federal Reserve's decision to skip a rate hike in June, following 10 consecutive rate increases since March of 2022. Despite returns being down for the quarter (mainly due to some turbulence in June), the muni market has experienced strong returns for the year overall at 2.67% YTD. Starting yields, which we view as a good predictor of long-term returns, were higher than last quarter. The yield of the Bloomberg Municipal Bond Index closed the quarter at 3.52%, compared to 3.25% at the end of the first quarter of 2023. We believe these improved yield levels offer investors an attractive entry point into the muni market and are even more attractive when you consider the tax-free treatment of most municipal bonds.

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.

Portfolio Performance & Positioning

The Fund outperformed its benchmark index for the quarter, returning 0.09% (Fund Shares) vs. -0.10% for the Bloomberg Municipal Bond Index. See the table on the next page for more information on returns.

Contributors

- Curve positioning (underweight shorter part of curve and overweight longer part of curve).
- Security selection in the Utilities sector.
- Overweight to A/BBB bonds and underweight to AAA/AA bonds.

Detractor

- Longer duration relative to the benchmark.

Standardized Performance: June 30, 2023

Average Annual Returns (%)

Victory Tax Exempt Long-Term Fund	Ticker	Inception Date	Q2 2023	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
								Gross	Net
Fund Shares	USTEX	03/19/82	0.09	1.81	1.25	2.63	6.37	0.47	0.46
A Shares, without sales charge	UTELX	08/02/10	0.12	1.69	1.05	2.38	2.94	1.18	0.66
A Shares, with sales charge (max. 2.25%)	UTELX	08/02/10	-2.16	-0.61	0.60	2.14	2.76	1.18	0.66
Institutional Shares	ULTIX	06/29/20	0.18	1.83	–	–	-0.74	0.59	0.44
Bloomberg Municipal Bond Index	–	–	-0.10	3.19	1.84	2.68	–	–	–

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. Performance for periods greater than one year is annualized. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which Fund performance would have been lower. 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. Some income may be subject to state or local taxes or the federal alternative minimum tax (AMT). 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 one 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 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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