VICTORY HIGH YIELD FUND QUARTERLY COMMENTARY

VictoryCapital

As of June 30, 2024

Fund Performance Summary

In the second quarter of 2024, the Victory High Yield Fund (the "Fund") returned 0.5% (A shares without sales charge), underperforming its benchmark, the Bloomberg US Corporate High Yield Index (the "Index"), which returned 1.1%, and its peer group, the Lipper High Yield Funds category.

Contributors to the Fund's performance relative to the Index in the quarter included allocation and security selection in the pharmaceutical sector and security selection in the telecommunications and airline sectors. Our modest allocation to leveraged loans in the Fund continues to contribute to relative outperformance in 2024, even with just a 13% allocation during the period. Positions in the cable and satellite sector detracted from relative performance, along with the media sector.

Market and Portfolio Overview

The second quarter began with a returning spike in US Treasuries, with a 50 bps* rise in April alone. Fears manifested that inflation was back on the rise and perhaps no Federal Reserve ("Fed") rate cuts were on the table for 2024. But April and May economic data highlighted two aspects: (1) first quarter data was seasonally hot again, similar to 2022 and 2023 trends; and (2) while bumpy, inflation data moved lower, and even labor tightness lessened without impacting GDP growth. Both were key factors moving probabilities of risk-free rate cuts likely to the fall, with perhaps 1-3 cuts in total for the year. If you categorize three main "borrowers" and their credit health subject to rate moves (consumer balance sheets, corporate balance sheets, and the federal government's balance sheet), corporate balance sheets remain in the best shape and are the least reliant on rate cuts for continued health. The resilience of corporate earnings and credit fundamentals, particularly in the US high yield space, has been astounding, considering the length of this stressed (but not distressed) cycle. And US high yield remains in far better health in terms of credit, ratings profile, and strength than its siblings, US leveraged loans, and even the private credit space. Lower short-term rates should help this asset class, but they are not required for continued outperformance within the US fixed income landscape. With other debt asset classes at much lower yields and spreads at five- or ten-year tights, US high yield still screens cheap, relatively speaking.

Other signs nudging US high yield to stand out have been the return of fund flows (both ETFs and actively managed funds) into the space after retreating in 2022-2023 and the resurgence of new issuance from borrowers after a contraction during the same time span. And while the lower-rated cohort of our market outperformed in the second quarter, this is still more a credit-by-credit specific cycle and not one of sector or rating allocation.

High Yield Market Outlook

The high yield and floating rate bank loan asset classes have been the two best performing asset classes within fixed income for 2024, and we do not see that changing for the back half. They each have higher absolute yields (absolute yields are yields minus inflation), and while tight on a spread basis, high yield still holds very high convexity (the amount of a bond's duration change when interest rates change) with bond prices still trading below the post Global Financial Crisis average and duration around 3 years. The continued opening of the new issuance market is a positive sign, and any return of merger and acquisition activity can be another catalyst. All these attributes do take a backseat to the continued strong earnings and by extension, credit metric trends of our asset class. Without that leading factor, we would be much more susceptible to screening as an asset class that looks cheap but might remain so or get even cheaper. Leveraged loans, represented by the Morningstar LSTA US Leveraged Loan Index, have a modest amount of incremental risk right now, but also much higher yield than high yield bonds, represented by the Bloomberg US Corporate High Yield Index. We see maintaining our current 10-13% allocation to this asset class on selective credit selection.

Overall, higher yields and a small benefit from eventual rate cuts are well paired with the credit fundamentals of our portfolio. We are still in a stressed cycle but not a deeply distressed cycle, and high yield continues to emerge from trading levels that priced in much worse. Additionally on the catalyst side, whenever rate cuts do begin, both high yield and floating rate bank loans may benefit from cash moving off the sidelines. We mentioned that individual credit selection trumps sector selection right now, but on a sector basis, we still favor names with balanced supply and strong demand, even if discretionary, that often leads to pricing power. Airlines, healthcare, cruise lines, energy, and building products reflect this both in current sector qualities and portfolio weightings.

*Basis point "bps" is 1/100th of a percentage point.

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Investment Performance (%)
Average Annual Returns as of June 30, 2024

Victory High Yield Fund (Class A – GUHYX)	Q2 2024	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (9/1/98)	Expense Ratio	
								Gross	Net
A Shares, without sales charge	0.46	3.07	10.44	-1.35	2.55	3.52	5.31	1.09	1.00
A Shares, with sales charge (max. 2.25%)	-1.71	0.82	7.97	-2.10	2.09	3.28	5.22	1.09	1.00
Bloomberg U.S. Corporate High Yield Index	1.09	1.47	1.64	3.92	4.31	6.32	1.64	–	–

Source: Victory Capital data analyzed through Zephyr
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 April 30, 2025.

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.

Other share classes are available, but not all share classes are available to all investors.

All investing involves risk, including the potential loss of principal. In addition to the normal risks associated with investing, 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. There may be limited public information available regarding the floating rate loans in which the Fund invests; they may be difficult to value and may be illiquid, meaning that the Adviser may not be able to sell them at an advantageous time or price, which may adversely affect the Fund. In unusual or adverse markets, floating rate loans may have higher than normal default rates. In periods of recession, the Fund's investments in floating rate loans are more likely to decline. Mortgage-backed securities ("MBS") and asset-backed securities ("ABS") are subject to credit, prepayment and extension risk and may react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significantly reduce the value of certain MBS and ABS. The fund is also subject to liquidity risk, which is the risk that the Adviser may not be able to sell a security at an advantageous time or price, which may adversely affect the Fund. 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. 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.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the Barclays EM country definition, are excluded.

Park Avenue Institutional Advisers LLC is the sub-adviser to the Fund. The Fund is distributed by Victory Capital Services, Inc. ("VCS"). Victory Capital Management Inc. ("VCM"), an affiliate of VCS, is the investment adviser to the Funds. Neither VCS nor VCM are affiliated with Park Avenue Institutional Advisers LLC.

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