

Executive Summary

- For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) declined 0.17%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) declined 0.19%.
- The Victory Investment Grade Convertible Fund (Class A shares without sales charge) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the fourth 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 within an environmental backdrop of positive economic growth, elevated valuations, and continued volatility. We believe that the yield and defensive characteristics of convertibles are increasing in importance.

Market Review

Investment grade convertibles advanced in 2025, participating in the strong stock and bond markets. For the year, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) gained 7.43%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) gained 8.14%. The S&P 500® Index gained 17.88% and the Bloomberg U.S. Aggregate Total Return Index (“Bloomberg Aggregate”) returned 7.30% in 2025.

Stocks continued to advance in the fourth quarter, capping off a third year of strong gains in the markets. For the quarter the S&P 500® Index gained 2.66%, the majority of which came in October, but that month did not start out well. President Trump’s threat of massive tariffs on Chinese goods in reaction to tightened controls on rare-earth minerals caused stocks to tumble. The S&P 500® Index and the Nasdaq Composite Index dropped 2.7% and 3.6%, respectively, on Friday, October 10, the day of Trump’s threats. The president soothed investors’ nerves over the weekend and stocks quickly bounced back, beginning a run higher that lasted for most of the month. As expected, the Federal Reserve cut the discount rate by a quarter point during its October meeting. November was an up-and-down month that finished basically flat. A furious late-month rally based on increasing hopes of a Fed rate cut counteracted weakness in AI-related technology stocks that at one point had the S&P 500® Index down over 4% month-to-date. Stocks drifted higher over the first half of December, reacting to anticipation and eventually realization of a Fed rate cut. The Fed signaled it may be finished cutting rates for now, indicating a balanced situation between its dual mandate of price stability and maximum employment. Stocks dropped sharply during a weeklong rout triggered initially by Broadcom’s quarterly report that dampened enthusiasm for AI infrastructure spending, and later by concerns about Oracle’s AI-related debt buildup. Stocks reversed course again, beginning a Santa Claus rally that pushed the S&P 500 to an all-time intraday high on December 26. Santa Claus apparently left a few lumps of coal, as stocks trailed off during the last few days of the year. Notable in the month: After a two-month delay, the Commerce Department reported that in the third quarter GDP rose 4.3%, a percentage point above expectations.

Fourth Quarter Convertibles

For the quarter, the ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (the “Constrained Convertible Index”) (VX5C) declined 0.17%, while the ICE BofA Investment Grade U.S. Convertible Index (the “Unconstrained Convertible Index”) (VXA1) declined 0.19%. Sector performance was led by the Real Estate sector, followed closely by Financials. The Industrials sector was the largest drag on returns, followed by Utilities and Consumer Discretionary. Top individual index performers included NextEra Energy, Apollo Global Management, Ventas Realty, and Expedia Group. Bottom performers included Uber Technologies, WEC Energy Group, Southern Company, and Euronet Worldwide.

New convertible issuance was very strong in 2025, with 151 new issues during the year, raising a record \$118.9 billion. While most convertible issues are unrated, 12 of the new issues were rated investment grade and added to the Constrained Convertible Index (VX5C). This comes after strong years of issuance in 2023 and 2024 as well.

Portfolio Performance

The Victory Investment Grade Convertible Fund (the “Fund”) outperformed both the Constrained Convertible Index (VX5C) and the Unconstrained Convertible Index (VXA1) in the fourth quarter. Absolute performance was led by the Real Estate sector, followed by Materials and Financials. The Industrials sector subtracted from returns. Relative performance was helped by an underweight in Utilities and by positive security selection in Materials, Real Estate, and Consumer Discretionary. Relative performance was hurt by an overweight in Industrials. Top-performing individual convertibles included Albemarle Corp., Apollo Global Management, Ventas Realty, and NextEra Energy. Bottom performers included Uber Technologies, Parsons Corp., Barclays Bank, and Meritage Homes.

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 Constrained Convertible Index (VX5C) yields 3.5% and has a delta of 50% and an average credit rating of BBB. Compared to the Constrained Convertible Index (VX5C), we maintain an overweight in the Health Care, Industrials, and Information Technology sectors. We maintain an underweight in the Utilities sector. We maintain approximately neutral exposure to other sectors.

Buy & Sells

During the fourth quarter, we initiated positions in convertible bonds from Exelon Corp. and Zoetis Inc. We also initiated a position in a mandatory convertible preferred from Southern Company. Exelon is an electric utility holding company serving the Chicago and Mid-Atlantic regions. Zoetis specializes in animal health medicines. Southern Company is an Atlanta-based electric utility. We added positions in two other utilities – CMS Energy Corp. and WEC Energy Group. We added to positions in alternative asset managers Apollo Global Management and KKR & Co.

We also added to positions in payment processor Euronet Worldwide, ride-hailing company Uber Technologies, and home builder Meritage Homes. During the quarter we trimmed several holdings, including Expedia Group, Ford Motor Company, NextEra Energy, and Kite Realty. We allowed New Mountain Finance Corp. to mature at par.

Outlook

Investment grade convertibles appear well positioned within an environmental backdrop of positive economic growth, elevated valuations, and continued volatility. We believe that the yield and defensive characteristics of convertibles are increasing in importance.

The U.S. economy continues to grow, but despite a better-than-expected third quarter GDP release, full-year growth is expected to have slowed in 2025 from the previous year. The current consensus calls for 2.0% GDP growth in 2025, and a further 2.1% expansion in 2026. Growth in 2026 is likely to be supported by the fiscal stimulus built into the One Big Beautiful Bill Act (OBBBA). Economic growth continues to translate into strong earnings growth, although this growth is largely driven by large technology companies. Bloomberg's latest survey of strategists indicates a median S&P 500® Index EPS forecast of \$308 in 2026, a double-digit increase over 2025. This puts the index at over 22 times earnings based on its quarter-end closing level of 6845. Healthy earnings growth may continue to drive stocks higher; however, elevated valuation levels may limit potential equity upside.

Inflation has been moving in the right direction lately but remains above the Federal Reserve's 2.0% target. We expect inflation to continue to moderate as some tariff pressures dissipate over time. Balancing falling inflation and a stagnant labor market, the Federal Reserve has moved to cut the federal funds rate three times in recent months, and we anticipate a further two to three cuts in 2026.

We believe that investment grade convertibles are well positioned in that they could participate in upward movements in the stock market but could provide valuable downside cushioning during more difficult markets. Strong earnings could propel the market higher, but we feel that with the concentrated nature of the market, the margin for error is small and the risk of disappointment is high. Credit spreads remain tight, and this could favor high-quality securities.

Historically, convertible returns have closely matched or even exceeded equity returns over extended 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 consideration to balanced portfolios.

Investment Performance (%)

Average Annual Returns as of December 31, 2025

Victory Investment Grade Convertible Fund	Ticker	Inception Date	Q4 2025	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
A Shares, without sales charge	SBFCX	4/14/88	0.26	5.06	5.06	7.49	4.00	7.28	7.37	1.25	1.25
A Shares, with sales charge (max. 2.25%)	SBFCX	4/14/88	-2.02	2.72	2.72	6.67	3.53	7.04	7.30	1.25	1.25
I Shares	VICIX	8/31/07	0.35	5.44	5.44	7.84	4.35	7.69	6.02	0.94	0.94
ICE BofA Investment Grade U.S. Convertible 5% Constrained Index (VX5C)	-	-	-0.17	7.43	7.43	8.56	6.17	-	-	-	-
ICE BofA Investment Grade U.S. Convertible Index (VXA1)	-	-	-0.19	8.14	8.14	7.93	5.08	9.05	-	-	-

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. Other share classes are available. 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 October 31, 2026.

Top 5 Contributors (%)	Contribution to Absolute Return
Albemarle Corporation Depository Shs Repr 1/20th 7.25 % Conv Pfd Registered Shs	0.5
Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	0.4
Ventas Realty Limited Partnership 3.75% 01-jun-2026	0.3
Welltower Inc. 2.75% 15-may-2028	0.3
Expedia Group, Inc. 0.0% 15-feb-2026	0.2

Top 5 Detractors (%)	Contribution to Absolute Return
Uber Technologies, Inc. 0.875% 01-dec-2028	-0.6
Parsons Corporation 2.625% 01-mar-2029	-0.3
Barclays Bank Plc 1.0% 16-feb-2029	-0.1
Meritage Homes Corporation 1.75% 15-may-2028	-0.1
Ppl Capital Funding, Inc. 2.875% 15-mar-2028	-0.1

Top Ten Holdings	% of Fund
Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Registered Shs Series L	5.0
Apollo Global Management Inc Mandatory Conv Pfd Registered Shs Series A	4.9
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Registered Shs A Series L	4.9
Uber Technologies, Inc. 0.875% 01-dec-2028	4.8
Barclays Bank Plc 1.0% 16-feb-2029	4.0
Welltower Inc. 2.75% 15-may-2028	3.9
KKR & Co Inc 6.25% Mandatory Conv Pfd Registered Shs Series D	3.8
NextEra Energy, Inc. Corporate Unit Const of 1 Deb 06.29 + 1 PC 06.27	3.6
Envista Holdings Corporation 1.75% 15-aug-2028	3.6
Ares Management Corporation Pfd Registered shs Series B	3.4
Total	42.0

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, prepayment, 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. **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.

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.

The portfolio 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 portfolio. **International investments** can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments and can perform differently from U.S. investments.

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. Companies in the **financial services** sector are subject to extensive government regulation that may affect the scope of their activities, the prices they can charge and capital maintenance. The industry is subject to severe competition and can be significantly affected by market conditions, including interest rate changes.

The value of your investment is also subject to geopolitical risks such as wars, terrorism, trade disputes, 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.

Contributors and Detractors Source: FactSet. 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 subject to change and should not be construed as investment advice or a recommendation to buy, sell, or hold any security.

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.

Correlation measures the degree to which assets or asset class prices have moved in relation to one another. A correlation of -1 means prices moved in opposite directions; 1 means prices moved in lockstep; and 0 implies no relationship among prices.

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