



## Executive Summary

Fixed income experienced some volatility in the first quarter of 2024. Inflation prints came in above or at expectations throughout the quarter, and the Federal Reserve (the Fed) kept rates stable. Performance was driven by an upward shift in the Treasury curve, as yields moved up and the market priced in higher rates for longer. Against this backdrop, the Victory Government Securities Fund (Institutional Shares) outperformed its benchmark, the Bloomberg U.S. Aggregate Government Intermediate & MBS Index, for the quarter ended March 31, 2024.

## Market Update & Commentary

At the beginning of 2024 markets were very optimistic that the Fed would cut rates aggressively. Coming off the rally in the last two months of 2023, interest rate futures pricing reflected nearly seven rate cuts in 2024 at the beginning of the quarter. But the Fed's "wait and see" approach to lowering rates left market participants struggling to align on a single narrative and throughout the course of the quarter, rate cut expectations dimmed in response to higher-than-expected inflation and a remarkably strong labor market.

Nonfarm payrolls increased throughout the quarter, continuing a trend of persistent employment growth. By the end of March, the market had reconciled itself to expectations of only three or maybe even two rate cuts during 2024. The market's intense focus on economic reporting this quarter drove timing expectations for the first rate cut further into 2024, from March to June at the earliest. Evolving expectations for the future of the federal funds rate caused the Treasury curve to rise across all tenors, and the rise in yields led to negative returns across most broad bond indices with the exception of high yield.

The Consumer Price Index, a popular measure of prices paid, and thus, inflation, increased to 3.7% from 3.1% during Q1 2024. These past three months investors discovered the Fed was not bluffing when Chairman Powell noted in December that should economic conditions change, keeping rates higher for longer is not out of the question. While the Fed maintains that the data do not materially change their economic outlook, there is a small but nagging concern that the Fed may need to reframe the path forward should inflation be stickier than expected. As a result of recent inflation prints subverting expectations and a particularly resilient labor market, all eyes stay on the Fed and future monetary policy.

	Yield (%)	Spreads (bps*)			Returns (%)	
		3/31/2024	12/31/2023	Δ (+/-)	3M	1YR
<b>Investment Grade (Moody's Ratings)</b>						
U.S. Treasury	4.4	-	-	-	(1.0)	0.1
U.S. Aggregate	4.8	39	42	-3	(0.8)	1.7
U.S. Credit	5.3	84	93	-9	(0.4)	4.1
Corporate	5.3	89	98	-9	(0.4)	4.4
Aa	4.9	43	47	-4	(1.0)	1.9
A	5.2	76	84	-8	(0.6)	3.7
Baa	5.5	110	121	-11	(0.1)	5.6
Crossover	6.2	160	183	-22	0.6	8.1
<b>High Yield (Moody's Ratings)</b>						
U.S. Corporate High Yield	7.8	303	323	-20	1.5	11.2
Ba	6.6	184	201	-17	1.1	9.1
B	7.5	277	317	-40	1.4	11.5
Caa	12.2	737	751	-14	2.1	16.6
Ca-D	21.7	1,483	1,173	+310	13.2	36.7
<b>Structured Product</b>						
U.S. MBS	5.0	49	46	+3	(1.0)	1.4
ABS	5.2	54	68	-14	0.7	4.3
CMBS	5.3	96	126	-30	0.8	4.4

Source: Bloomberg

Credit spreads tightened across fixed income asset classes apart from mortgage-backed securities in the first quarter. Tighter credit spreads indicate lower compensation for taking on additional risk. Fixed income showed mixed performance in the first quarter, driven by a rising yield curve. The upward movement in yields resulted in negative returns for the Bloomberg U.S. Aggregate Bond Index at -0.78%.

\* A basis point is one-hundredth of a percentage point (0.01%) and is abbreviated as "bp" (singular) or "bps" (plural).

## Portfolio Performance & Positioning

During the quarter we increased our allocation to agency commercial mortgage-backed securities (CMBS) and Treasuries, while reducing exposure to agency mortgage-backed securities (MBS).

## Contributors

- Allocation within MBS to higher coupons (lower duration) contributed positively to performance.

- An overweight allocation to agency CMBS and asset-backed securities contributed positively to performance.

## Detractors

- Higher duration within the Treasury portion of the portfolio was the primary detractor from performance during the quarter.

## Standardized Performance: March 31, 2024

Average Annual Returns (%)

Victory Government Securities Fund	Ticker	Inception Date	Q1 2024	1 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
Fund Shares	USGNX	02/01/91	-0.48	1.42	0.59	1.24	4.30	0.53	0.53
Institutional Shares	UIGSX	08/07/15	-0.33	1.66	0.70	–	1.12	0.42	0.42
R6 Shares	URGSX	12/01/16	-0.32	1.71	0.81	–	1.20	1.81	0.49
Bloomberg U.S. Aggregate Government Intermediate & MBS Index	–	–	-0.66	1.52	0.18	1.14	–	–	–

**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](http://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](http://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.** 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 rating agencies. Mortgage-backed securities (MBS) 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. In certain circumstances, a lack of a ready market may make it difficult for the Fund to purchase or sell particular investments within a reasonable time and/or at a fair price. **An investment in the Fund(s) is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.** 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. Large shareholders, including other funds advised by the Adviser, may own a substantial amount of the Fund's shares. The actions of large shareholders, including large inflows or outflows, may adversely affect other shareholders, including potentially increasing capital gains. 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.

**Consumer Price Index (CPI)**, a popular measure of inflation and deflation calculated by the Bureau of Labor Statistics, measures the monthly change in prices paid by U.S. consumers.

[WWW.VCM.COM](http://www.vcm.com)

**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. Aggregate Government Intermediate & MBS Index** seeks to measure intermediate U.S. Treasury and Agency unsecured notes and securities backed by pools of mortgages issued by U.S. government agencies, GNMA, Fannie Mae or Freddie Mac.

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.**

Funds distributed by Victory Capital Services, Inc. (VCS), an affiliate of Victory Capital Management Inc.

The LSEG Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers.

The LSEG Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The fund with the highest Lipper Leader for Consistent Return (Effective Return) value in each eligible category wins the LSEG Lipper Fund Award.

Victory Government Securities Fund, R6 was selected from among 13 funds and 58 share classes in the Intermediate U.S. Government fund category over three years for the period ending November 30, 2023.

Victory Government Securities Fund, R6 was selected from among 12 funds and 55 share classes in the Intermediate U.S. Government fund category over five years for the period ending November 30, 2023.

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