

Performance Summary

The municipal market experienced negative returns this quarter. The expectation that the federal funds rate will stay higher for longer resulted in an upward swing of the Treasury curve across all tenors, and this upward shift in yields largely drove performance throughout the beginning of 2024. The Bloomberg Municipal Bond Index returned -0.39% for the first quarter of 2024, beating the Bloomberg U.S. Aggregate Bond Index, which returned -0.78%. Performance was largely driven by the Treasury yield curve, as the Federal Reserve kept the target range for the federal funds rate at 5.25%–5.50% throughout the quarter amidst hotter-than-expected inflation prints. The market narrative surrounding monetary policy shifted within the first quarter, moving on from “how soon can the market expect the first cut,” initially priced in for March at the beginning of the quarter, to some market participants questioning at the end of the quarter whether there will even be a rate cut in 2024. As such, the market has reduced expectations for future rate cuts, which drove yields upward. The yield of the Bloomberg Municipal Bond Index closed the quarter at 3.49%, compared to 3.22% at the end of the fourth quarter of 2023. While muni yields have moderated slightly since the peak 2023 level of 4.49% seen in October 2023, we continue to believe that current 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. Against this backdrop, the Victory Tax Exempt Short-Term Fund (Fund Shares) outperformed its benchmark, the Bloomberg Municipal Short 1-5 Year Index, for the quarter ended March 31, 2024. See next page for other share classes.

Market Review & Outlook

The Bloomberg Municipal Bond Index returned -0.39% for the first quarter of 2024. The fixed income sector saw broad underperformance in the first quarter due to rising yields. The first quarter return for the Bloomberg U.S. Aggregate Bond Index was -0.78%; for the Bloomberg U.S. Universal Index, -0.47%; and for the Bloomberg U.S. Treasury Index, -0.96%.

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 higher than they were at the close of 2023. Bloomberg AAA muni yields increased across the yield curve in the first quarter. While yields are not at the peaks seen in late 2023, they remain elevated. As a reminder, an increase in bond yields means that bond prices decrease and vice versa. See below for yield changes from 3/31/2023 to 3/31/2024 at several key maturities.
 - 3-year: 2.30% to 2.81%
 - 10-year: 2.27% to 2.51%
 - 30-year: 3.37% to 3.73%
- Fund flows for municipal bond mutual funds are positive for the year so far at approximately \$9.9 billion (according to Lipper), following two consecutive years of outflows.
- Credit spreads (the difference between riskier bonds and AAA bonds) tightened over the past few months. The BBB credit spread decreased to 0.95% from 1.25% at the end of the fourth quarter of 2023.

Returns across the Victory Income Investors tax-exempt funds for the first quarter outperformed 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 first quarter, the yield on the Bloomberg Municipal Bond Index was 3.49%, which is a taxable-equivalent yield of 5.90% (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 4.85% at quarter-end.

Contributors

- Overweight to A/BBB rated bonds and underweight to AAA/AA rated bonds as credit spreads tightened in the quarter
- Underweight allocation and security selection in the General Obligation sector
- Overweight to the Industrial Development Revenue (IDR) sector

Detractors

- Security selection in the Industrial Development Revenue (IDR) sector

Standardized Performance: March 31, 2024

Average Annual Returns (%)

Victory Tax Exempt Short-Term Fund	Ticker	Inception Date	Q1 2024	1 Year	5 Year	10 Year	Since Inception	Expense Ratio	
								Gross	Net
Fund Shares	USSTX	03/19/82	0.31	3.11	1.16	1.15	3.95	0.50	0.49
A Shares, without sales charge	UTESX	08/02/10	0.36	3.03	0.97	0.93	1.22	0.98	0.67
A Shares, with sales charge (max. 2.25%)	UTESX	08/02/10	-1.86	0.73	0.52	0.70	1.05	0.98	0.67
Institutional Shares	USTIX	06/29/20	0.32	3.25	–	–	1.00	0.59	0.46
Bloomberg Municipal Short 1-5 Year Index	–	–	-0.19	1.99	1.11	1.25	–	–	–

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. 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.

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 Municipal Short 1-5 Year Index is a market-value-weighted index which covers the short components of the Bloomberg Municipal Bond Index.

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.

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.

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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