USTB

VictoryShares Short-Term Bond ETF

QUARTERLY COMMENTARY • Q1 // March 31, 2024

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 VictoryShares Short-Term Bond ETF outperformed its benchmark, the Bloomberg 1-3 Year Credit 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
Investment Grade (Moody's Ratings)						
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
High Yield (Moody's Ratings)						
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
Structured Product						
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).

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Portfolio Performance & Positioning

During the quarter, we increased our allocation to corporates, while decreasing commercial mortgage-backed securities (CMBS), cash, and taxable muni exposure.

Contributors

- Best performers relative to the index were asset-backed securities (ABS), banking, CMBS, technology, and property & casualty insurance.
- From a credit perspective, relative to the index, our allocation to BBB and high yield bonds provided the best performance, along with our underallocation to single-A bonds.
- Allocation and selection added 103 bps to performance.

Detractors

- Sectors that detracted from performance relative to the index included Treasuries, other industrial, mortgage-backed securities, consumer cyclical services, and health insurance.
- From a credit perspective, relative to the index, AAA and AA bonds performed the worst.
- Duration subtracted 6 bps from performance.

ANNUALIZED RATE OF RETURN (%)

VictoryShares Short-Term Bond ETF (USTB)	QTR	YTD	1YR	3YR	5YR	Since Inception Oct 24, 2017
Net Asset Value (NAV)	1.52	1.52	6.70	1.97	2.84	2.73
Closing Market Price	1.51	1.51	6.70	1.96	2.84	2.75
Indexes						
Bloomberg 1-3 Year Credit Index	0.72	0.72	4.66	0.76	1.83	–

Expense Ratio (%) Gross	Net
0.35	0.35

Past performance does not guarantee future results. The performance data 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.victoryshares.com. ETF shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market price returns are based on the price of the last reported trade on the Fund's primary exchange. If you trade your shares at another time, your return may differ. 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 October 31, 2024. Index performance is shown for illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index.

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SECTOR WEIGHTING (%)

Sector	USTB	Bloomberg Credit (1-3 Y)
ABS	35.7	–
CMBS	4.4	–
Finance	23.8	38.2
Government Related	1.6	17.7
Industrials	15.6	39.8
Treasury	8.1	–
Utilities	1.3	4.3
Cash	8.0	–
Other	1.6	–

FUND TOP 10 HOLDINGS

	Weighting (%)
U.S. Government	9.31
Space Coast Credit Union (SCCU) 2023-1	0.87
Wheels Fleet Lease Funding 1 LLC (WFLF)	0.82
Master Credit Card Trust II (MCCT)	0.81
Wells Fargo & Company	0.81
Evergreen National Indemnity Company	0.79
Hertz Vehicle Financing LLC	0.75
U.S. Bank Auto Credit-Linked Notes 2023-1	0.71
Ford Motor (FORDR) 2023-1	0.70
Truist Financial Corp	0.69

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.

All investing involves risk, including the potential loss of principal. The Fund has the same risks as the underlying securities traded on the exchange throughout the day. Redemptions are limited, and commissions are often charged on each trade. ETFs may trade at a premium or discount to their net asset value. 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. 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. 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. Fund holdings and sector allocations are subject to change, may differ from the Index, and should not be considered investment advice.

Average Effective Duration is a duration calculation for bonds that have embedded options. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change and is, therefore, a measure of risk.

Beta is a measure of the volatility, or systematic risk, of a security or portfolio relative to the market or a benchmark.

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.

Market Capitalization is the total dollar value of all outstanding shares computed as number of shares times current market price.

Market Price is the price of the last reported trade on a fund's primary exchange.

Net Asset Value or **NAV** is a fund's total assets minus its total liabilities, divided by the number of outstanding shares.

Premium/Discount % indicates whether an ETF is currently trading at a higher or lower price than the current value of the securities in that portfolio.

Yield Curve shows yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Credit Quality ratings on underlying securities of the fund reflect the highest long-term rating from S&P, Moody's, or Fitch, and are converted to the equivalent S&P major rating category. S&P rates securities in descending order as AAA, AA, A, BBB, BB, B, CCC, CC, C and D. Unrated securities do not necessarily indicate low quality. Below-investment-grade is represented by a rating of BB and below. Quality ratings are subject to change.

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 1–3 Year Credit Index measures the performance of investment grade corporate debt and sovereign, supranational, local authority and non-U.S. agency bonds that have a remaining maturity of at least one year and less than three years.

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V19.125 // 1Q 2024 VS USTB COM