



# ANNUAL REPORT

USAA NASDAQ-100 INDEX FUND  
DECEMBER 31, 2016



## PRESIDENT'S MESSAGE

*“A diversified portfolio—one based on your individual goals, time horizon, and risk tolerance—can help you weather the markets’ inevitable ups and downs.”*



### February 2017

No one knows exactly what is going to happen from one day to the next. So, it makes sense to be prepared for the unexpected. This is particularly true in the investment world. In the closing weeks of 2016, global stock markets were rising and bond prices were falling. Precisely the opposite was happening at the beginning of 2016.

In early 2016, concern over economic growth spread across the world and fueled global stock market declines. After reaching their lows of the year in mid-February 2016, most global stock markets rebounded. In the United States, stocks climbed, rallying after Donald Trump’s victory in the November 2016 presidential election. Investors appeared to like the President’s promises of lower tax rates, less regulation, and more fiscal stimulus through infrastructure spending. Outside of the United States, emerging-markets equities recorded solid gains in 2016. Developed-markets stocks overall posted negative returns, with European stock markets providing the weakest performance.

Meanwhile, bond markets were dominated by shifting expectations about Federal Reserve (the Fed) monetary policy. The Fed, which raised short-term interest rates by 0.25% in December 2015, had previously forecast four interest rate increases during 2016. Policymakers backed off this expectation in March 2016, saying that only two interest rate increases were possible. As expectations about the Fed’s action extended into the future, longer-term interest rates fell and bond prices, which move in the opposite direction, rose. Yields then edged up during the summer and into the autumn of 2016 as U.S. economic data improved. They rose dramatically after the November 2016 presidential election and continued to rise in anticipation of a December 2016 interest rate increase by the Fed. As yields rose, bond prices fell. In December 2016, the Fed raised short-term interest rates by 0.25% and said it was likely to raise interest rates by 0.75% during 2017.

At the end of the twelve-month reporting period, as investors anticipated what might lie ahead, stock prices remained elevated and longer-term yields were near their highs for 2016. At some point, investors are likely to assess

whether reality matches their expectations. As of this writing, U.S. stock prices seem rather high. We believe that earnings news in the coming months will have to be extremely good in order to support continued price appreciation. We see relatively more opportunity in Europe in the near term, despite political uncertainties and slow economic growth. As for emerging-market equities, we believe the 2016 rally may continue, with the asset class benefiting from a pickup in economic growth, widening corporate profit margins, and improving liquidity.

Regarding the bond market, interest rate increases by the Fed in 2017 could add to short-term pressures. However, we believe that there is little reason to worry about rising yields, as long as they do not rise too quickly. We believe that interest rates will increase on a gradual basis; the economy is still growing slowly and inflation currently remains on the low side. Bonds continue to have an important role in a diversified portfolio, as they may help offset the potential volatility of stock holdings. They can also be an important source of income.

Looking ahead, we cannot predict how everything will play out. Investors should be prepared for increased volatility as the markets steadily readjust in response to new information. A diversified portfolio—one based on your individual goals, time horizon, and risk tolerance—can help you weather the markets' inevitable ups and downs. If you are uneasy about market risk in general or have concerns about too much exposure to specific asset classes, please call USAA to speak with an advisor.

On behalf of everyone here at USAA Investments, we appreciate the opportunity to serve you.

Sincerely,



Brooks Englehardt  
President  
USAA Investments

Investments provided by USAA Investment Management Company and USAA Financial Advisors, Inc., both registered broker-dealers, and affiliates. Financial planning services and financial advice provided by USAA Financial Planning Services Insurance Agency, Inc. (known as USAA Financial Insurance Agency in California, License # 0E36312), a registered investment adviser and insurance agency and its wholly owned subsidiary, USAA Financial Advisors, Inc., a registered broker dealer. • Investments in foreign securities are subject to additional and more diverse risks, including but not limited to currency fluctuations, market illiquidity, and political and economic instability. Foreign investing may result in more rapid and extreme changes in value than investments made exclusively in the securities of U.S. companies. There may be less publicly available information relating to foreign companies than those in the United States. Foreign securities may also be subject to foreign taxes. Investments made in emerging market countries may be particularly volatile. Economies of emerging market countries are generally less diverse and mature than more developed countries and may have less stable political systems. • Diversification does not guarantee a profit or prevent a loss.

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*This report is for the information of the shareholders and others who have received a copy of the currently effective prospectus of the Fund, managed by USAA Asset Management Company. It may be used as sales literature only when preceded or accompanied by a current prospectus, which provides further details about the Fund.*

# FUND OBJECTIVE

*The **USAA Nasdaq-100 Index Fund** (the Fund) seeks to match, before fees and expenses, the performance of the stocks composing the Nasdaq-100 Index. The Nasdaq-100 Index represents 100 of the largest nonfinancial stocks traded on The Nasdaq Stock Market®.*

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## **Types of Investments**

The Fund's principal investment strategy is, under normal market conditions, to invest at least 80% of the Fund's assets in the common stocks of companies composing the Nasdaq-100 Index. This strategy may be changed upon 60 days' written notice to shareholders.

In seeking to track the performance of the Nasdaq-100 Index, the Fund's subadviser, Northern Trust Investments, Inc. (NTI), will normally invest in all the common stocks of companies in the Nasdaq-100 Index in roughly the same proportions as their weightings in the index. While NTI attempts to replicate the index, there may be times when the Fund and the index do not match exactly. At times, NTI may purchase a stock not included in the Nasdaq-100 Index when it believes doing so would be a cost-efficient way of approximating the index's performance, for example, in anticipation of a stock being added to the index. To the extent that the Nasdaq-100 Index concentrates in the securities of a particular industry or group of industries, the Fund may similarly concentrate its investments.

## **IRA DISTRIBUTION WITHHOLDING DISCLOSURE**

We generally must withhold federal income tax at a rate of 10% of the taxable portion of your distribution and, if you live in a state that requires state income tax withholding, at your state's tax rate. However, you may elect not to have withholding apply or to have income tax withheld at a higher rate. Any withholding election that you make will apply to any subsequent distribution unless and until you change or revoke the election. If you wish to make a withholding election or change or revoke a prior withholding election, call (800) 531-USAA (8722) or (210) 531-8722.

If you do not have a withholding election in place by the date of a distribution, federal income tax will be withheld from the taxable portion of your distribution at a rate of 10%. If you must pay estimated taxes, you may be subject to estimated tax penalties if your estimated tax payments are not sufficient and sufficient tax is not withheld from your distribution.

For more specific information, please consult your tax adviser.

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# MANAGER'S COMMENTARY ON THE FUND

**Brent Reeder**

Northern Trust Investments, Inc.

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## ■ What were the market conditions during the reporting period?

The first two weeks of 2016 began with U.S. markets trending downwards as problems with the Chinese economy preoccupied investors and declining oil prices weighed on investor sentiment. Markets rebounded as global central banks expanded monetary operations yet again in response to signs of slow growth.

The June 23, 2016 referendum in the United Kingdom to exit the European Union brought a surprise victory for the “leave” campaign. The vote resulted in increased volatility across asset classes and caused an immediate drop in global equity markets. U.S. equities rallied in subsequent days, wiping away losses that may have occurred as a result of the vote. While many investors had expected two interest rate increases over the course of the year, weak economic data helped push the Federal Reserve into delaying an interest rate increase until December 2016. The Federal Open Market Committee’s December 2016 projections imply three interest rate increases in 2017.

In November 2016, OPEC (Organization of the Petroleum Exporting Countries) approved its first production cut in eight years, pushing oil prices above \$50/barrel. U.S. equities finished the year strong after heightened volatility preceding the U.S. presidential election. The majority of the rally appeared to be driven by the prospect of Republican pro-growth initiatives – including tax reform and regulatory rollback in addition to potential increases in infrastructure spending with the new presidential administration.

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Jobless claims reached multi-year lows as 2016 concluded with a 4.7% national unemployment rate. The yield curve shifted higher and became steeper during the fourth quarter 2016 as the 10-year U.S. Treasury rose above 2.4%. Although inflation remained stubbornly low throughout 2016, investors pushed interest rates upward in anticipation of higher growth and inflation in 2017. These expectations resulted in a stronger U.S. dollar compared to foreign currencies after the election.

■ **How did the USAA Nasdaq-100 Index Fund (the Fund) perform during the reporting period?**

The Fund closely tracked its benchmark, the broad-based Nasdaq-100<sup>®</sup> Index (the Index), during the reporting period ended December 31, 2016. The Fund posted a return of 6.68% versus the Index, which returned 7.27%. The Index represents 100 of the largest nonfinancial companies listed on The Nasdaq Stock Market<sup>®</sup> and is not available for direct investment.

■ **Please describe sector performance during the reporting period.**

In 2016, the Index returned 7.27%. U.S. Large cap equities underperformed mid cap equities, represented by the S&P 400 Index, which returned 20.74% in 2016.

The top performing sectors during the reporting period were Telecommunication Services and Industrials, returning 32.88% and 18.45% respectively. Health Care and Consumer Staples were the worst performing sectors for 2016, with returns of -19.24% and 4.65% respectively.

Thank you for the opportunity to help you with your investment needs.

**Past performance is no guarantee of future results.** • Investing in securities products involves risk, including possible loss of principal. • The USAA Nasdaq-100 Index Fund may be subject to stock market risk and is non-diversified, which means that it may invest a greater percentage of its assets in a single issuer. Individual stocks will fluctuate in response to the activities of individual companies, general market, and economic conditions domestically and abroad. When redeemed or sold, may be worth more or less than the original cost.

Refer to page 5 for the benchmark definition.

# INVESTMENT OVERVIEW

## USAA NASDAQ-100 INDEX FUND (THE FUND)

(Ticker Symbol: USNQX)

	12/31/16	12/31/15
Net Assets	\$1.1 Billion	\$935.0 Million
Net Asset Value Per Share	\$13.79	\$12.99

### AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/16

1 Year	5 Years	10 Years
6.68%	17.16%	11.04%

### EXPENSE RATIO AS OF 12/31/15\*

0.57%

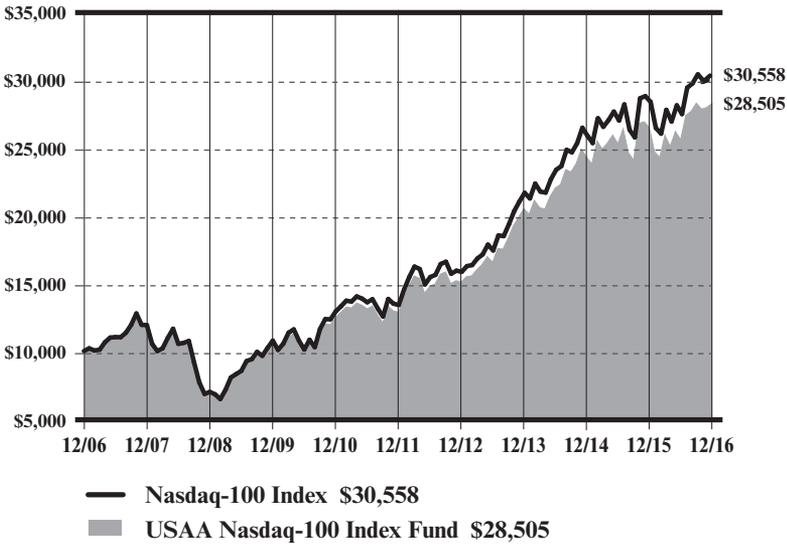
**High double-digit returns are attributable, in part, to unusually favorable market conditions and may not be repeated or consistently achieved in the future.**

**The performance data quoted represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance data quoted. The return and principal value of an investment will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. For performance data current to the most recent month-end, visit [usaa.com](http://usaa.com).**

\*The expense ratio represents the total annual operating expenses, before reductions of any expenses paid indirectly and including any acquired fund fees and expenses, as reported in the Fund's prospectus dated May 1, 2016, and is calculated as a percentage of average net assets. This expense ratio may differ from the expense ratio disclosed in the Financial Highlights, which excludes acquired fund fees and expenses.

Total return measures the price change in a share assuming the reinvestment of all net investment income and realized capital gain distributions, if any. The total returns quoted do not reflect adjustments made to the enclosed financial statements in accordance with U.S. generally accepted accounting principles or the deduction of taxes that a shareholder would pay on net investment income and realized capital gain distributions, including reinvested distributions, or redemptions of shares.

## ■ CUMULATIVE PERFORMANCE COMPARISON ■



Data from 12/31/06 to 12/31/16.

The graph illustrates how a \$10,000 hypothetical investment in the USAA Nasdaq-100 Index Fund closely tracks the Nasdaq-100 Index, an unmanaged modified capitalization-weighted index composed of 100 of the largest nonfinancial domestic and international companies listed on The Nasdaq Stock Market® based on market capitalization.

“Nasdaq-100®,” “Nasdaq-100 Index®,” and “Nasdaq®” are trademarks or service marks of The Nasdaq Stock Market, Inc. (which with its affiliates are the “Corporations”) and have been licensed for our use. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE USAA NASDAQ-100 INDEX FUND. The Fund is not sponsored, sold, or promoted by The Nasdaq Stock Market, Inc., and The Nasdaq Stock Market, Inc. makes no representation regarding the advisability of investing in the Fund. Index products incur fees and expenses and may not always be invested in all securities of the index the Fund attempts to mirror. Indexes are unmanaged and you cannot invest directly in an index. The return information for the indexes does not reflect the deduction of any fees, expenses, or taxes.

Past performance is no guarantee of future results, and the cumulative performance quoted does not reflect the deduction of taxes that a shareholder would pay on distributions or the redemption of shares.

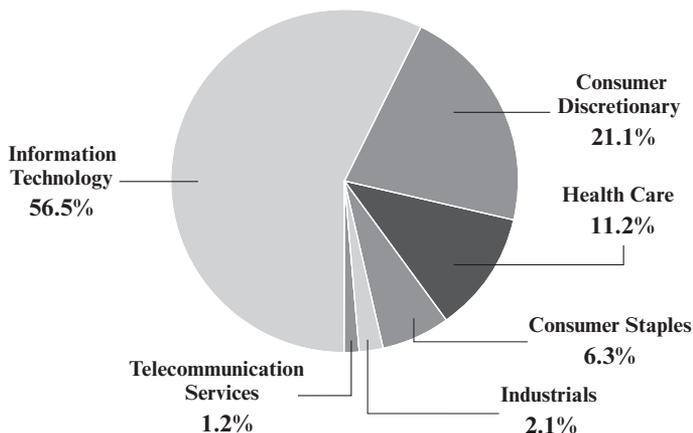
■ **TOP 10 EQUITY HOLDINGS – 12/31/16** ■

(% of Net Assets)

Apple, Inc. ....	10.8%
Microsoft Corp. ....	8.4%
Amazon.com, Inc. ....	6.2%
Facebook, Inc. "A" ....	4.7%
Alphabet, Inc. "C" ....	4.6%
Alphabet, Inc. "A" ....	4.1%
Intel Corp. ....	3.0%
Comcast Corp. "A" ....	2.9%
Cisco Systems, Inc. ....	2.7%
Amgen, Inc. ....	1.9%

You will find a complete list of securities that the Fund owns on pages 9-15.

■ **SECTOR ALLOCATION\* – 12/31/16** ■



\*Excludes Money Market Instruments and Futures.

Percentages are of the net assets of the Fund, and may not equal 100%.

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# DISTRIBUTIONS TO SHAREHOLDERS

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The following federal tax information related to the Fund's fiscal year ended December 31, 2016, is provided for information purposes only and should not be used for reporting to federal or state revenue agencies. Federal tax information for the calendar year will be reported to you on Form 1099-DIV in January 2017.

With respect to distributions paid, the Fund designates the following amounts (or, if subsequently determined to be different, the maximum amount allowable) for the fiscal year ended December 31, 2016:

<b>Dividend Received Deduction (corporate shareholders)<sup>(1)</sup></b>	<b>Qualified Dividend Income (non-corporate shareholders)<sup>(1)</sup></b>	<b>Qualified Interest Income</b>
100%	100%	\$52,000

<sup>(1)</sup> Presented as a percentage of net investment income and short-term capital gain distributions paid, if any.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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## **The Shareholders and Board of Trustees of USAA Nasdaq-100 Index Fund:**

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of the USAA Nasdaq-100 Index Fund (one of the portfolios constituting USAA Mutual Funds Trust) (the “Fund”) as of December 31, 2016, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2016, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the USAA Nasdaq-100 Index Fund at December 31, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

San Antonio, Texas  
February 21, 2017

# PORTFOLIO OF INVESTMENTS

December 31, 2016

Number of Shares	Security	Market Value (000)
<b>EQUITY SECURITIES (98.4%)</b>		
<b>COMMON STOCKS (98.4%)</b>		
<b>Consumer Discretionary (21.1%)</b>		
<b>Apparel Retail (0.5%)</b>		
74,627	Ross Stores, Inc.	\$ 4,896
<b>Automobile Manufacturers (0.6%)</b>		
28,216	Tesla Motors, Inc.*	6,029
<b>Automotive Retail (0.5%)</b>		
17,774	O'Reilly Automotive, Inc.*	4,948
<b>Broadcasting (0.2%)</b>		
28,655	Discovery Communications, Inc. "A"*	786
44,110	Discovery Communications, Inc. "C"*	1,181
		<u>1,967</u>
<b>Cable &amp; Satellite (5.4%)</b>		
50,927	Charter Communications, Inc. "A"*	14,663
448,451	Comcast Corp. "A"	30,966
42,705	DISH Network Corp. "A"*	2,474
48,304	Liberty Global plc "A"*	1,478
120,147	Liberty Global plc "C"*	3,568
9,586	Liberty Global plc LiLAC "A"*	211
22,791	Liberty Global plc LiLAC "C"*	482
907,679	Sirius XM Holdings, Inc.	4,039
		<u>57,881</u>
<b>General Merchandise Stores (0.3%)</b>		
44,391	Dollar Tree, Inc.*	3,426
<b>Hotels, Resorts &amp; Cruise Lines (0.7%)</b>		
73,443	Marriott International, Inc. "A"	6,072
42,642	Norwegian Cruise Line Holdings Ltd.*	1,814
		<u>7,886</u>
<b>Internet Retail (9.7%)</b>		
89,407	Amazon.com, Inc. <sup>(a)</sup>	67,043
79,019	Ctrip.com International Ltd. ADR*	3,161

Number of Shares	Security	Market Value (000)
25,828	Expedia, Inc.	\$ 2,926
172,519	JD.com, Inc. ADR*	4,389
84,141	Liberty Interactive Corp. "A"*	1,681
15,265	Liberty Ventures*	563
80,759	Netflix, Inc.*	9,998
9,285	Priceline Group, Inc.*	13,612
24,952	TripAdvisor, Inc.*	1,157
		<u>104,530</u>
	<b>Leisure Products (0.3%)</b>	
23,485	Hasbro, Inc.	1,827
64,279	Mattel, Inc.	1,771
		<u>3,598</u>
	<b>Movies &amp; Entertainment (1.1%)</b>	
198,817	Twenty-First Century Fox, Inc. "A"	5,575
150,421	Twenty-First Century Fox, Inc. "B"	4,099
65,404	Viacom, Inc. "B"	2,295
		<u>11,969</u>
	<b>Restaurants (1.4%)</b>	
273,877	Starbucks Corp.	15,206
	<b>Specialty Stores (0.4%)</b>	
24,694	Tractor Supply Co.	1,872
11,724	Ulta Salon, Cosmetics & Fragrance, Inc.*	2,989
		<u>4,861</u>
	Total Consumer Discretionary	<u>227,197</u>
	<b>Consumer Staples (6.3%)</b>	
	<b>Drug Retail (1.6%)</b>	
203,876	Walgreens Boots Alliance, Inc.	16,873
	<b>Hypermarkets &amp; Super Centers (1.2%)</b>	
82,249	Costco Wholesale Corp.	13,169
	<b>Packaged Foods &amp; Meat (3.1%)</b>	
229,056	Kraft Heinz Co.	20,001
290,601	Mondelez International, Inc. "A"	12,882
		<u>32,883</u>
	<b>Soft Drinks (0.4%)</b>	
107,345	Monster Beverage Corp.*	4,760
	Total Consumer Staples	<u>67,685</u>

Number of Shares	Security	Market Value (000)
<b><u>Health Care (11.2%)</u></b>		
<b><u>Biotechnology (8.5%)</u></b>		
42,240	Alexion Pharmaceuticals, Inc.*	\$ 5,168
139,978	Amgen, Inc.	20,466
40,940	Biogen, Inc.*	11,610
32,358	BioMarin Pharmaceutical, Inc.*	2,681
145,865	Celgene Corp.*	16,884
247,897	Gilead Sciences, Inc.	17,752
35,416	Incyte Corp.*	3,551
19,475	Regeneron Pharmaceuticals, Inc.*	7,149
15,327	Shire plc ADR	2,611
46,675	Vertex Pharmaceuticals, Inc.*	3,439
		<u>91,311</u>
<b><u>Health Care Distributors (0.2%)</u></b>		
15,143	Henry Schein, Inc.*	<u>2,297</u>
<b><u>Health Care Equipment (0.6%)</u></b>		
52,340	Hologic, Inc.*	2,100
7,290	Intuitive Surgical, Inc.*	4,623
		<u>6,723</u>
<b><u>Health Care Services (0.7%)</u></b>		
116,020	Express Scripts Holding Co.*	<u>7,981</u>
<b><u>Health Care Supplies (0.2%)</u></b>		
43,438	DENTSPLY SIRONA, Inc.	<u>2,508</u>
<b><u>Health Care Technology (0.3%)</u></b>		
63,882	Cerner Corp.*	<u>3,026</u>
<b><u>Life Sciences Tools &amp; Services (0.3%)</u></b>		
27,642	Illumina, Inc.*	<u>3,539</u>
<b><u>Pharmaceuticals (0.4%)</u></b>		
100,761	Mylan N.V.*	<u>3,844</u>
	Total Health Care	<u>121,229</u>
<b><u>Industrials (2.1%)</u></b>		
<b><u>Airlines (0.4%)</u></b>		
97,488	American Airlines Group, Inc.	<u>4,552</u>
<b><u>Construction Machinery &amp; Heavy Trucks (0.4%)</u></b>		
66,022	PACCAR, Inc.	<u>4,219</u>
<b><u>Diversified Support Services (0.2%)</u></b>		
19,747	Cintas Corp.	<u>2,282</u>

Number of Shares	Security	Market Value (000)
<b>Railroads (0.6%)</b>		
176,248	CSX Corp.	\$ 6,333
<b>Research &amp; Consulting Services (0.3%)</b>		
31,514	Verisk Analytics, Inc.*	2,558
<b>Trading Companies &amp; Distributors (0.2%)</b>		
54,309	Fastenal Co.	2,551
	Total Industrials	22,495
<b>Information Technology (56.5%)</b>		
<b>Application Software (1.9%)</b>		
93,555	Adobe Systems, Inc.*	9,631
41,793	Autodesk, Inc.*	3,093
29,331	Citrix Systems, Inc.*	2,620
48,297	Intuit, Inc.	5,535
		20,879
<b>Communications Equipment (2.7%)</b>		
944,524	Cisco Systems, Inc.	28,544
<b>Data Processing &amp; Outsourced Services (2.4%)</b>		
84,898	Automatic Data Processing, Inc.	8,726
40,843	Fiserv, Inc.*	4,341
68,071	Paychex, Inc.	4,144
227,043	PayPal Holdings, Inc.*	8,961
		26,172
<b>Home Entertainment Software (0.9%)</b>		
139,941	Activision Blizzard, Inc.	5,053
56,781	Electronic Arts, Inc.*	4,472
		9,525
<b>Internet Software &amp; Services (15.9%)</b>		
32,606	Akamai Technologies, Inc.*	2,174
55,711	Alphabet, Inc. "A"*(a)	44,148
64,932	Alphabet, Inc. "C"*	50,116
51,557	Baidu, Inc. ADR*	8,476
210,340	eBay, Inc.*	6,245
440,451	Facebook, Inc. "A"*	50,674
14,387	NetEase, Inc. ADR	3,098
179,534	Yahoo!, Inc.*	6,943
		171,874
<b>IT Consulting &amp; Other Services (0.6%)</b>		
114,149	Cognizant Technology Solutions Corp. "A"*	6,396

Number of Shares	Security	Market Value (000)
<b>Semiconductor Equipment (1.1%)</b>		
203,283	Applied Materials, Inc.	\$ 6,560
29,413	KLA-Tencor Corp.	2,314
30,632	Lam Research Corp.	3,239
		<u>12,113</u>
<b>Semiconductors (10.5%)</b>		
57,933	Analog Devices, Inc.	4,207
74,760	Broadcom Ltd.	13,215
891,696	Intel Corp.	32,342
53,401	Maxim Integrated Products, Inc.	2,060
40,712	Microchip Technology, Inc.	2,612
196,120	Micron Technology, Inc.*	4,299
101,420	NVIDIA Corp.	10,825
63,067	NXP Semiconductors N.V.*	6,181
277,893	QUALCOMM, Inc. <sup>(a)</sup>	18,119
34,958	Skyworks Solutions, Inc.	2,610
188,066	Texas Instruments, Inc.	13,723
47,476	Xilinx, Inc.	2,866
		<u>113,059</u>
<b>Systems Software (9.2%)</b>		
78,584	CA, Inc.	2,497
32,227	Check Point Software Technologies Ltd.*	2,722
1,463,027	Microsoft Corp. <sup>(a)</sup>	90,912
117,295	Symantec Corp.	2,802
		<u>98,933</u>
<b>Technology Hardware, Storage, &amp; Peripherals (11.3%)</b>		
1,003,342	Apple, Inc. <sup>(a)</sup>	116,207
55,413	Seagate Technology plc	2,115
53,710	Western Digital Corp.	3,650
		<u>121,972</u>
	Total Information Technology	<u>609,467</u>
<b>Telecommunication Services (1.2%)</b>		
<b>Integrated Telecommunication Services (0.2%)</b>		
23,347	SBA Communications Corp. "A"*	2,411
<b>Wireless Telecommunication Services (1.0%)</b>		
154,981	T-Mobile US, Inc.*	8,913
80,954	Vodafone Group plc ADR	1,978
		<u>10,891</u>
	Total Telecommunication Services	<u>13,302</u>
	Total Common Stocks	<u>1,061,375</u>
	Total Equity Securities (cost: \$671,952)	<u>1,061,375</u>

Principal Amount \$(000)/ Shares	Security	Market Value (000)
<b>GOVERNMENT &amp; U.S. TREASURY MONEY MARKET INSTRUMENTS (1.6%)</b>		
<b>GOVERNMENT &amp; U.S. TREASURY MONEY MARKET FUNDS (1.4%)</b>		
14,226,467	State Street Institutional Treasury Money Market Fund Premier Class, 0.40% <sup>(b)</sup>	\$ 14,226
<b>U.S. TREASURY BILLS (0.2%)</b>		
\$2,310	0.46%; 3/2/2017 <sup>(c),(d)</sup>	2,308
	Total Government & U.S. Treasury Money Market Instruments (cost: \$16,534)	16,534
	<b>Total Investments (cost: \$688,486)</b>	<b>\$1,077,909</b>

Number of Contracts Long/(Short)	Expiration Date	Contract Value (000)	Unrealized Appreciation/ (Depreciation) (000)
<b>FUTURES<sup>(e)</sup></b>			
<b>LONG FUTURES</b>			
<b>Equity Contracts</b>			
173	Nasdaq 100 E-Mini	03/17/2017 \$16,829	\$ (79)
	<b>Total Futures</b>	<b>\$16,829</b>	<b>\$ (79)</b>

(\$ in 000s)	VALUATION HIERARCHY			
Assets	LEVEL 1	LEVEL 2	LEVEL 3	Total
Equity Securities:				
Common Stocks	\$1,061,375	\$-	\$-	\$1,061,375
Government & U.S. Treasury Money				
Market Instruments:				
Government & U.S. Treasury Money				
Market Funds	14,226	-	-	14,226
U.S. Treasury Bills	2,308	-	-	2,308
<b>Total</b>	<b>\$1,077,909</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,077,909</b>
<b>Liabilities</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>Total</b>
Futures <sup>(1)</sup>	\$(79)	\$-	\$-	\$(79)
<b>Total</b>	<b>\$(79)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$(79)</b>

<sup>(1)</sup>Futures are valued at the unrealized appreciation/(depreciation) on the investment.

Refer to the Portfolio of Investments for additional industry, country, or geographic region classifications.

For the period of January 1, 2016, through December 31, 2016, there were no transfers of securities between levels. The Fund's policy is to recognize any transfers in and transfers out as of the beginning of the reporting period in which the event or circumstance that caused the transfer occurred.

# NOTES TO PORTFOLIO OF INVESTMENTS

December 31, 2016

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## ■ GENERAL NOTES

Market values of securities are determined by procedures and practices discussed in Note 1A to the financial statements.

The Portfolio of Investments category percentages shown represent the percentages of the investments to net assets, and, in total, may not equal 100%. A category percentage of 0.0% represents less than 0.1% of net assets.

## ■ PORTFOLIO ABBREVIATIONS AND DESCRIPTIONS

ADR American depositary receipts are receipts issued by a U.S. bank evidencing ownership of foreign shares. Dividends are paid in U.S. dollars.

## ■ SPECIFIC NOTES

- (a) The security, or a portion thereof, is segregated to cover the value of open futures contracts at December 31, 2016.
- (b) Rate represents the money market fund annualized seven-day yield at December 31, 2016.
- (c) Securities with a value of \$2,308,000 are segregated as collateral for initial margin requirements on open futures contracts.
- (d) Rate represents an annualized yield at time of purchase, not coupon rate.
- (e) The contract value of futures purchased as a percentage of Net Assets is 1.6%.

\* Non-income-producing security.

See accompanying notes to financial statements.

# STATEMENT OF ASSETS AND LIABILITIES

## (IN THOUSANDS)

December 31, 2016

### ASSETS

Investments in securities, at market value (cost of \$688,486)	\$1,077,909
Receivables:	
Capital shares sold	1,254
USAA Transfer Agency Company (Note 5D)	1
Dividends and interest	404
Total assets	<u>1,079,568</u>

### LIABILITIES

Payables:	
Capital shares redeemed	720
Variation margin on futures contracts	189
Accrued management fees	182
Accrued transfer agent's fees	49
Other accrued expenses and payables	109
Total liabilities	<u>1,249</u>
Net assets applicable to capital shares outstanding	<u>\$1,078,319</u>

### NET ASSETS CONSIST OF:

Paid-in capital	\$ 687,243
Accumulated undistributed net investment income	7,497
Accumulated net realized loss on investments and futures transactions	(5,765)
Net unrealized appreciation of investments and futures contracts	389,344
Net assets applicable to capital shares outstanding	<u>\$1,078,319</u>
Capital shares outstanding, unlimited number of shares authorized, no par value	<u>78,185</u>
Net asset value, redemption price, and offering price per share	<u>\$ 13.79</u>

See accompanying notes to financial statements.

# STATEMENT OF OPERATIONS

## (IN THOUSANDS)

Year ended December 31, 2016

### INVESTMENT INCOME

Dividends	\$12,509
Interest	87
Total income	<u>12,596</u>

### EXPENSES

Management fees	1,941
Administration and servicing fees	1,455
Transfer agent's fees	1,179
Custody and accounting fees	132
Postage	56
Shareholder reporting fees	32
Trustees' fees	30
Registration fees	70
Professional fees	129
Other	75
Total expenses	<u>5,099</u>

### NET INVESTMENT INCOME

7,497

### NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FUTURES CONTRACTS

Net realized gain (loss) on:	
Investments	(41)
Futures transactions	2,045
Change in net unrealized appreciation/(depreciation) of:	
Investments	58,262
Futures contracts	137
Net realized and unrealized gain	<u>60,403</u>
Increase in net assets resulting from operations	<u>\$67,900</u>

See accompanying notes to financial statements.

## STATEMENTS OF CHANGES IN NET ASSETS (IN THOUSANDS)

Years ended December 31,

	2016	2015
<b>FROM OPERATIONS</b>		
Net investment income	\$ 7,497	\$ 5,163
Net realized gain (loss) on investments	(41)	7,879
Net realized gain on futures transactions	2,045	4,871
Change in net unrealized appreciation/(depreciation) of:		
Investments	58,262	52,425
Futures contracts	137	(78)
Increase in net assets resulting from operations	<u>67,900</u>	<u>70,260</u>
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
Net investment income	(5,335)	(5,666)
Net realized gains	—	(19,044)
Distributions to shareholders	<u>(5,335)</u>	<u>(24,710)</u>
<b>FROM CAPITAL SHARE TRANSACTIONS</b>		
Proceeds from shares sold	308,078	329,154
Reinvested dividends	5,261	24,318
Cost of shares redeemed	<u>(232,590)</u>	<u>(170,627)</u>
Increase in net assets from capital share transactions	<u>80,749</u>	<u>182,845</u>
Capital contribution from USAA Transfer Agency Company (Note 5D)	1	5
Net increase in net assets	<u>143,315</u>	<u>228,400</u>
<b>NET ASSETS</b>		
Beginning of year	935,004	706,604
End of year	<u>\$1,078,319</u>	<u>\$ 935,004</u>
Accumulated undistributed net investment income:		
End of year	<u>\$ 7,497</u>	<u>\$ 5,335</u>
<b>CHANGE IN SHARES OUTSTANDING</b>		
Shares sold	23,911	25,772
Shares issued for dividends reinvested	377	1,846
Shares redeemed	<u>(18,088)</u>	<u>(13,425)</u>
Increase in shares outstanding	<u>6,200</u>	<u>14,193</u>

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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## **(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

USAA MUTUAL FUNDS TRUST (the Trust), registered under the Investment Company Act of 1940, as amended (the 1940 Act), is an open-end management investment company organized as a Delaware statutory trust consisting of 54 separate funds. Additionally, the Fund qualifies as a registered investment company under Accounting Standards Codification Topic 946. The information presented in this annual report pertains only to the USAA Nasdaq-100 Index Fund (the Fund), which is classified as nondiversified under the 1940 Act. The Fund seeks to match, before fees and expenses, the performance of the stocks composing the Nasdaq-100 Index. The Nasdaq-100 Index represents 100 of the largest nonfinancial stocks traded on The Nasdaq Stock Market. USAA Asset Management Company (the Manager), an affiliate of the Fund, has retained Northern Trust Investments, Inc. (NTI) to serve as subadviser for the Fund. NTI is responsible for investing the Fund's assets. Under normal market conditions, NTI attempts to achieve the Fund's objective by investing at least 80% of the Fund's assets in the common stocks of companies composing the Nasdaq-100 Index.

As a nondiversified fund, the Fund may invest a greater percentage of its assets in a single issuer. Because a relatively high percentage of the Fund's total assets may be invested in the securities of a single issuer or a limited number of issuers, the securities of the Fund may be more sensitive to changes in the market value of a single issuer, a limited number of issuers, or large companies generally. Such a focused investment strategy may increase the volatility of the Fund's investment results because this Fund may be more susceptible to risk associated with a single economic, political, or regulatory event than a diversified fund. Effective March 1, 2017, the Fund intends to offer a new class of shares, R6 Shares, which will be available for investment

by participants in employer-sponsored retirement plans where a financial intermediary provides retirement recordkeeping services to plan participants and to endowment funds and foundations.

A. **Security valuation** – The Trust’s Board of Trustees (the Board) has established the Valuation Committee (the Committee), and subject to Board oversight, the Committee administers and oversees the Fund’s valuation policies and procedures, which are approved by the Board. Among other things, these policies and procedures allow the Fund to utilize independent pricing services, quotations from securities dealers, and a wide variety of sources and information to establish and adjust the fair value of securities as events occur and circumstances warrant.

The Committee reports to the Board on a quarterly basis and makes recommendations to the Board as to pricing methodologies and services used by the Fund and presents additional information to the Board regarding application of the pricing and fair valuation policies and procedures during the preceding quarter.

The Committee meets as often as necessary to make pricing and fair value determinations. In addition, the Committee holds regular monthly meetings to review prior actions taken by the Committee and the Manager. Among other things, these monthly meetings include a review and analysis of back testing reports, pricing service quotation comparisons, illiquid securities and fair value determinations, pricing movements, and daily stale price monitoring.

The value of each security is determined (as of the close of trading on the New York Stock Exchange (NYSE) on each business day the NYSE is open) as set forth below:

1. Equity securities, including exchange-traded funds (ETFs), except as otherwise noted, traded primarily on a domestic securities exchange or the over-the-counter markets, are valued at the last sales price or official closing price on the exchange or primary market on which they trade. Securities traded primarily on foreign securities exchanges or markets are valued at the last quoted sales price, or the most recently determined official closing price calculated according to local market convention, available at the time the Fund is valued. If

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no last sale or official closing price is reported or available, the average of the bid and asked prices generally is used. Actively traded equity securities listed on a domestic exchange generally are categorized in Level 1 of the fair value hierarchy. Certain preferred and equity securities traded in inactive markets generally are categorized in Level 2 of the fair value hierarchy.

2. Short-term debt securities with original or remaining maturities of 60 days or less may be valued at amortized cost, provided that amortized cost represents the fair value of such securities.
3. Debt securities with maturities greater than 60 days are valued each business day by a pricing service (the Service) approved by the Board. The Service uses an evaluated mean between quoted bid and asked prices or the last sales price to value a security when, in the Service's judgment, these prices are readily available and are representative of the security's market value. For many securities, such prices are not readily available. The Service generally prices those securities based on methods which include consideration of yields or prices of securities of comparable quality, coupon, maturity, and type; indications as to values from dealers in securities; and general market conditions. Generally, debt securities are categorized in Level 2 of the fair value hierarchy; however, to the extent the valuations include significant unobservable inputs, the securities would be categorized in Level 3.
4. Investments in open-end investment companies, commingled, or other funds, other than ETFs, are valued at their net asset value (NAV) at the end of each business day and are categorized in Level 1 of the fair value hierarchy.
5. Repurchase agreements are valued at cost.
6. Futures are valued at the settlement price at the close of market on the principal exchange on which they are traded or, in the absence of any transactions that day, the settlement price on the prior trading date if it is within the spread between the closing bid and asked prices closest to the last reported sale price.

7. In the event that price quotations or valuations are not readily available, are not reflective of market value, or a significant event has been recognized in relation to a security or class of securities, the securities are valued in good faith by the Committee in accordance with valuation procedures approved by the Board. The effect of fair value pricing is that securities may not be priced on the basis of quotations from the primary market in which they are traded and the actual price realized from the sale of a security may differ materially from the fair value price. Valuing these securities at fair value is intended to cause the Fund's NAV to be more reliable than it otherwise would be.

Fair value methods used by the Manager include, but are not limited to, obtaining market quotations from secondary pricing services, broker-dealers, other pricing services, or widely used quotation systems. General factors considered in determining the fair value of securities include fundamental analytical data, the nature and duration of any restrictions on disposition of the securities, evaluation of credit quality, and an evaluation of the forces that influenced the market in which the securities are purchased and sold.

- B. **Fair value measurements** – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-level valuation hierarchy disclosed in the Portfolio of Investments is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical securities.

Level 2 – inputs to the valuation methodology are other significant observable inputs, including quoted prices for similar securities, inputs that are observable for the securities, either directly or indirectly, and market-corroborated inputs such as market indexes.

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Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement, including the Manager’s own assumptions in determining the fair value.

The inputs or methodologies used for valuing securities are not necessarily an indication of the risks associated with investing in those securities.

- C. **Derivative instruments and hedging activities** – The Fund may buy, sell, and enter into certain types of derivatives, including, but not limited to futures contracts, options, and options on futures contracts, under circumstances in which such instruments are expected by the portfolio manager to aid in achieving the Fund’s investment objective. The Fund also may use derivatives in circumstances where the portfolio manager believes they offer an economical means of gaining exposure to a particular asset class or securities market or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market. With exchange-listed futures contracts and options, counterparty credit risk to the Fund is limited to the exchange’s clearinghouse which, as counterparty to all exchange-traded futures contracts and options, guarantees the transactions against default from the actual counterparty to the transaction. The Fund’s derivative agreements held at December 31, 2016, did not include master netting provisions.

**Futures contracts** – The Fund is subject to cash flow and tracking error risk in the normal course of pursuing its investment objectives. The Fund may use stock index futures contracts in an attempt to reduce any performance discrepancies between the Fund and the Nasdaq-100 Index. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date. Upon entering into such contracts, the Fund is required to deposit with the broker in either cash or securities an initial margin in an amount equal to a certain percentage of the contract amount. Subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gains or losses. When the

contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Upon entering into such contracts, the Fund bears the risk of interest or exchange rates or securities prices moving unexpectedly in an unfavorable direction, in which case, the Fund may not achieve the anticipated benefits of the futures contracts.

**Fair Values of Derivative Instruments as of December 31, 2016\***  
(in thousands)

Derivatives not accounted for as hedging instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Equity contracts		\$–	Net unrealized appreciation of investments and futures contracts	79**

\* For open derivative instruments as of December 31, 2016, see the Portfolio of Investments, which also is indicative of activity for the year ended December 31, 2016.

\*\* Includes cumulative appreciation/(depreciation) of futures as reported on the Portfolio of Investments. Only current day's variation margin is reported within the Statement of Assets and Liabilities.

**The Effect of Derivative Instruments on the Statement of Operations for the year ended December 31, 2016 (in thousands)**

Derivatives not accounted for as hedging instruments	Statement of Operations Location	Realized gain (loss) on derivatives	Change in unrealized appreciation/(depreciation) on derivatives
Equity contracts	Net realized gain (loss) on Futures transactions / Change in net unrealized appreciation/(depreciation) of Futures contracts	\$2,045	\$137

- D. **Federal taxes** – The Fund's policy is to comply with the requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated

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investment companies and to distribute substantially all of its taxable income and net capital gains, if any, to its shareholders. Therefore, no federal income tax provision is required.

- E. **Foreign taxation** – Foreign income and capital gains on some foreign securities may be subject to foreign taxes, which are reflected as a reduction to such income and realized gains. The Fund records a liability based on unrealized gains to provide for potential foreign taxes payable upon the sale of these securities. Foreign taxes have been provided for in accordance with the Fund’s understanding of the applicable countries’ prevailing tax rules and rates.
- F. **Investments in securities** – Securities transactions are accounted for on the date the securities are purchased or sold (trade date). Gains or losses from sales of investment securities are computed on the identified cost basis. Dividend income, less foreign taxes, if any, is recorded on the ex-dividend date. If the ex-dividend date has passed, certain dividends from foreign securities are recorded upon notification. Interest income is recorded daily on the accrual basis. Premiums and discounts on short-term securities are amortized on a straight-line basis over the life of the respective securities.
- G. **Expenses paid indirectly** – Through arrangements with the Fund’s custodian and other banks utilized by the Fund for cash management purposes, realized credits, if any, generated from cash balances in the Fund’s bank accounts may be used to directly reduce the Fund’s expenses. For the year ended December 31, 2016, there were no custodian and other bank credits.
- H. **Indemnifications** – Under the Trust’s organizational documents, its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties to the Trust. In addition, in the normal course of business, the Trust enters into contracts that contain a variety of representations and warranties that provide general indemnifications. The Trust’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust that have not yet occurred. However, the Trust expects the risk of loss to be remote.

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- I. **Use of estimates** – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that may affect the reported amounts in the financial statements.

## **(2) LINE OF CREDIT**

The Fund, participates along with other funds of the Trust, in a joint, short-term, revolving, committed loan agreement of \$500 million with USAA Capital Corporation (CAPCO), an affiliate of the Manager. The purpose of the agreement is to provide temporary or emergency cash needs, including redemption requests that might otherwise require the untimely disposition of securities. Subject to availability (including usage of the facility by other funds of the Trust), the Fund may borrow from CAPCO an amount up to 5% of the Fund's total assets at an interest rate based on the London Interbank Offered Rate (LIBOR), plus 100.0 basis points.

The Funds are also assessed facility fees by CAPCO in the amount of 12.0 basis points of the amount of the committed loan agreement. Prior to September 30, 2016, the maximum annual facility fee was 9.0 basis points of the amount of the committed loan agreement. The facility fees are allocated among the Funds based on their respective average net assets for the period.

The Funds may request an optional increase of the committed loan agreement from \$500 million up to \$750 million. If the Funds increase the committed loan agreement, the assessed facility fee on the amount of the additional commitment will be 13.0 basis points.

For the year ended December 31, 2016, the Fund paid CAPCO facility fees of \$7,000, which represents 1.4% of the total fees paid to CAPCO by the Funds. The Fund had no borrowings under this agreement during the year ended December 31, 2016.

## **(3) DISTRIBUTIONS**

The character of any distributions made during the year from net investment income or net realized gains is determined in accordance with federal tax regulations and may differ from those determined in accordance with U.S. generally accepted accounting principles. Also, due to the timing of

distributions, the fiscal year in which amounts are distributed may differ from the year that the income or realized gains were recorded by the Fund.

The tax character of distributions paid during the years ended December 31, 2016, and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Ordinary income*	\$5,335,000	\$ 9,538,000
Long-term realized capital gain	<u>—</u>	<u>15,172,000</u>
Total distributions paid	<u>\$5,335,000</u>	<u>\$24,710,000</u>

As of December 31, 2016, the components of net assets representing distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	\$ 7,497,000
Undistributed long-term capital gains	1,788,000
Unrealized appreciation of investments	381,790,000

\* Includes short-term realized capital gains, if any, which are taxable as ordinary income.

The difference between book-basis and tax-basis unrealized appreciation of investments is attributable to the tax deferral of losses on wash sales adjustments.

Distributions of net investment income and realized gains from security transactions not offset by capital losses are made annually in the succeeding fiscal year or as otherwise required to avoid the payment of federal taxes.

At December 31, 2016, the Fund had no capital loss carryforwards, for federal income tax purposes.

For the year ended December 31, 2016, the Fund did not incur any income tax, interest, or penalties and has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions. On an ongoing basis, the Manager will monitor the Fund's tax basis to determine if adjustments to this conclusion are necessary. The statute of limitations on the Fund's tax return filings generally remain open for the three preceding fiscal reporting year ends and remain subject to examination by the Internal Revenue Service and state taxing authorities.

#### **(4) INVESTMENT TRANSACTIONS**

Cost of purchases and proceeds from sales/maturities of securities, excluding short-term securities, for the year ended December 31, 2016, were \$151,625,000 and \$40,167,000, respectively.

As of December 31, 2016, the cost of securities, including short-term securities, for federal income tax purposes, was \$696,119,000.

Gross unrealized appreciation and depreciation of investments as of December 31, 2016, for federal income tax purposes, were \$396,627,000 and \$14,837,000, respectively, resulting in net unrealized appreciation of \$381,790,000.

#### **(5) TRANSACTIONS WITH MANAGER**

- A. **Management fees** – The Manager provides investment management services to the Fund pursuant to an Advisory Agreement. Under this agreement, the Manager is responsible for managing the business and affairs of the Fund. The Manager also is authorized to select (with approval of the Board and without shareholder approval) one or more subadvisers to manage the day-to-day investment of a portion of the Fund's assets.

The Manager monitors each subadviser's performance through quantitative and qualitative analysis and periodically reports to the Board as to whether each subadviser's agreement should be renewed, terminated, or modified. The Manager is also responsible for determining the asset allocation for the subadviser(s). The allocation for each subadviser could range from 0% to 100% of the Fund's assets, and the Manager could change the allocations without shareholder approval.

The Fund's management fees are accrued daily and paid monthly at an annualized rate of 0.20% of the Fund's average net assets. For the year ended December 31, 2016, the Fund incurred management fees, paid or payable to the Manager, of \$1,941,000.

- B. **Subadvisory arrangement(s)** – The Manager entered into an Investment Subadvisory Agreement with NTI under which NTI directs the investment

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and reinvestment of the Fund's assets (as allocated from time to time by the Manager).

The Manager (not the Fund) pays NTI a subadvisory fee equal to the greater of a minimum annual fee of \$50,000 or a fee at an annual rate equal to 0.06% of the Fund's average net assets on amounts up to \$100 million; 0.04% of net assets for amounts over \$100 million and up to \$250 million; and 0.03% of net assets for amounts over \$250 million. For the year ended December 31, 2016, the Manager incurred subadvisory fees with respect to the Fund, paid or payable to NTI, of \$336,000.

- C. **Administration and servicing fees** – The Manager provides certain administration and servicing functions for the Fund. For such services, the Manager receives a fee accrued daily and paid monthly at an annualized rate of 0.15% of the Fund's average net assets for the fiscal year. For the year ended December 31, 2016, the Fund incurred administration and servicing fees, paid or payable to the Manager, of \$1,455,000.

In addition to the services provided under its Administration and Servicing Agreement with the Fund, the Manager also provides certain compliance and legal services for the benefit of the Fund. The Board has approved the reimbursement of a portion of these expenses incurred by the Manager. For the year ended December 31, 2016, the Fund reimbursed the Manager \$24,000 for these compliance and legal services. These expenses are included in the professional fees on the Fund's Statement of Operations.

- D. **Transfer agent's fees** – USAA Transfer Agency Company, d/b/a USAA Shareholder Account Services (SAS), an affiliate of the Manager, provides transfer agent services to the Fund based on an annual charge of \$23 per shareholder account plus out-of-pocket expenses. SAS pays a portion of these fees to certain intermediaries for the administration and servicing of accounts that are held with such intermediaries. For the year ended December 31, 2016, the Fund incurred transfer agent's fees, paid or payable to SAS, of \$1,179,000. Additionally, the Fund recorded a capital contribution and a receivable from SAS of \$1,000 at

December 31, 2016, for adjustments related to corrections to certain shareholder transactions.

- E. **Underwriting services** – USAA Investment Management Company provides exclusive underwriting and distribution of the Fund’s shares on a continuing best-efforts basis and receives no fee or other compensation for these services.

## **(6) TRANSACTIONS WITH AFFILIATES**

The Manager is indirectly wholly owned by United Services Automobile Association (USAA), a large, diversified financial services institution.

Certain trustees and officers of the Fund are also directors, officers, and/or employees of the Manager. None of the affiliated trustees or Fund officers received any compensation from the Fund.

## **(7) UPCOMING REGULATORY MATTERS**

In October 2016, the U.S. Securities and Exchange Commission (SEC) issued Final Rule Release No. 33-10231, *Investment Company Reporting Modernization*. In part, the final rules require the filing of new forms N-PORT and N-CEN, and amends Regulation S-X to require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments.

In October 2016, the SEC issued Final Rule Release No. 33-10233, *Investment Company Liquidity Risk Management Programs*. This final rule requires funds to establish a liquidity risk management program and enhances disclosures regarding funds liquidity.

In October 2016, the SEC issued Final Rule Release No. 33-10234, *Investment Company Swing Pricing*. This rule permits certain funds to use swing pricing during periods of heavy redemptions and requires certain disclosures regarding the use of swing pricing in forms filed with the SEC.

The Manager is currently evaluating the impact these rules and amendments will have on the financial statements and other disclosures. The compliance date for the amendments to Regulation S-X is August 1, 2017, with other staggered compliance dates extending through December 2018.

## (8) FINANCIAL HIGHLIGHTS

Per share operating performance for a share outstanding throughout each period is as follows:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Net asset value at beginning of period	\$ 12.99	\$ 12.23	\$ 10.32	\$ 7.61	\$ 6.54
Income from investment operations:					
Net investment income	.09	.08 <sup>(a)</sup>	.09	.06	.05
Net realized and unrealized gain	.78	1.04 <sup>(a)</sup>	1.85	2.68	1.09
Total from investment operations	.87	1.12 <sup>(a)</sup>	1.94	2.74	1.14
Less distributions from:					
Net investment income	(.07)	(.08)	(.03)	(.03)	(.06)
Realized capital gains	—	(.28)	—	—	(.01)
Total distributions	(.07)	(.36)	(.03)	(.03)	(.07)
Net asset value at end of period	\$ 13.79	\$ 12.99	\$ 12.23	\$ 10.32	\$ 7.61
Total return (%)*	6.68	9.09	18.75	36.00	17.46
Net assets at end of period (000)	\$1,078,319	\$935,004	\$706,604	\$460,689	\$309,634
Ratios to average net assets:**					
Expenses (%) <sup>(c)</sup>	.53	.57	.59	.64 <sup>(b)</sup>	.71
Expenses, excluding reimbursements (%) <sup>(c)</sup>	.53	.57	.59	.64	.75
Net investment income (%)	.77	.62	1.04	.77	.80
Portfolio turnover (%)	4	10	6	11	10

\* Assumes reinvestment of all net investment income and realized capital gain distributions, if any, during the period. Includes adjustments in accordance with U.S. generally accepted accounting principles and could differ from the Lipper reported return. Total returns for periods of less than one year are not annualized.

\*\* For the year ended December 31, 2016, average net assets were \$970,477,000.

(a) Calculated using average shares.

(b) Prior to May 1, 2013, the Manager had voluntarily agreed to limit the annual expenses of the Fund to 0.78% of the Fund's average net assets.

(c) Reflects total annual operating expenses of the Fund before reductions of any expenses paid indirectly. The Fund's expenses paid indirectly decreased the expense ratios as follows:

—	—	—	(.00%) <sup>†</sup>	(.00%) <sup>†</sup>
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† Represents less than 0.01% of average net assets.

# EXPENSE EXAMPLE

December 31, 2016 (unaudited)

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## EXAMPLE

As a shareholder of the Fund, you incur two types of costs: direct costs, such as wire fees, redemption fees, and low balance fees; and indirect costs, including management fees, transfer agency fees, and other Fund operating expenses. This example is intended to help you understand your indirect costs, also referred to as “ongoing costs” (in dollars), of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire six-month period of July 1, 2016, through December 31, 2016.

## ACTUAL EXPENSES

The line labeled “actual” in the table provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested at the beginning of the period, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the “actual” line under the heading “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

## HYPOTHETICAL EXAMPLE FOR COMPARISON PURPOSES

The line labeled “hypothetical” in the table provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do

so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any direct costs, such as wire fees, redemption fees, or low balance fees. Therefore, the line labeled “hypothetical” is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these direct costs were included, your costs would have been higher.

	Beginning Account Value July 1, 2016	Ending Account Value December 31, 2016	Expenses Paid During Period* July 1, 2016 – December 31, 2016
Actual	\$1,000.00	\$1,105.10	\$2.65
Hypothetical (5% return before expenses)	1,000.00	1,022.62	2.54

\*Expenses are equal to the Fund’s annualized expense ratio of 0.50%, which is net of any reimbursements and expenses paid indirectly, multiplied by the average account value over the period, multiplied by 184 days/366 days (to reflect the one-half-year period). The Fund’s actual ending account value is based on its actual total return of 10.51% for the six-month period of July 1, 2016, through December 31, 2016.

# TRUSTEES' AND OFFICERS' INFORMATION

## TRUSTEES AND OFFICERS OF THE TRUST

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The Board of Trustees (the Board) of the Trust consists of seven Trustees. These Trustees and the Trust's Officers supervise the business affairs of the USAA family of funds. The Board is responsible for the general oversight of the funds' business and for assuring that the funds are managed in the best interests of each fund's respective shareholders. The Board periodically reviews the funds' investment performance as well as the quality of other services provided to the funds and their shareholders by each of the fund's service providers, including USAA Asset Management Company (AMCO) and its affiliates. Pursuant to a policy adopted by the Board, the term of office for each Trustee shall be 20 years or until the Independent Trustee reaches age 72 or an Interested Trustee reaches age 65. The Board may change or grant exceptions from this policy at any time without shareholder approval. A Trustee may resign or be removed by a vote of the other Trustees or the holders of a majority of the outstanding shares of the Trust at any time. Vacancies on the Board can be filled by the action of a majority of the Trustees, provided that at least two-thirds of the Trustees have been elected by the shareholders.

Set forth below are the Trustees and Officers of the Trust, their respective offices and principal occupations during the last five years, length of time served, and information relating to any other directorships held. Each serves on the Board of the USAA family of funds consisting of one registered investment company offering 54 individual funds. Unless otherwise indicated, the business address for each is P.O. Box 659430, San Antonio, TX 78265-9430.

If you would like more information about the funds' Trustees, you may call (800) 531-USAA (8722) or (210) 531-8722 to request a free copy of the funds' statement of additional information (SAI).

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## INTERESTED TRUSTEE<sup>1</sup>

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### **Daniel S. McNamara<sup>2, 4, 6</sup>**

Trustee, President, and Vice Chair of the Board of Trustees

Born: June 1966

Year of Election or Appointment: 2009

President of Financial Advice & Solutions Group (FASG), USAA (02/13–present); Director of USAA Asset Management Company (AMCO), (08/11–present); Director of USAA Investment Management Company (IMCO) (09/09–present); President, IMCO (09/09–04/14); President, AMCO (08/11–04/13); President and Director of USAA Shareholder Account Services (SAS) (10/09–present); Senior Vice President of USAA Financial Planning Services Insurance Agency, Inc. (FPS) (04/11–present); Director of FPS (12/13–present); President and Director of USAA Investment Corporation (ICORP) (03/10–present); Director of USAA Financial Advisors, Inc. (FAI) (12/13–present); President and Director of FAI and FPS (10/09–04/11). Mr. McNamara brings to the Board extensive experience in the financial services industry, including experience as an officer of the Trust.

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## NON-INTERESTED (INDEPENDENT) TRUSTEES

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### **Robert L. Mason, Ph.D.<sup>2, 3, 4, 5, 6, 7</sup>**

Trustee and Chair

Born: July 1946

Year of Election or Appointment: 1997†

Institute Analyst, Southwest Research Institute (03/02–01/16), which focuses in the fields of technological research. He was employed at Southwest Research Institute for 40 years. Dr. Mason brings to the Board particular experience with information technology matters, statistical analysis, and human resources as well as over 19 years' experience as a Board member of the USAA family of funds. Dr. Mason holds no other directorships of any publicly held corporations or other investment companies outside the USAA family of funds.

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**Jefferson C. Boyce**<sup>3, 4, 5, 6, 7</sup>

Trustee

Born: September 1957

Year of Election or Appointment: 2013

Senior Managing Director, New York Life Investments, LLC (1992–2012), an investment manager. Mr. Boyce brings to the Board experience in financial investment management, and, in particular, institutional and retail mutual funds, variable annuity products, broker dealers, and retirement programs, including experience in organizational development, marketing, product development, and money management as well as three years' experience as a Board member of the USAA family of funds. Mr. Boyce is a board member of Westhab, Inc.

**Dawn M. Hawley**<sup>3, 4, 5, 6, 7, 9</sup>

Trustee

Born: February 1954

Year of Election or Appointment: 2014

Manager of Finance, Menil Foundation, Inc. (05/07–06/11), which is a private foundation that oversees the assemblage of sculptures, prints, drawings, photographs, and rare books. Director of Financial Planning and Analysis and Chief Financial Officer, AIM Management Group, Inc. (10/87–01/06). Ms. Hawley brings to the Board experience in financial investment management and, in particular, institutional and retail mutual funds, variable annuity products, broker dealers, and retirement programs, including experience in financial planning, budgeting, accounting practices, and asset/liability management functions including major acquisitions and mergers, as well as over two years of experience as a Board member of the USAA family of funds. Ms. Hawley holds no other directorships of any publicly held corporations or other investment companies outside the USAA family of funds.

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**Paul L. McNamara**<sup>3, 4, 5, 6, 7</sup>

Trustee

Born: July 1948

Year of Election or Appointment: 2012

Director, Cantor Opportunistic Alternatives Fund, LLC (03/10–02/14), which is a closed-end fund of funds by Cantor Fitzgerald Investment Advisors, LLC. Mr. McNamara retired from Lord Abbett & Co. LLC, an independent U.S. investment management firm, as an Executive Member on 09/30/09, a position he held since 10/02. He had been employed at Lord Abbett since 1996. Mr. McNamara brings to the Board extensive experience with the financial services industry and, in particular, institutional and retail mutual fund markets, including experience with mutual fund marketing, distribution, and risk management, as well as overall experience with compliance and corporate governance issues. Mr. McNamara also has experience serving as a fund director as well as four years' experience as a Board member of the USAA family of funds. Paul L. McNamara is of no relation to Daniel S. McNamara. Mr. McNamara holds no other directorships of any publicly held corporations or other investment companies outside the USAA family of funds.

**Barbara B. Ostdiek, Ph.D.**<sup>3, 4, 5, 6, 7, 8</sup>

Trustee

Born: March 1964

Year of Election or Appointment: 2008

Senior Associate Dean of Degree programs at Jesse H. Jones Graduate School of Business at Rice University (07/13–present); Associate Professor of Finance at Jesse H. Jones Graduate School of Business at Rice University (07/01–present); Academic Director, El Paso Corporation Finance Center at Jesse H. Jones Graduate School of Business at Rice University (07/02–06/12). Dr. Ostdiek brings to the Board particular experience with financial investment management, education, and research as well as over eight years' experience as a Board member of the USAA family of funds. Dr. Ostdiek holds no other directorships of any publicly held corporations or other investment companies outside the USAA family of funds.

**Michael F. Reimherr**<sup>3,4,5,6,7</sup>

Trustee

Born: August 1945

Year of Election or Appointment: 2000

President of Reimherr Business Consulting (05/95–present), which performs business valuations of large companies to include the development of annual business plans, budgets, and internal financial reporting. Mr. Reimherr brings to the Board particular experience with organizational development, budgeting, finance, and capital markets as well as over 16 years' experience as a Board member of the USAA family of funds. Mr. Reimherr holds no other directorships of any publicly held corporations or other investment companies outside the USAA family of funds.

<sup>1</sup> Indicates the Trustee is an employee of AMCO or affiliated companies and is considered an “interested person” under the Investment Company Act of 1940.

<sup>2</sup> Member of Executive Committee.

<sup>3</sup> Member of Audit and Compliance Committee.

<sup>4</sup> Member of Product Management and Distribution Committee.

<sup>5</sup> Member of Corporate Governance Committee.

<sup>6</sup> Member of Investments Committee.

<sup>7</sup> The address for all non-interested trustees is that of the USAA Funds, P.O. Box 659430, San Antonio, TX 78265-9430.

<sup>8</sup> Dr. Ostdiek has been designated as an Audit and Compliance Committee Financial Expert by the Funds' Board.

<sup>9</sup> Ms. Hawley has been designated as an Audit and Compliance Committee Financial Expert by the Funds' Board.

† Dr. Mason was elected as Chair of the Board in January 2012.

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## INTERESTED OFFICERS<sup>1</sup>

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### **John C. Spear**

Vice President

Born: May 1964

Year of Appointment: 2016

Vice President and Chief Investment Officer, USAA Investments, (11/16–present); Vice President, Long Term Fixed Income, (05/12–11/16); Vice President, Insurance Portfolios, (07/01–05/12); Assistant Vice President, Insurance Portfolios, (11/99–07/01).

### **John P. Toohey**

Vice President

Born: March 1968

Year of Appointment: 2009

Head of Equities, Equity Investments, AMCO (01/12–present); Vice President, Equity Investments, IMCO (02/09–12/11).

### **James G. Whetzel**

Secretary

Born: February 1978

Year of Appointment: 2013

Vice President, FASG General Counsel, USAA (12/15–present); Assistant Vice President, FASG General Counsel, USAA (10/13–12/15); Executive Director, FASG General Counsel, USAA (10/12–10/13); Attorney, FASG General Counsel, USAA (11/08–10/12); Assistant Secretary, USAA family of funds (04/10–06/13); Director, FPS (03/15–01/16). Mr. Whetzel also serves as Secretary of IMCO, AMCO, SAS, and ICORP.

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**Daniel J. Mavico**

Assistant Secretary

Born: June 1977

Year of Appointment: 2013

Assistant Vice President, Lead Securities Attorney, FASG General Counsel, USAA (11/14–present); Executive Director, Lead Securities Attorney, FASG General Counsel, USAA (04/13–11/14); Attorney, FASG General Counsel (04/10–04/13); Assistant Secretary, FAI (05/12–03/15). Mr. Mavico also serves as Secretary of FAI, FPS and Assistant Secretary of IMCO, AMCO, and SAS.

**Roberto Galindo, Jr.**

Treasurer

Born: November 1960

Year of Appointment: 2008

Assistant Vice President, Portfolio Accounting/Financial Administration, USAA (12/02–present).

**James K. De Vries**

Assistant Treasurer

Born: April 1969

Year of Appointment: 2013

Executive Director, Investment and Financial Administration, USAA, (04/12–present); Director, Tax, USAA (11/09–04/12).

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**Stephanie Higby**

Chief Compliance Officer

Born: July 1974

Year of Appointment: 2013

Assistant Vice President, Compliance – Mutual Funds, USAA (12/16–present); Executive Director, Institutional Asset Management Compliance, USAA (04/13–12/16); Director, Institutional Asset Management Compliance, AMCO (03/12–04/13); Compliance Director for USAA Mutual Funds Compliance, IMCO (06/06–02/12).

<sup>1</sup> Indicates those Officers who are employees of AMCO or affiliated companies and are considered “interested persons” under the Investment Company Act of 1940.

<b>Trustees</b>	Daniel S. McNamara Robert L. Mason, Ph.D. Jefferson C. Boyce Dawn M. Hawley Paul L. McNamara Barbara B. Ostdiek, Ph.D. Michael F. Reimherr
<b>Administrator and Investment Adviser</b>	USAA Asset Management Company P.O. Box 659453 San Antonio, Texas 78265-9825
<b>Underwriter and Distributor</b>	USAA Investment Management Company P.O. Box 659453 San Antonio, Texas 78265-9825
<b>Transfer Agent</b>	USAA Shareholder Account Services 9800 Fredericksburg Road San Antonio, Texas 78288
<b>Custodian and Accounting Agent</b>	State Street Bank and Trust Company P.O. Box 1713 Boston, Massachusetts 02105
<b>Independent Registered Public Accounting Firm</b>	Ernst & Young LLP 100 West Houston St., Suite 1700 San Antonio, Texas 78205
<b>Mutual Fund Self-Service 24/7 at usaa.com</b> <b>Or call</b> <b>(800) 531-USAA (8722)</b> <b>(210) 531-8722</b>	Under “My Accounts” on usaa.com select your mutual fund account and either click the link or select ‘I want to...’ and select the desired action.

Copies of the Manager’s proxy voting policies and procedures, approved by the Trust’s Board of Trustees for use in voting proxies on behalf of the Fund, are available without charge (i) by calling (800) 531-USAA (8722) or (210) 531-8722; (ii) at [usaa.com](http://usaa.com); and (iii) in summary within the Statement of Additional Information on the SEC’s website at <http://www.sec.gov>. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (i) at [usaa.com](http://usaa.com); and (ii) on the SEC’s website at <http://www.sec.gov>.

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. These Forms N-Q are available at no charge (i) by calling (800) 531-USAA (8722) or (210) 531-8722; (ii) at [usaa.com](http://usaa.com); and (iii) on the SEC’s website at <http://www.sec.gov>. These Forms N-Q also may be reviewed and copied at the SEC’s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) 732-0330.