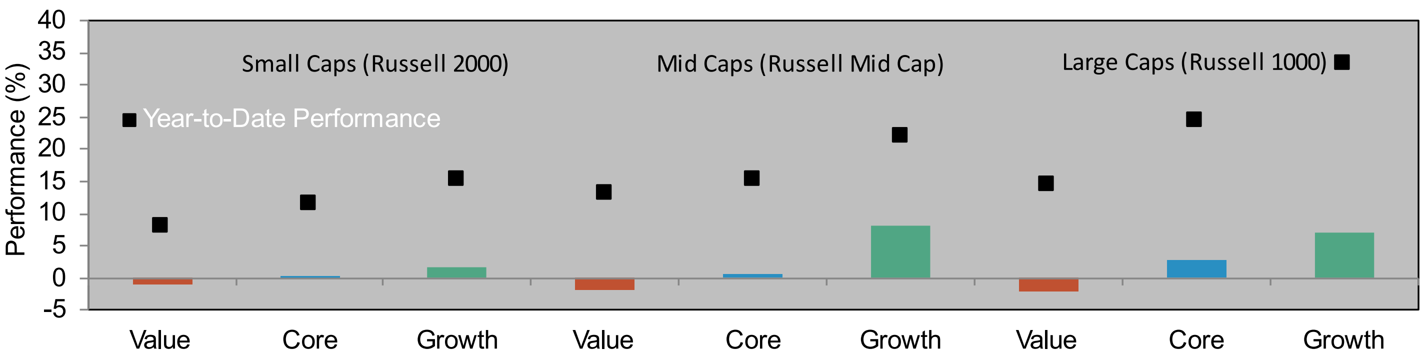
RS SMALL/MID CAP GROWTH STRATEGY QUARTERLY COMMENTARY

Quarterly Highlights

- The RS Small/Mid Cap Growth Strategy returned 8.55% gross (8.33% net) for the three months ended December 31, 2024, outperforming the Russell 2500™ Growth Index,[1] which returned 2.43%.
- Strategy performance relative to the benchmark was positively impacted by stock selection in the Technology sector; outperformance was partially offset by stock selection in the Consumer sector.
- This period's absolute performance was aided in part by the relative performance of secular growth stocks in the mid-cap segment of the Small-Mid universe, as the Russell Midcap® Growth Index[2] outperformed mid value, as defined by the Russell Midcap® Value Index,[3] 2.43% versus -1.75%.
- We believe the multi-year underperformance of innovative smaller-cap growth stocks has created an outsized opportunity for smaller-cap growth stocks, as current valuations (defined as the forward price-to-earnings ratio, excluding non-earners) of the Russell 2000® Growth Index[4] are the cheapest since the 1979 inception of the index relative to the Russell 1000® Growth Index[5] (per FactSet).

Market Performance / Fundamentals Snapshot

Q4 2024 Market Performance



Value = Russell 2000® Value Index
Core = Russell 2000® Index
Growth = Russell 2000® Growth Index

Value = Russell Midcap® Value Index
Core = Russell Midcap® Index
Growth = Russell Midcap® Growth Index

Value = Russell 1000® Value Index
Core = Russell 1000® Index
Growth = Russell 1000® Growth Index

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.

Market Commentary

The broad market, as measured by the S&P 500®, finished the year up approximately 24%, and that comes on the heels of a 23% gain in 2023. Consecutive years of stellar 20%-plus returns have happened only a handful of times throughout history, and thus we believe it's important to maintain perspective despite the lackluster performance of stocks in December. Looking back over the course of the year, domestic stocks demonstrated their resilience despite a few bouts of volatility and steep drawdowns. In the spring, investors were disappointed by the Federal Reserve deferring (but ultimately not canceling) the much-anticipated start of a new rate-cut cycle. Later in the year, market pundits worried that the Fed had waited too long, and the economy was heading for recession. But time and again, stocks showed their resilience and found their footing. Of course, it helped that economic growth has proven to be relatively durable thus far. And perhaps most importantly, the Fed finally began cutting interest rates in September, and by more than many initially expected.

During the fourth quarter, stocks surged again as investors embraced the outcome of U.S. elections in what is generally expected to be a pro-business, lower-tax, lower-regulatory era. But once again as we approached year-end, the debate surrounding monetary policy re-surfaced. In the December FOMC meeting, the Fed cut interest rates as anticipated, but Chairman Jerome Powell disappointed the market by suggesting that there may be fewer rate-cuts ahead. As a result, December was a rough month for performance.

In terms of our particular area of focus—domestic growth-oriented equities—it was an interesting end to the year. As we pointed out previously, market leadership began to shift markedly during the second half of this year as investors finally began rotating out of large-cap tech stocks and into smaller, less-recognized names. Investors seem to be recognizing the long-term potential among the laggards with more attractive relative valuations. Encouragingly, market breadth has improved with greater participation across industries and further down the cap spectrum.

In terms of investment styles, growth stocks bested value stocks during the fourth quarter, with positive performance across the cap spectrum despite a challenging December. The Russell 3000® Growth Index returned 6.8% during the fourth quarter, bringing its annual gains to an impressive 32.5%. Large-cap and mid-cap growth stocks led the way during the fourth quarter as the Russell 1000® Growth Index rose almost 7.1%, while the Russell Midcap® Growth Index rose 8.1% during the same period. The Russell 2000® Growth Index (representing small-cap growth) clocked in with gains of 1.7% during the fourth quarter.

Looking ahead, there are many lingering questions. The path of future Fed rate cuts is uncertain, as are the impacts of on inflation and growth from the policies of the new administration, which are widely considered to be pro-business and regulation-lite. Geopolitical risks are also more abundant in 2025 and are prone to cause volatility. We continually monitor these and other issues to determine how they may impact various sectors of the economy and, more specifically, individual business within each industry. However, in a dynamic environment with so many uncertainties, we continue to champion an actively managed style to growth investing. Our focus on fundamentals, valuations, and risk management should be able to identify intriguing opportunities among the cohort of exciting growth companies (especially within the small- and mid-cap arena), in our view. We remain excited about the future and believe there are many smaller innovative companies that are priced attractively compared to the broader market as we move into 2025.

Investment Strategy

The RS Small/Mid Cap Growth Strategy (the “Strategy”) is guided by our philosophy that sustainable earnings growth drives long-term share price appreciation. Our investment process is focused on finding innovative companies whose core business, we believe, can grow from a small- or mid-cap company to a mid- or large-cap company over time.

The team seeks companies with products and services that are growing organically, creating new markets or taking market share from existing companies. We are focused on finding companies whose business values can appreciate regardless of the underlying market environment. The Strategy is led by the team’s chief investment officer, Scott Tracy, along with portfolio managers Steve Bishop, Melissa Chadwick-Dunn, Chris Clark, Paul Leung, and Trevor Martin. The six co-portfolio managers, as well as two research analysts, serve as sector specialists and are supported by two associates, drawing on strong relationships with industry experts and company management teams.

Together, we conduct over 2,000 company meetings each year through in-person meetings, conference calls, and trade shows. We then back up our findings through discussions with industry leaders and third-party sources. We are long-term investors and seek to establish definable “anchor points,” which are quantifiable metrics that help determine a company’s potential long-term growth trajectory. Anchor points arise from our analysis of a company’s long-term capabilities and performance goals over three to five years. These long-term anchor points serve as guideposts to help us measure a company’s progress as it executes its business strategy, regardless of what is taking place in the overall market and help prevent distractions caused by short-term stock price movements and inevitable market volatility.

Performance Review

The RS Small/Mid Cap Growth Strategy returned 8.55% gross (8.33% net) for the three months ended December 31, 2024, outperforming the Russell 2500™ Growth Index,1 which returned 2.43%. Strategy performance relative to the benchmark was positively impacted by stock selection in the Technology sector; outperformance was partially offset by stock selection in the Consumer sector. This period’s absolute performance was aided in part by the relative performance of secular growth stocks in the mid-cap segment of the Small-Mid universe, as the Russell Midcap® Growth Index2 outperformed mid value, as defined by the Russell Midcap® Value Index,3 2.43% versus -1.75%. We believe the multi-year underperformance of innovative smaller-cap growth stocks has created an outsized opportunity for smaller-cap growth stocks, as current valuations (defined as the forward price-to-earnings ratio, excluding non-earners) of the Russell 2000® Growth Index4 are the cheapest since the 1979 inception of the index relative to the Russell 1000® Growth Index5 (per FactSet).

Top Contributing Sector: Technology

One of the largest drivers of relative outperformance within the Technology sector was again Applovin, Inc. (0.72% ending weight), a maker and developer of a mobile marketing platform. Its software-based platform caters to mobile application developers to improve the marketing and monetization of applications. Applovin Inc. had strong third quarter results and a favorable outlook for the balance of 2024. Given the sizable runup in the shares we have trimmed our holdings significantly but continue to hold a very large position as we believe the company will continue to deliver very strong growth in 2025 and beyond.

Top Detracting Sector: Consumer Discretionary

One of the larger areas of underperformance within the Consumer sector was driven by apparel manufacturer American Eagle Outfitters (2.49% ending weight). American Eagle had solid third quarter results but lowered their projections for fourth quarter revenues. The company is still on track to meet their original goals for sales for the year, albeit slightly lower than their raised outlook at mid-year. We believe that American Eagle is poised for a very strong 2025 and has learned their lesson from setting expectations too high mid-year. As such we have held the position and added on weakness.

Market and Strategy Outlook

We remain optimistic about the health of the domestic economy and are excited about the prospect that the Federal Reserve has finally begun to meaningfully cut their benchmark rate to a more neutral stance. U.S. employment remains strong and the outlook for solid earnings growth in 2025 are in place. While the full impact on the economy and employment from the multi-year rate hiking campaign is yet unclear, a slightly slower pace in economic activity, if coupled with solid consumer and business spending, could augur a very favorable backdrop for growth stocks. In addition, the potential for more de-regulation, continued onshoring and re-shoring and stronger CEO confidence could spur improved business conditions. We remain especially optimistic about worker productivity, and still healthy but moderating wage gains, which should help corporate profit momentum. Certain segments of the economy appear well positioned to continue to grow, while company valuations vary significantly across styles.

In the current investment landscape, there continues to be a compelling opportunity for secular growth companies outside of the mega-cap growth category. Despite their relative underperformance since November 2020, smaller-cap secular growth companies have displayed continued strength in their underlying fundamentals. We expect this fundamental strength to persist and are optimistic that the valuation gap of smaller companies will narrow substantially with that of their larger-cap peers.

Overall, while we believe the interest rate and inflation picture is getting clearer and improving, the engineering of a soft landing for the economy remains unclear. As such, we believe that opportunities will emerge in sectors and industries that demonstrate secular resilience through the cycle and sustained growth. We feel that secular growth companies within the growth universe are particularly attractive relative to cyclicals due to their strong and consistent fundamentals and potential for outperformance.

Thank you for your continued investment.

D. Scott Tracy, CFA
CIO, Co-Portfolio Manager

Steve Bishop
Co-Portfolio Manager

Melissa Chadwick-Dunn
Co-Portfolio Manager

Chris Clark, CFA
Co-Portfolio Manager

Paul Leung, CFA
Co-Portfolio Manager

Trevor Martin, CFA
Co-Portfolio Manager

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Sector Allocation (Representative Account)[8]

As of December 31, 2024

Sector	% of Portfolio
Technology	25.24%
Health Care	21.31%
Producer Durables	19.46%
Financial Services	11.76%
Consumer Discretionary	11.21%
Materials & Processing	5.69%
Consumer Staples	2.19%
Energy	2.12%
Cash / Other Assets and Liabilities	1.03%
Utilities	0.00%

Top 10 Holdings (Representative Account)[9]

As of December 31, 2024

Holding	% of Portfolio
Natera, Inc.	3.04%
Reddit, Inc. Class A	3.02%
Check Point Software Technologies Ltd.	3.00%
FTAI Aviation Ltd.	2.86%
Churchill Downs Incorporated	2.78%
Semtech Corporation	2.56%
American Eagle Outfitters, Inc.	2.49%
CyberArk Software Ltd.	2.49%
Clean Harbors, Inc.	2.48%
Springworks Therapeutics, Inc.	2.34%

Composite Performance

Average Annual Returns as of December 31, 2024

RS Small/Mid Cap Growth Composite	Third Quarter 2024	1-Year	3-Year	5-Year	10-Year	Since Inception (04/30/07)
Gross of fees	8.55%	25.61%	2.03%	9.20%	9.81%	10.27%
Net of fees	8.33%	24.60%	1.21%	8.33%	8.84%	9.08%
Russell 2500™ Growth Index[1]	2.43%	13.90%	-0.02%	8.08%	9.45%	9.06%

Returns include reinvestment of dividends and capital gains. Performance returns for periods of less than one year are not annualized.

Past performance does not guarantee future results.

Composite and benchmark returns are net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). Net returns prior to 1/1/2017 were calculated using actual fees. Prior to 1/1/2013, net-of-fees performance for some accounts in the composite reflect the deduction of administrative and other fees in addition to management fees and transaction costs. The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm’s fees are available on request and may be found on Part 2A of its Form ADV

. Index returns are provided to represent the investment environment during the periods shown. Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses that would be incurred with an investment. One cannot invest directly in an index.

1 The Russell 2500™ Growth Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2500™ Index with higher price-to-book ratios and higher forecasted growth values.

2 The Russell Midcap® Growth Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell Midcap® Index with higher price-to-book ratios and higher forecasted growth values.

3 The Russell Midcap® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell Midcap® Index with lower price-to-book ratios and lower forecasted growth values.

4 The Russell 2000® Growth Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index (which consists of the 2,000 smallest-cap companies in the Russell 3000® Index) with higher price-to-book ratios and higher forecasted growth values.

5 The Russell 1000® Growth Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values.

6 The S&P 500® Index is a market-capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

7 The Russell 3000® Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 3000® Index (which consists of the 3,000 largest U.S. companies based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values.

8 The Representative Account holdings are allocated to each sector based on the Russell Global Sectors Standard (RGS). If a holding is not classified by Russell, it is assigned a Russell designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.

9 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

All investments carry a certain degree of risk, including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

The opinions are as of the date indicated 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 RS Small/Mid Cap Growth Composite invests principally in equity securities of small- and mid-capitalization growth companies. The benchmark is the Russell 2500™ Growth Index. The composite was created in May 2007.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines, and other factors. The representative account is believed to most closely reflect the current portfolio management style.

A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report. This information should not be relied upon as research or investment advice regarding any security in particular.

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