

Trivalent Emerging Markets Small-Capitalization Equity Strategy



As of December 31, 2023

Market Environment

Emerging market small-cap equities rose in the fourth quarter as inflation moderated, the widely predicted global recession failed to emerge, and expectations for monetary easing in 2024 rose. For the full quarter, the MSCI Emerging Markets Small Cap Index rose 9.0%. For the full calendar year 2023, emerging small-cap equities was one of the best-performing asset classes, outperforming both developed market ex US equities and emerging market large-cap equities by a wide margin. The Trivalent Emerging Markets Small-Capitalization Equity strategy had a strong quarter, outperforming the index by a wide margin. As is typical, there was wide dispersion among country returns. Thinly traded Egypt rose 35.1% and was the best-performing country, while Hungary returned 27.7%. Polish small-cap stocks returned 28.9% as third quarter GDP growth accelerated and private consumption improved. Mexico rose 18.2% after revised economic growth exceeded forecasts, driven by domestic consumption, particularly retail sales. India finished the quarter up 12.3%, as employment remains strong and manufacturing was boosted by the 29th consecutive month of expansion in factory activity. Turkey declined 24.0% and was the worst-performing country after being the top-performing country in the third quarter. Turkey's economic growth has stalled following the May elections as tighter monetary policy has dampened consumer demand. Indonesia fell 4.7% as economic growth slowed more than anticipated in the third quarter as exports declined and household spending was subdued. Chinese small-cap equities continued their trend of underperformance and declined 2.8%. China manufacturing PMI declined to a four-month low and remained in contraction territory.

Sector returns were solid, with all eleven sectors finishing the quarter in positive territory. Information Technology rose 14.4% and was the best-performing sector as East Asian chipmakers benefited from artificial intelligence (AI) enthusiasm. Real Estate returned 10.5%. Energy rose just 4.7% and was the worst-performing sector as the price of oil fell over the quarter.

Portfolio Review

Overall security selection was positive and accounted for the strategy's outperformance. A slight underweight to Turkey and overweight to Mexico also provided a boost to relative performance. The strategy's exposure to our proprietary multi-factor model was a positive contributor to relative performance, with value, business momentum and quality all beneficial. Excess returns were generated in two of three regions and eight of the eleven sectors. Notable outperformance came from Financials, Consumer Discretionary, and Materials. The top two contributors in Financials were Angel One and Power Finance. Angel One, an online financial services platform in India, achieved new highs during the quarter on the back of rising interest rates, client acquisition, and a rebound in transaction activity. Non-bank lender Power Finance surged on continued strong loan demand from contractors involved in developing India's electric and renewable energy sector. Within Consumer Discretionary, Indian jewelry retailer Kalyan Jewellers gained as quarterly results

exceeded expectations and new store openings continue at a strong pace. The franchise-owned, company-operated (FOCO) model and rising margins from franchise deal adjustments are supporting high earnings growth. Relative performance in Materials was boosted by the strategy's position in PCBL. The Indian carbon black manufacturer rallied as capacity increases have improved supply bottlenecks and demand has been strong, particularly in the export market.

On the downside, relative performance in Industrials and Consumer Staples trailed the index. Within Industrials, Xinte Energy, a Chinese manufacturer of polysilicon products for the solar energy industry, declined as pricing has been weak due to industry supply/demand trends. Korean manufacturer of electronic power equipment LS Electric fell after sales momentum reversed at a Chinese subsidiary on soft demand from semiconductor clients. Consumer Staples' relative performance was hurt by Nongshim. The Korean food company fell on reported weakness in their overseas noodle business. While overall relative performance in Information Technology was positive, the strategy's position in Chroma ATE detracted from relative performance. The Taiwanese technology company materially underperformed the sector on a slowdown in testing systems for the EV ecosystem.

Market Outlook

After an impressive year-end rally, investors will look to take cues from central banks for a clearer picture on interest rates and use the upcoming earnings season to assess economic growth. While inflation continues to moderate, policymakers are trying to temper policy easing expectations to tame investors' dovish repricing, as more evidence is needed before declaring victory over inflation. In the meantime, rising geopolitical tensions in the Middle East could potentially add inflationary pressures in the event of increased disruptions to global supply chains. World leaders are working to defuse the situation to prevent the Israel-Hamas conflict from escalating into a regional war. Emerging markets have resilient regional growth, attractive valuations, and a policy easing bias. Policy support in China has thus far proven inefficient, and Chinese authorities have pledged more economic support in 2024. Mexican economic growth should continue to benefit from the nearshoring trend and its pivotal role in supporting supply chains for manufactured goods. A soft landing for the U.S. economy would be supportive to Brazil's GDP growth and small-cap equity market. India remains an attractive market for investment. The Indian government has made significant investments in logistics and infrastructure development, which has attracted increased foreign investment in manufacturing. While not fully immune, emerging market small-cap equities offer attractive diversification benefits as they tend to be more local-market focused. We continue to be guided by our bottom-up analysis and will digest upcoming earnings and outlook statements to evaluate our positioning. We believe opportunities for relative outperformance remain, particularly among the diverse and broad segment of emerging market small-cap equities.

| Representative Account Top 5 Contributors* (%) | Contribution to Relative Return |
|---|------------------------------------|
| Angel One Limited | 0.87 |
| Kalyan Jewellers India Ltd. | 0.76 |
| Power Finance Corporation Limited | 0.75 |
| eClerx Services Limited | 0.60 |
| Getac Holdings Corporation | 0.47 |
| Representative Account Top 5 Detractors* (%) | Contribution to Relative Return |
| LS Electric Co., Ltd. | -0.27 |
| Xinte Energy Co., Ltd. Class H | -0.25 |
| Sany Heavy Equipment International Holdings Co., Ltd. | -0.24 |
| Chroma ATE Inc. | -0.21 |
| Tekfen Holding Anonim Sirketi | -0.21 |

Source: FactSet.

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. Holdings are as of quarter end and may change at any time. This material should not be construed as a recommendation to buy or sell securities.

| Composite Performance (%) | ANNUALIZED RETURNS | | | | | | Since Inception 7.1.13 |
|--|--------------------|-------|-------|-------|-------|-------|------------------------------|
| | QTR | YTD | 1-YR | 3-YR | 5-YR | 10-YR | |
| Trivalent Emerging Markets Small-Capitalization Equity (Gross) | 11.81 | 36.03 | 36.03 | 12.46 | 15.53 | 9.81 | 10.25 |
| Trivalent Emerging Markets Small-Capitalization Equity (Net) | 11.53 | 34.67 | 34.67 | 11.34 | 14.38 | 8.67 | 9.10 |
| MSCI Emerging Markets Small Cap Index (Net) | 8.95 | 23.92 | 23.92 | 6.45 | 9.92 | 5.34 | 5.55 |

DISCLOSURES

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.

Past performance cannot guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars. Composite and benchmark returns are presented 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 are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). 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.

The Trivalent Emerging Markets Small-Capitalization Equity Composite includes all fee-paying, non-wrap discretionary portfolios of \$100,000 or more that are managed according to the Trivalent Emerging Markets Small-Capitalization Equity strategy. The strategy focuses on foreign small-cap companies that are characterized by improving business momentum and attractive valuations. The composite creation date is August 2013. The benchmark of the composite is the MSCI Emerging Markets Small Cap Index (Net). Prior to 10/1/2017, the benchmark is the S&P® Emerging Plus Small Cap Index (Net). The MSCI Emerging Markets Small Cap Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the performance of small-cap stocks in the emerging markets. 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. One cannot invest directly in an index. Non-US indices are net of non-reclaimable withholding taxes, if any.

Holdings do not include cash, money market instruments, options or futures.

The representative account serves as the model against which each Trivalent Emerging Markets Small-Capitalization Equity Strategy account is managed. The representative account is an actual portfolio and the information provided, including performance, will vary for other accounts. The representative account is being used solely as a tool to help demonstrate how performance can be

| Representative Account Top 10 Holdings | Country | Sector |
|---|---------|------------------------|
| Power Finance Corporation Limited | India | Financials |
| Angel One Limited | India | Financials |
| eClerx Services Limited | India | Industrials |
| Jindal Stainless Limited | India | Materials |
| King Yuan Electronics Co., Ltd. | Taiwan | Information Technology |
| NCC Limited | India | Industrials |
| Getac Holdings Corporation | Taiwan | Information Technology |
| Coca-Cola Icecek A.S. | Turkey | Consumer Staples |
| APAR Industries Limited | India | Industrials |
| PCBL Limited | India | Materials |
| Total % of Portfolio | | 12.69% |

attributed to the investment policies applied in the management of the Trivalent Emerging Markets Small-Capitalization Equity Strategy.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections, or recommendations in this report are subject to change without notice and are not intended as individual investment advice. 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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Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

***Contributors and Detractors Source:** FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. Holdings are as of quarter end and may change at any time.

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