INTEGRITY ASSET MANAGEMENT

Victory Integrity Discovery Fund — As of September 30, 2018

Quarterly Commentary

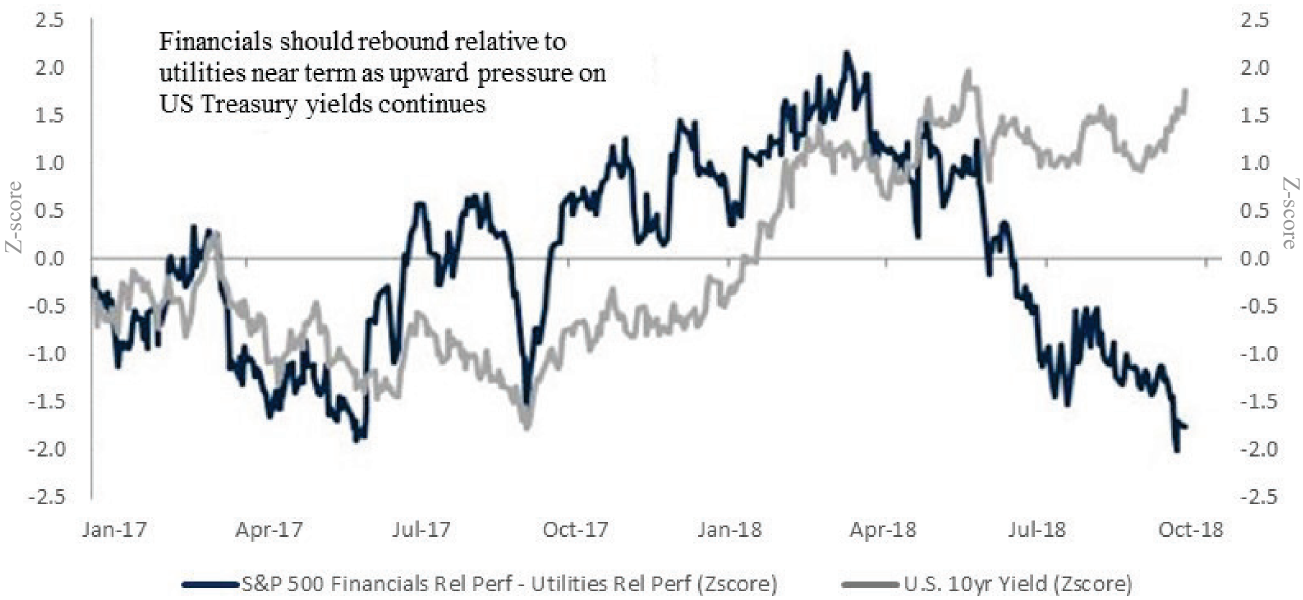
"It's de ja vu all over again"
Yogi Berra

As 2018 has unfolded, we can't help but notice the similarities to 2016. Certainly, some of our relative performance issues have been the same: Size, cyclicality and rate sensitivity. Although not this quarter, our larger-than-benchmark market cap has been a drag on performance as it was in 2016 (for small and small/mid cap value). The Russell 2000 Value Index remains top quintile (20th percentile). This trend accelerated in April with an influx of money into small cap ETFs. Furthermore, like 2016, the market has embraced safety over valuation and consistency over expected return. The market, in our opinion, is buying insurance against an economic downturn – insurance we now find too expensive.

We wrote last quarter that we had reduced some of the portfolio's cyclicality and rate sensitivity. This likely helped our relative performance this quarter. However, in contrast to last quarter where we didn't see compelling valuation differentials, discounts are now looking more interesting. Investor skepticism regarding where we are in the economic cycle and the length of the recovery has resulted in relative performance differences looking very interesting in some cyclicals. We have decided to slowly start adding more cyclicality back into the portfolio. The extreme performance difference between cyclical and non-cyclical equities is illustrated below.

Past performance is no guarantee of future results.
Cyclicals (represented by CYCL) are stocks whose success varies with the seasonal or economic cycle.
Defensives (represented by DEFS) are stocks that are either stable or a market outperformer during an economic contraction.
Source: FactSet and Goldman Sachs Global Investment Research

Moreover, the poor performance of banks relative to utilities, also illustrates the market's desire for safety over valuation.



Past performance is no guarantee of future results.
Z-score is a numerical measurement of a value's relationship to the mean in a group of values
Source: ISI and Goldman Sachs Global Investment Research

We don't think our thesis is without risk. The cycle is extended. Rates are rising. We are in the middle of a trade war. Midterm elections are coming in November. There is a lot to be concerned about, and one day this cycle, like all cycles, will end. Trees don't grow to the sky, as the saying goes. That said, we don't see the signs of an impending recession. It's hard to find the extreme excesses that precede a recession. Business capital expenditures have just begun to grow after 10+ years of sub-par performance. It seems premature to pronounce the cycle dead. We could be wrong, but historically we have bet along with valuation. To move to a very conservative position would require, in our opinion, paying prices where the only reward would be recession, and then it would come in the form of less negative returns relative to the benchmark. The best performing sector of the market was telecommunication services. Consumer staples and technology also outperformed. Energy was the worst performing sector and health care also lagged. Micro growth outperformed micro value.

The Victory Integrity Discovery Fund (A shares without sales charge) outperformed its benchmark, the Russell Microcap® Value Index. Stock selection in consumer discretionary, technology and health care were the largest contributors for performance. Real estate was a minor positive due to stock selection. Stock selection in energy, materials and financials detracted.
A larger market cap was a small negative.

Within consumer discretionary, Malibu Boats Inc Class A (MBUU) and Marcus Corporation (MCS) were the most significant contributors. Ruth's Hospitality Group, Inc. (RUTH) and Motorcar Parts of America, Inc. (MPAA) also helped performance. Malibu Boats Inc Class A (MBUU) beat consensus estimates as healthy consumer demand trends in Ski/Wake boat segment remain robust. It recently closed the acquisition of Cobalt which will provide a healthy boost to core brands. Marcus Corporation (MCS) reported record financial results as $5 Tuesday and DreamLounger initiatives have continued to drive market share and outperformance in acquired theaters in new markets. Ruth's Hospitality Group, Inc. (RUTH) was aided by solid quarterly results and improved input cost guidance as beef costs moderate. Motorcar Parts of America, Inc. (MPAA) rebounded as it cited orders have started to recover and offered revenue guidance around the high end of expectations.

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Technology was led by i3 Verticals, Inc. Class A (IIIV), NeoPhotonics Corporation (NPTN), and Control4 Corporation (CTRL). i3 Verticals, Inc. Class A (IIIV) reported +13% organic growth and strong EBITDA driven by growth in its education offering and operational efficiencies. NeoPhotonics Corporation (NPTN) was up 33% thanks to recovering sales and an improving outlook for demand in China, and solid non-China business. Control4 Corporation (CTRL) advanced 41% as results were ahead of expectations and it raised guidance. The company continues to drive growth and operating leverage in its model with an expanded dealer network and tuck-in acquisitions.

Addus HomeCare Corporation (ADUS) and U.S. Physical Therapy, Inc. (USPH) were the largest positives in health care. Addus HomeCare Corporation (ADUS) announced and completed a secondary share offering which would be used to target accretive deals in a highly fragmented industry. U.S. Physical Therapy, Inc. (USPH) produced better than expected results and raised guidance. Same store revenue growth benefitted from increased visits and pricing. Invacare Corporation (IVC) was a minor negative as its results were disappointing as margins came under pressure as manufacturing efficiencies were offset by higher freight costs, and it guided for higher SG&A costs to build brand awareness.

Within real estate, NexPoint Residential Trust Inc (NXRT) was up almost 18% thanks to solid results as it continues to execute on its value add strategy.

Pioneer Energy Services Corp. (PES) and Sanchez Energy (SN) were the culprits within energy. Pioneer Energy Services Corp. (PES) fell as contract drilling and production services were weak in the quarter and it lowered third quarter guidance. Sanchez Energy (SN) reported second quarter results that missed expectation due to lower oil production. Operational setbacks have plagued the company and resulted in steeper-than-expected well declines. The company is still working on optimizing completion design.

Materials was a modest headwind due to Schnitzer Steel Industries, Inc. Class A (SCHN) and not owning any paper and forest products companies. Although results have been solid at Schnitzer Steel Industries, Inc. Class A (SCHN), it cost us 11 basis points as trade tensions (China) and a stronger dollar (Turkey) have weighed on the shares. The lack of owning paper and forest products companies cost us 23 basis points as they were significant outperformers.

Financials were a modest drag on performance. Our average holding in banks and insurance lagged slightly for the quarter. First Foundation, Inc. (FFWM) was the largest detractor in banks as higher funding costs negatively impacted margins. Within capital markets, Cowen Inc Class A (COWN) was a positive that was offset by owning Ladenburg Thalmann Financial Services Inc. (LTS). Cowen Inc Class A (COWN) has been helped by solid results and good overall capital markets activity. Ladenburg Thalmann Financial Services Inc. (LTS) fell on the news that the Chairman of the Board, who is also the largest shareholder, is being investigated for securities fraud.

Performance in industrials was a push for the quarter. Ducommun Incorporated (DCO) rose 24% as record backlogs and improving fundamentals were the highlights of the quarter. Two segments, Structures and Electronics, showed marked improvement. Conversely, Titan International, Inc. (TWI) has suffered from lower crop prices and uncertainty over whether they would have to raise equity to buyout a JV partner.

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Past performance does not guarantee future results.

Risks Associated with Investing in the Fund: The Fund invests in smaller company stocks, which are more volatile and less liquid than larger, more established company securities. A substantial portion of the Fund's assets is invested in the financial sector, whose performance can be significantly negatively impacted by economic downturns and changes in government regulation and interest rates. The Fund may invest up to 25% of its assets in foreign securities, which involve additional risks due to currency fluctuations, economic and political conditions, and differences in financial reporting standards. Performance and after-tax returns can be significantly impacted by the Fund's investments in Initial Public Offerings (IPOs), which may involve short-term trading. We cannot, however, ensure that the Fund will obtain IPOs.

Indexes Defined The Russell Microcap® Index is a capitalization-weighted index that measures the performance of the smallest 1,000 companies in the Russell 2000® Index (the 2,000 smallest stocks by market capitalization in the Russell 3000® Index, an index of the top 3,000 U.S. stocks by market capitalization covering 98% of the U.S. equity investable universe), plus the next smallest 1,000 U.S. listed stocks. You cannot invest directly in an index. Although reinvestment of dividend and interest payments is assumed, no expenses are netted against an index's returns.

Fund holdings mentioned in the Quarterly Commentary are as of 9/30/2018 and the percentages shown are based on net assets as of that date. Fund holdings are subject to change and should not be considered purchase recommendations. There is no assurance that the securities mentioned remain in the Fund's portfolio or that securities sold have not been repurchased. The Fund's top ten holdings as of 9/30/2018 were: Addus HomeCare Corporation (1.5%), Malibu Boats, Inc (1.5%), Carrols Restaurant Group, Inc. (1.4%), Marcus Corporation (1.4%), Ruth's Hospitality Group, Inc (1.3%), Ducommun Incorporated (1.3%), NexPoint Residential Trust Inc. (1.2%), Heritage Financial Corporation (1.1%), TriCo Bancshares (1.1%), and Covenant Transportation Group, Inc. Class A (1.1%). Top holdings do not reflect cash, money market instruments, or options/futures contracts holdings. The most currently available data regarding portfolio holdings can be found on our website, www.vcm.com.

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

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