INTEGRITY ASSET MANAGEMENT

Victory Integrity Discovery Fund As of June 30, 2020

Quarterly Commentary

We back, we back, we back in the saddle
Back on the stage making the whole place rattle
Back with the A-Team, train on the track
Thought we were gone but you wrong, now it's on
We back.
– Jason Aldean

The once COVID-coma economy seems to be back on track, at least for the time being. After dramatic contractions in activity, the economy has been back in the saddle and exhibiting a V-shaped recovery path, not just in the US but around the world. PMIs in China, India and Australia have spiked. China's PMI is over 50, indicating expansion, and copper prices have risen, signaling stronger economic activity. In the US, employment, vehicle production, and existing home sales have recovered sharply. The reopening of economies, along with massive fiscal and monetary stimulus, has spurred this activity. Evercore ISI counts 519 stimulus initiatives around the world. The Federal Reserve's balance sheet is up 60% this year, while the balance sheet for the Bank of England has increased by 60%, and for the Bank of Canada by 350%.

Seemingly, this influx of cash has found its way into what have come to be perceived as defensive companies. The strong run in these large-cap growth stocks has brought out calls of "too far, too fast." The non-economically sensitive Nasdaq-100® Index is *up* over 16% this year, while the more cyclical Russell 2000® Value Index is *down* 23%. This whopping 39% differential appears indicative of investor pessimism regarding the virus and the economy. Certainly, the second wave of the virus is a risk to the recent economic good news. However, if death rates remain low and the economy continues to recover, we see the current valuation and performance disparity as a compelling investment opportunity. We talked last quarter about valuation spreads being as wide as they've been since 2008 and during the Great Depression. They have since receded some in the market rally. However, spreads are still greater than two standard deviations above the mean and historically attractive. We expect continued volatility around media reports on the virus and the economy.

The best performing sector of the market was consumer discretionary (+66%). Health Care also outperformed. Energy was the worst performing sector (-0.3%). Micro cap growth outperformed micro cap value.

The Victory Integrity Discovery Fund (A shares without sales charge) underperformed its benchmark, the Russell Microcap® Value Index. Health care was a significant detractor that led to underperformance. Stock selection in energy, financials, technology, real estate, and industrials were positives. Sector weights were a negative, as we were underweight health care, the second-best performing sector. Some of this was offset by being overweight consumer discretionary, the best performing sector, and being underweight energy, the worst performing sector. A larger market capitalization and lower exposure to earnings growth were negative style attributes.

Not owning biotechnology stocks was the largest detractor, costing us 357 basis points within health care. The average biotechnology company in the benchmark was up 70% for the quarter. We do not own any biotech companies in the portfolio as they do not meet our valuation criteria. Of the stocks held, Owens & Minor, Inc. (OMI) and Invacare Corporation (IVC) were the two largest negatives. Owens & Minor, Inc. (OMI) gave up some of its year-to-date gains as their Global Solutions revenue was down roughly 20% in late March. The duration of this decline has led to increased uncertainty. COVID-19 adversely affected operating results at Invacare Corporation (IVC), and this will likely not improve until the second half of 2020. Conversely, RTI Surgical Holdings, Inc. (RTIX) and RadNet, Inc. (RDNT) were bright spots within health care. RTI Surgical Holdings, Inc. (RTIX) reported that a recently announced divestiture will close a month later and that the sales price was amended from $480M to $440M. This announcement removed a significant overhang on the stock due to fears that the deal would be canceled. The reduction in non-emergency procedures driven by COVID-19 disruptions has started to ease as states and local municipalities have lifted stay-at-home orders. RadNet, Inc. (RDNT) was up 51%, as this should be a tailwind for procedural and imaging volumes.

Solid relative results in energy were equal parts selection and allocation. Newpark Resources, Inc. (NR) and not owning some of the worst performing energy stocks contributed. Newpark Resources, Inc. (NR) rallied almost 149% after dramatically underperforming in the prior quarter. Energy was the worst performing sector (-0.2%) and being underweight was a positive.

Our average bank holding outperformed the benchmark (+8.2% vs. +6.9%), with First Foundation, Inc. (FFWM) the largest contributor. It was up almost 61% as its loan portfolio has held up well due to lower exposure to more risky segments such as retail and restaurants. Cowen Inc. Class A (COWN) rebounded 68% as trading activity has picked up and the environment for capital raising has improved. Our insurance holdings outperformed, as we avoided owning laggards within the group. PCSB Financial Corporation (PCSB) was the most significant detractor, as its Northeast footprint has been hit hard by COVID-19.

Strong performance in technology was driven by Cerence Inc. (CRNC), which was up more than 165%. Despite weakness in automotive end markets, Cerence Inc. (CRNC) reported solid bookings growth as well as expanded relationships with two major automotive manufacturers. Other notable contributors were i3 Verticals, Inc. Class A (IIIV) and Axcelis Technologies, Inc. (ACLS). Quarterly results at i3 Verticals, Inc. Class A (IIIV) were better than expected. Volume and revenue trends showed signs of improvement and should benefit from acceleration of electronic payments due to the COVID-19 outbreak. Strong execution, strength in memory, and increased product evaluation from customers were all constructive data points for Axcelis Technologies, Inc. (ACLS). Harmonic Inc. (HLIT) was a negative as it reported disappointing earnings results and guidance due to order pushouts and delayed deployments resulting from customers' COVID-19 related business disruption.

Our average real estate holding outperformed (+21.2% versus +11.3%), led by Bluerock Residential Growth REIT Inc. Class A (BRG). The company rose 48% as rent collections from apartment tenants remained solid.

Industrials were helped by our machinery holdings as investor sentiment pivoted toward optimism with the economy starting to reopen. NN, Inc. (NNBR) and CIRCOR International, Inc. (CIR) were the largest contributors within machinery. NN, Inc. (NNBR) rebounded 174% as it produced results better than feared. CIRCOR International, Inc. (CIR) advanced 119% as it closed on a divestiture that improves cash flow and reduces oil exposure. Ongoing cost cutting also positions it for improved profitability.

Performance in consumer discretionary was about break-even. Three of the largest contributors were boating-related companies. They were Malibu Boats Inc. Class A (MBUU), OneWater Marine Inc. Class A (ONEW), and MarineMax, Inc. (HZO). Boat sales and boat usage remained resilient during the quarter as families shifted to activities that provided social distancing. Century Communities, Inc. (CCS) significantly outperformed (+111%) as homebuilders benefited from falling interest rates, lean inventories, decent demand, a better than feared earnings season, and a potential tailwind from deurbanization. However, this was offset by Potbelly Corp. (PBPB) and not owning some of the best performing discretionary stocks. Despite reporting improving sales trends and reduced cash burn, Potbelly Corp. (PBPB) failed to participate in the restaurant stock rally on liquidity concerns. This is a situation we continue to monitor closely.

We have worked diligently to build a portfolio that should benefit from a reduction in anxiety over the virus and the economy. We have been adding small positions in companies where we see enticing relative valuations with above-average snap-back potential as the COVID-19 and economic clouds begin to clear. The number of securities held in the portfolios has expanded to try to capture this return while taking less company-specific risk. We believe our strategy of buying names with solid free cash flow characteristics, coupled with deeper discounts and some controversy surrounding them, is the right one that will add alpha for our clients going forward. Our largest risk lies in second-wave fears and the resulting economic worries and implications. Our performance was very strong during the first two months of the quarter; however, in the last few weeks of the quarter, second-wave COVID-19 cases increased, and we did lose some relative outperformance. This is certainly a concern, but we see it as performance delayed, not lost.

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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 6/30/2020 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 6/30/2020 were Premier Financial Corp (1.4%), Zumiez Inc (1.1%), Echo Global Logistics, Inc (1.1%), Columbus McKinnon Corp. (1.1%), RadNet, Inc (1.1%), Cowen Inc. Class A (1.1%), Cohu, Inc (1.1%), Motorcar Parts of America, Inc (1.0%), Malibu Boats Inc Class A (1.0%), and HomeStreet, Inc (1.0%). 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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