INTEGRITY ASSET MANAGEMENT

Victory Integrity Mid-Cap Value Fund — As of June 30, 2018

Quarterly Commentary

"Fasten your seatbelts; it's going to be a bumpy night."
All About Eve

We are entering a very interesting and complicated backdrop for the markets and the global economy with uncertainties from monetary policy, cracks in the synchronized global growth story, and escalating global trade tensions. Additionally, the yield curve continues to flatten, credit spreads are moving higher and the dollar has strengthened. Lastly, emerging markets stocks are correcting and commodity prices have become more volatile. Since our last communication, we have become more conservative in our outlook. Previously, we believed that cooler heads would prevail in the global trade disputes, however, tariffs have been enacted or threatened to be enacted globally and markets are adjusting to these uncertainties. Companies from General Motors, Campbell Soup and Harley Davidson, to name a few, are starting to feel the effects of the trade wars.

As we stated last quarter, we had begun to take some interest rate sensitivity out of the portfolios due to Federal Reserve interest rate increases and the resulting yield curve flattening. That said, we are not quite at the point of capitulation in the more interest rate sensitive groups. As the quarter progressed, we began to shift the portfolios to a more neutral position as the trade tensions increased more than we had predicted and the yield curve continued to flatten. We decreased weights in financials and industrials, while increasing weights in REITs and utilities. The portfolios are still tilted towards a growing economy, however, with this back drop we felt it prudent to position the portfolio in this manner. The best performing sector of the market was energy. Industrials and fnancials were the worst performing sectors. Mid growth outperformed mid value.

The Victory Integrity Mid-Cap Value Fund (A shares without sales charge) underperformed the Russell Midcap® Value Index for the quarter. Stock selection in technology was the most significant negative. Selection was a modest headwind in energy. Stock selection in consumer staples, financials, and real estate were all modest positives. Sector weights were an overall neutral to performance although an underweight to real estate (REITs) was a minor negative as the group rallied after a difficult start to the year. A smaller market cap was a positive style attribute.

Performance in technology cost us about 55 basis points. Almost half of it was because we did not own Twitter which advanced more than 50%. Of the stocks owned, Flex (FLEX, 0.00%) underperformed following another quarter of execution issues and profitability pushouts with a new program ramp.

Although we had several winners within energy, our overall performance lagged and was a modest negative. Delek US Holdings (DK, 0.97%) and Marathon Oil (MRO, 1.01%) were highlights as they were up more than 20%. Delek US Holdings (DK, 0.97%) is a refiner with the largest percentage throughput exposure to Permian-priced crudes. Profitability has been supported by widening Permian differentials. Marathon Oil (MRO, 1.01%) reported strong unconventional oil production output and upwardly revised full year guidance due to well results from their Bakken acreage. Headwinds included HollyFrontier (HFC, 0.66%) and not owning some of the better performing exploration and production stocks. We missed owning HollyFrontier (HFC, 0.66%) while it advanced in the first two months of the quarter.

Lamb Weston (LW, 1.17%) was the largest positive in consumer staples as it is benefitting from tight capacity within the potato industry. Pinnacle Foods (PF, 0.76%) rallied more than 20% as it agreed to be acquired by a larger competitor. In financials, E*TRADE (ETFC, 1.04%) was up 10% as fundamentals remain solid. Not owning some of the weaker performing asset managers and banks also contributed.

Within real estate, several of our REIT stocks rallied double digits led by DDR (DDR, 1.25%) and Host Hotels & Resorts (HST, 1.39%). A solid earnings result and stabilization in retail fundamentals led to a 25% rebound in DDR (DDR, 1.25%). Host Hotels & Resorts (HST, 1.39%) announced solid results and raised guidance as business and leisure demand have improved.

Consumer discretionary was a very minor negative. Caesars Entertainment (CZR, 0.64%) and Wyndham Destinations (WYND, 0.70%) were the biggest culprits. We bought Caesars Entertainment (CZR, 0.64%) intra-quarter and it underperformed as investors became more cautious on the market at the end of the quarter. Wyndham Destinations (WYND, 0.70%) succumbed to profit taking and investor rotation as they completed the spin-off of their hotel assets. Some of this was offset with Macy's (M, 0.81%) which produced a beat and raise quarter as they benefitted from better demand, tight inventory control, and strategic initiatives.

Health care was neutral in terms of performance. Encompass Health (EHC, 1.03%) outperformed on continued volume strength and improved growth from the move into home health. Molina Healthcare (MOH, 0.85%) was up more than 20% as the company made progress toward their long term 1.5 - 2% margin target. Earnings were well above expectations for the first quarter. Perrigo Co (PRGO) underperformed on the delay in the approval of a new generic drug and overall weak generic pricing. Cardinal Health (CAH, 0.75%) underperformed following Amazon's acquisition of PillPack, which fulfills prescriptions. Investors are worried they will cut out the distributors with this move.

Performance in industrials was a push. Navistar International (NAV, 0.75%) benefitted from a strong quarter and guidance, in addition to rumors Volkswagen will acquire the rest of the company. Airline stocks were down almost 11% and not owning any of these stocks contributed. Conversely, concerns that truckload pricing and demand have already peaked pressured Knight-Swift Transportation (KNX, 0.66%). Huntington Ingalls Industries (HII, 0.85%) declined as it cut long-term EBIT margin guidance due to younger program/delivery mix over the next two years.

The contrarians in us would very much love to bet against the increasingly consensus view that we are heading for an all-out global trade war as corporate profits are solid, interest rates are still low, the consumer is strong, the regulatory environment is pro-business and valuations are palatable in some groups. Unfortunately, the eventual outcome of the trade tensions are binary, and the markets have not completely discounted the impacts of a full-blown trade war. Hence, we are very cognizant that we are always one tweet away from global tensions being alleviated or escalated. However, we fear some real damage has already been done from the rhetoric and the first round of tariffs. Bottom line, it's going to be a very volatile market this summer, but hopefully cooler heads can prevail and markets can refocus on fundamentals.

Quarterly Commentary

Past performance does not guarantee future results.

Risks Associated with Investing in the Fund: The Fund invests in smaller and medium-sized company stocks, which are more volatile and less liquid than larger, more established company securities. Value-based investments are subject to the risk that the broad market may not recognize their intrinsic value. 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 Midcap® Value Index measures the performance of those Russell Midcap® companies (approximately 800 of the smallest securities in the Russell 1000® Index, which includes the 1,000 largest 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) with higher composite value scores. The S&P 500® Index is a widely recognized capitalization-weighted index that measures the performance of the large-capitalization sector of the U.S. stock market. 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 6/30/2018 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 6/30/2018 were: PPL Corporation (1.5%), SunTrust Banks, Inc. (1.4%), Host Hotels & Resorts Inc (1.4%), Camden Property Trust (1.4%), L3 Technologies, Inc. (1.3%), HCP, Inc (1.3%), Duke Realty Corp. (1.3%), Ally Financial Inc. (1.3%), Welltower, Inc (1.3%), and PacWest Bancorp (1.3%). 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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