INTEGRITY ASSET MANAGEMENT

Victory Integrity Small-Cap Value 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 (+63.6%). Health care, materials, and energy also outperformed. Utilities was the worst performing sector (-4.8%). Small cap growth outperformed small cap value.

The Victory Integrity Small Cap Value Fund (A shares without sales charge) outperformed its benchmark, the Russell 2000® Value Index for the quarter. Stock selection in industrials, financials, and real estate aided performance. Security selection in health care and energy limited performance. Sector weights were muted. From a style perspective, higher volume and higher beta than the benchmark helped while a larger market capitalization than the benchmark was a headwind.

Stock selection in machinery and road & rail were the main contributors within industrials. In machinery, Meritor, Inc. (MTOR) was the top contributor, as the bottoming of heavy-duty truck orders and confirmation of sufficient liquidity spurred the shares. Saia, Inc. (SAIA) led the way in road & rail, as increasing weight per shipment and rebounding tonnage growth in May and June should benefit earnings. There were additional notable contributors elsewhere. Builders FirstSource, Inc. (BLDR) rallied as concerns about a prolonged housing downturn were alleviated with better new home sales and building permits. Beacon Roofing Supply, Inc. (BECN) outperformed as reroofing activity was better than expected due to easy comparisons, strong existing home sales, and better weather. Tutor Perini Corp. (TPC) was up 81% on strong earnings upside from improved project execution and better weather. Aerojet Rocketdyne Holdings, Inc. (AJRD) underperformed as investors opted for cyclical exposure versus defense stocks.

Solid security selection in bank holding companies aided financials. Our average bank holding outperformed the benchmark (7.9% vs. 6.2%) as we avoided owning some underperforming banks that happen to be larger benchmark weighted names. Western Alliance Bancorp (WAL) was the top contributor within banks that we own. Two holdings hurt our bank performance. Berkshire Hills Bancorp, Inc. (BHLB) lagged, as the company has a heavy geographic concentration in the Northeast, which was hit hard by COVID-19. We sold the position. High perceived integration risk from recent M&A, given a more difficult operating environment, hurt WesBanco, Inc. (WSBC). Stock selection in insurance helped, with Kinsale Capital Group (KNSL) leading the way. Limited exposure to business interruption claims, along with strong premium growth coupled with higher premium rates, boosted the shares. RLI Corp. (RLI) and Kemper Corp. (KMPR) weighed on performance in insurance. RLI Corp. (RLI) lagged after a reversal of outperformance in the first quarter, as the company is viewed as defensive. Concern over profit erosion from premium givebacks to customers reversed first quarter outperformance for Kemper Corp. (KMPR).

SITE Centers Corp. (SITE) was the top contributor within real estate. The company rebounded 55% as retail tenants reopened and rent collections were better than feared.

Not owning biotechnology stocks was the largest detractor, costing us 79 basis points within health care. The average biotechnology company in the benchmark was up 55% for the quarter. We do not own any biotech companies in the portfolio, as they do not meet our valuation criteria. Select Medical Holdings Corp. (SEM) also hurt performance. Work-from-home orders and suspension of elective surgeries due to the COVID-19 outbreak resulted in significant volume declines at their outpatient rehab facilities and Concentra units. Magellan Health, Inc. (MGLN) and Syneos Health, Inc. Class A (SYNH) were outperformers. Magellan Health, Inc. (MGLN) reported quarterly margin improvement, and the top and bottom lines exceeded estimates. The company reiterated annual guidance and announced the sale of its Magellan Complete Care unit for approximately $925M (62% of MGLN's market cap when the deal was announced). Syneos Health, Inc. Class A (SYNH) mentioned that they have seen a stabilization in their business after the COVID-19 disruption and expect an improved second half of the year. The company also announced one of their recent large pharma relationships has been expanded.

Frontline Ltd. (FRO) and Euronav NV (EURN) detracted within energy. Demand held up better than expected in the second quarter, leading to rapidly rising oil prices, which hurt our tanker storage thesis. We exited both positions. Noble Energy, Inc. (NBL) was a highlight, as the company benefited from the sharp rebound in crude oil prices.

Overall performance in consumer discretionary was a minor positive. Brunswick Corp. (BC) was up 81% as boat sales and boat usage remained resilient during the quarter, with families shifting to activities that provide social distancing. Century Communities, Inc. 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. Jack in the Box Inc. (JACK) benefited from strong drive-through sales and menu innovation, generating positive quarter-to-date comps in a very challenging operating environment. Although quarterly results missed some estimates, Crocs, Inc. (CROX) outperformed as the company's strong balance sheet and comfortable, cleanable products position it well in a COVID-19 impacted retail environment. Penn National Gaming, Inc. (PENN) rebounded as casinos began opening and investors became more optimistic on sports betting opportunities. We ultimately sold the position to take profits as shares were trading near 52-week highs.

Technology was also a small positive. MACOM Technology Solutions Holdings, Inc. (MTSI) delivered beat-and-raise results in a challenging operating environment, driven by strong demand in data center, telecom, and defense end markets. Diebold Nixdorf Inc. (DBD) rebounded as their business proved more stable than investors had feared, and liquidity concerns abated. Belden Inc. (BDC) limited performance as a CEO transition and investor concerns regarding their ability to close the sale of their Grass Valley division held back shares. The deal closed after quarter-end.

Consumer staples and utilities were both slight negatives. Sanderson Farms, Inc. (SAFM) detracted in consumer staples as COVID-19 outbreaks at their plants limited production as well as reduced food service sales. In utilities, Northwestern Corp. (NWE) underperformed along with utility peers as the market rebounded off the March lows. Reduced 2020 guidance due to a mild winter and COVID-19 load reduction also had an adverse effect.

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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. Further, 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 may be 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 2000® Value Index is a capitalization-weighted index that measures the performance of those Russell 2000® Index companies (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) with higher composite value scores. 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: Western Alliance Bancorp (1.2%), Brunswick Corp (1.2%), STAG Industrials, Inc (1.1%), Stifel Financial Corp. (1.1%), Magellan Health, Inc. (1.0%), EMCOR Group, Inc. (1.0%), Physicians Realty Trust (1.0%), Beacon Roofing Supply, Inc (1.0%), Saia, Inc (1.0%), and Meritor, Inc Class A (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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