INTEGRITY ASSET MANAGEMENT

Victory Integrity Small-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. Financials, while positive, had the lowest absolute returns for the period. Small value outperformed small growth.

The Victory Integrity Small-Cap Value Fund (A shares without sales charge) posted positive absolute returns, underperforming its benchmark, the Russell 2000® Value Index for the quarter. Security selection in energy, financials, and materials were the main detractors to performance. Stock selection in industrials and health care also hurt. Security selection in utilities and semiconductors were minor positives. Sector weights were modestly negative due to our underweight to real estate and an overweight to industrials. From a style perspective, higher market capitalization and lower momentum were headwinds. Flows into small cap ETFs were very sizeable and led to lower market cap stocks outperforming. According to Jefferies, only 12% of small cap value managers outperformed for the quarter.

Callon Petroleum Co. (CPE, 1.11%), Ultra Petroleum Corp (UPL, 0.00%), and Nabors Industries Ltd. (NBR, 0.47%) were the largest detractors within energy. Callon Petroleum Co (CPE, 1.11%) announced and completed an equity and debt offering to acquire additional acreage in the Permian. The current bottlenecks and takeaway capacity in the Permian will not be mitigated until mid-2019. In addition to the western gas differentials blowing out due to better weather, Ultra Petroleum Corp (UPL, 0.00%) released disappointing results on one of its horizontal wells. We exited the position. Nabors Industries Ltd (NBR, 0.47%) has lagged due to its leverage overhang which management cleared up this quarter after an equity raise. While we didn't enjoy the dilution, we are hoping investors will turn their focus to the improving business now. Oasis Petroleum Inc (OAS, 0.74%) was a bright spot within energy. Despite a recent acquisition in the Permian, the company is still a primary Bakken producer and is benefitting from investors looking for exposure outside of the Permian Basin.

Within financials, MGIC Investment Corp (MTG, 0.22%), Stifel Financial Corp. (SF, 1.16%), and IBERIABANK Corp (IBKC, 1.59%) hurt performance. MGIC Investment Corporation (MTG, 0.22%) succumbed to deteriorating pricing pressure which was evident across the entire mortgage insurance complex. Both Stifel Financial Corp (SF, 1.16%) and IBERIABANK Corp (IBKC, 1.59%) sold-off along with other interest rate sensitive stocks. Kemper Corp (KMPR, 0.98%) helped performance as the company delivered strong earnings and a closure of an acquisition is expected in third quarter, which is earlier than anticipated.

Quarterly Commentary

In materials, Summit Materials, Inc. Class A (SUM, 0.00%), Venator Materials PLC (VNTR, 0.00%), and Ferro Corp (FOE, 0.71%) detracted. A sell-off post-earnings due to poor weather and an expected earnings shift towards the back half of the year hampered Summit Materials, Inc. Class A (SUM, 0.00%), causing us to exit the position. Continued concerns over a facility rebuild timeline and slowing pricing growth hurt the earnings visibility for Venator Materials PLC (VNTR, 0.00%). This position was also sold. Ferro Corp (FOE) underperformed as raw materials inflation and a strengthening U.S. Dollar hurt earnings despite a solid organic growth outlook. Platform Specialty Products Corp. (PAH, 0.83%) aided performance due to solid results, continued progress toward a company split/sale of a division, and deleveraging that helps close the valuation gap with peers.

In addition to the aforementioned overweight to industrials, Wabash National Corporation (WNC, 0.50%) also detracted as concern over tariffs and increased steel costs pressured earnings. Team, Inc. (TISI, 0.72%) was a significant positive contributor as the company rallied 68% as solid results showed progress on cross-selling opportunities, expense initiatives, and debt reduction.

Healthcare had one significant detractor and contributor. Magellan Health, Inc (MGLN, 1.01%) underperformed after losing a large Medicaid contract in Florida. Haemonetics Corp. (HAE, 0.66%) rallied on improved earnings results from a cost cutting plan and better visibility into the uptake of the new plasma collection system. Additionally, biotechs were once again a headwind.

Security selection in utilities and semiconductors were minor positives. Stock selection in utilities was broad based as our average holding returned 10.6% versus the index sector return of 8.6%. Synaptics Inc. (SYNA, 0.53%) led the way within semiconductors as the company confirmed that they are engaged in merger discussions with Dialog Semiconductor.

DDR Corp (DDR, 0.96%) was a positive highlight within real estate as a solid earnings result and stabilization in retail fundamentals led to the rebound.

Consumer discretionary had some notable performers. Penn National Gaming Inc (PENN, 1.11%) posted a better than expected quarter and increased guidance as the regional gaming market remains healthy. Gray Television Inc (GTN, 0.85%) rallied after announcing an accretive and transformational merger with Raycom Media. Dana Incorporated (DAN, 0.57%) and TEGNA Inc (TGNA, 0.83%) hurt performance. Dana Incorporated (DAN, 0.57%) fell on concerns over tariffs and increased steel costs pressuring earnings. TEGNA Inc (TGNA, 0.83%) underperformed on continued sluggishness in auto advertising trends. Industry sentiment has also waned with the delayed closing of a large merger in the space and uncertainty over loosening broadcast ownership rules.

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 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 6/30/2018 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: IBERIABANK Corporation (1.6%), Synovus Financial Corp. (1.2%), Stifel Financial Corp. (1.1%), CONMED Corp. (1.1%), Penn National Gaming, Inc (1.1%), Callon Petroleum Company (1.1%), Banc of California Inc. (1.1%), Peabody Energy Corporation (1.0%), Southwest Gas Holdings, Inc. (1.0%), and Black Hills Corp. (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.

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. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all recommendations of security selection is available by request for the previous 12 months. Furthermore, 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.

SHARES OF THE FUND MAY BE SUBJECT TO SALES CHARGES AND OTHER FEES. AN INVESTOR SHOULD CONSIDER THE FUND'S INVESTMENT OBJECTIVES, RISKS AND CHARGES AND EXPENSES CAREFULLY BEFORE INVESTING OR SENDING MONEY. THIS AND OTHER IMPORTANT INFORMATION ABOUT THE INVESTMENT COMPANY CAN BE FOUND IN THE FUND'S PROSPECTUS. TO OBTAIN A PROSPECTUS, PLEASE CALL 1-800-539-FUND OR VISIT WWW.VCM.COM. PLEASE READ THE PROSPECTUS CAREFULLY BEFORE INVESTING.

THE FUNDS ARE DISTRIBUTED BY VICTORY CAPITAL ADVISERS, INC. ("VCA"), MEMBER FINRA AND SIPC. VICTORY CAPITAL MANAGEMENT INC., AN AFFILIATE OF VCA, IS THE INVESTMENT ADVISOR TO THE FUNDS AND RECEIVES A FEE FROM THE FUNDS FOR ITS SERVICES.

V17.053 // 2Q 2018 INTGY Small Cap Val Fund COM

VictoryFunds®