INTEGRITY ASSET MANAGEMENT

Victory Integrity Small/Mid-Cap Value Fund As of September 30, 2018

Quarterly Commentary

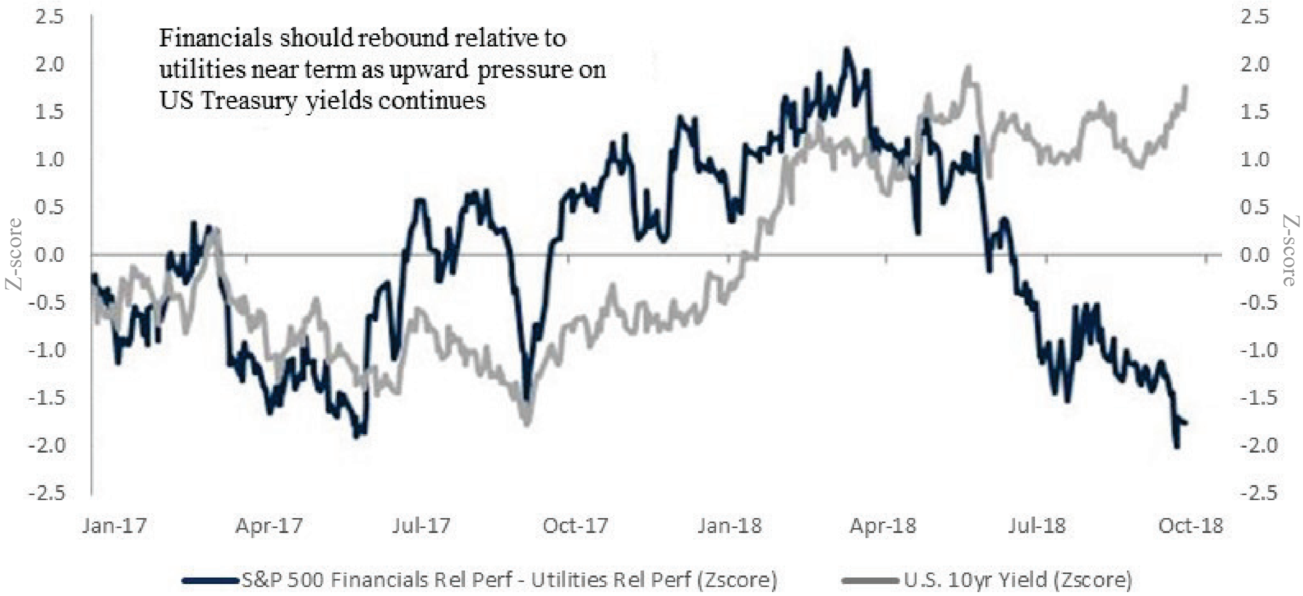
"It's de ja vu all over again"
Yogi Berra

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. Health care and industrials also outperformed. Consumer staples was the worst performing sector and real estate also lagged. Small/mid growth outperformed small/mid value.

The Victory Integrity Small/Mid Cap Value Fund (A shares without sales charge) underperformed the Russell 2500™ Value Index benchmark for the period. Security selection in energy, financials, and industrials were the largest detractors to performance. Consumer discretionary, materials, and health care helped performance. Sector weights were a slight negative as our underweight to telecommunication services (up 25%) detracted. Higher market capitalization was a positive style attribute, while lower momentum detracted.

Delek US Holdings Inc (DK), Extraction Oil & Gas (XOG), and PDC Energy (PDCE) were the largest detractors within energy. Delek US Holdings Inc (DK) was hurt by refining differentials in the Permian Basin that recently narrowed. We believe that both Midland differentials and WTI Crude/Brent differentials will widen over the next few quarters. Wattenberg names such as Extraction Oil & Gas (XOG) and PDC Energy (PDCE) have come under pressure due to the risk of Proposition 112 legislation (increased residential distance requirements) in Colorado passing.

Synovus Financial Corp (SNV), BankUnited Inc (BKU), and E*TRADE Financial Corp (ETFC) hampered performance within financials. Synovus Financial Corp. (SNV) announced a large bank acquisition that effectively ended the possibility of it being a nearterm seller, which many investors believed to be the case. Increased fears over further intensifying competition for loan and deposits limited BankUnited, Inc (BKU). In addition, the announced benefits from loss share agreements could end sooner than previously stated. E*TRADE Financial Corp (ETFC) lagged on pricing concerns as Fidelity introduced 0% fee ETFs and JP Morgan announced free commission trades. Insurance companies helped performance. Primerica, Inc (PRI) had a strong quarter with strong top line growth. Arthur J. Gallagher & Co (AJG) benefitted from rising property & casualty pricing and its accretive acquisition strategy. Within industrials, Owens Corning (OC), Meritor, Inc (MTOR), and Knight-Swift Transportation Holdings (KNX) were the largest detractors. Poor results and fears that inflation and lack of storm demand will cause margin compression in the roofing business hurt Owens Corning (OC). Knight-Swift Transportation Holdings (KNX) missed earnings expectations because of an underperforming Media companies were the top performers within consumer discretionary. Cinemark Holdings, Inc (CNK) rallied on strength of the domestic box office and good uptake of their subscription offering. TEGNA, Inc (TGNA) announced the accretive acquisition of two stations and raised their guidance for political advertising.

Allegheny Technologies Inc (ATI) was the top contributor within materials as the company posted impressive results and had success in winning spot jet engine forging business as competitors struggle to meet demand. Not owning some of the underperforming metals & mining companies also helped.

Health care had a handful of top contributors. A management turnaround at Molina Healthcare, Inc. (MOH) led to strong results and raised guidance driven by an improved margin outlook. Capital structure improvements continue as debt has been reduced by $493M this year. Encompass Health, Inc. (EHC) enjoyed solid volume growth in the IRF segment, improvements in bad debt and better clinical collaborations which led to strong results. Home Health & Hospice also showed solid growth rates. Charles River Laboratories International, Inc. (CRL) reported strong revenues across all three business segments, but driven primarily by DSA (Discovery & Safety Assessment). The company also raised organic revenue growth as strong demand trends should carry into the second half. Magellan Health, Inc. (MGLN) detracted as the company missed earnings and reduced guidance driven by higher start-up costs from ramping two VA contract awards, rate cuts in the New York business, and contract losses on the PBM business.

Performance in technology was neutral. Tech Data Corp (TECD) underperformed as negative product mix resulted in disappointing earnings and guidance. Not owning Trimble Inc (TRMB) also hurt as the company was up 32% for the quarter. Nuance Communications, Inc (NUAN), Belden Inc (BDC), and Ciena Corp (CIEN) aided performance. Nuance Communications, Inc (NUAN) increased their share buyback authorization and provided positive comments on the ongoing business review. Belden Inc (BDC) reported quarterly results that exceed analysts' expectations as their struggling media segment stabilized. Ciena Corp (CIEN) delivered solid earnings results driven by broad based demand for optical capacity.

VictoryFunds®

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 2500™ Value Index measures the performance of those Russell 2500™ Index companies (approximately 2,500 of the smallest securities 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 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: Synovus Financial Corp. (1.7%), Ally Financial Inc. (1.6%), Huntington Ingalls Industries, Inc (1.4%), DDR Corp. (1.7%), American Financial Group, Inc (1.4%), Camden Property Trust (1.3%), DDR Corp. (1.3%), Nuance Communications, Inc (1.2%), Zions Bancorporation (1.2%), TEGNA, Inc. (1.2%) and Duke Realty Corp. (1.2%). 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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