INTEGRITY ASSET MANAGEMENT

Victory Integrity Small/Mid-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 energy (+48%). Consumer discretionary and health care also outperformed. Utilities was the worst performing sector (+1 %). Small/mid cap growth outperformed small/mid cap value.

The Victory Integrity Small/Mid Cap Value Fund (A shares without sales charge) outperformed the Russell 2500™ Value Index benchmark for the period. Security selection in industrials, technology, and real estate were the main contributors to outperformance. Stock selection in health care and consumer staples detracted. Sector weights were muted. Higher volume and higher beta were style tailwinds, while a larger market capitalization was a headwind.

Stock selection in machinery, building products, and construction and engineering companies 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. Builders FirstSource, Inc. (BLDR) rallied as concerns about a prolonged housing downturn were alleviated with better new home sales and building permits. Within construction and engineering, Tutor Perini Corp. (TPC) was up 81% and rallied on strong earnings upside from improved project execution and better weather. Beacon Roofing Supply, Inc. (BECN) outperformed as re-roofing activity was better than expected due to easy comparisons, strong existing home sales, and better weather. Investor concerns about a downturn in defense spending and aerospace exposure caused Curtiss-Wright Corp. (CW) to lag more cyclical names.

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There were some notable contributors within semiconductors that led to outperformance within technology. 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. A cheap valuation and a large investment by Koch Industries sparked a rally in ON Semiconductor Corp. (ON) shares. Nuance Communications, Inc. (NUAN), a software company, was up 51% as the company delivered quarterly results that bested analysts' expectations. 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.

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 source of underperformance within health care, as the average biotechnology company in the benchmark was up 46% for the quarter. We do not own any biotech companies in the portfolio, as they do not meet our valuation criteria. Encompass Health Corp. (EHC) also hurt performance. Work-from-home orders and suspension of elective procedures due to the COVID-19 outbreak resulted in lower admissions and volumes. Hologic, Inc. (HOLX) and Magellan Health, Inc. (MGLN) outperformed. Hologic, Inc. (HOLX) is well positioned to benefit from high demand for COVID-19 testing. The company's PANTHER system offers high-throughput testing to take advantage of demand and is a market leader in molecular diagnostics. 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).

Pilgrim's Pride Corp. (PPC) and not owning Beyond Meat (BYND), which was up 101%, hurt performance within consumer staples. Pilgrim's Pride Corp. (PPC) lagged after their CEO was indicted in a price fixing case brought on by the Department of Justice.

Financials aided performance, led by East West Bancorp, Inc. (EWBC) and LPL Financial Holdings Inc. (LPLA). Subsiding oil fears and high capital to cushion against credit losses helped East West Bancorp, Inc. (EWBC). Strong organic growth and share gains led to outperformance for LPL Financial Holdings Inc. (LPLA). Conversely, high perceived integration risk from recent M&A, given a more difficult operating environment, hurt WesBanco, Inc. (WSBC). There were also a couple of notable detractors within insurance. Kemper Corporation (KMPR) underperformed after a strong first quarter on concern over profit erosion from premium givebacks to customers. American Financial Group, Inc. (AFG) provided reduced guidance to highlight pressure on its life insurance business.

Energy was a minor positive, as we had some significant contributors. WPX Energy, Inc. (WPX) was up 109%, Parsley Energy, Inc. Class A (PE) was up 87%, and Diamondback Energy, Inc. (FANG) was up 61%. All three companies benefited from the sharp rebound in crude oil prices.

Performance in utilities was neutral, as our underweight to the group helped. Black Hills Corp. (BKH), ALLETE, Inc. (ALE), and PNM Resources, Inc. (PNM) all underperformed with utility peers as the market rebounded off the March lows. COVID-19 disruption has resulted in lower utility load demand.

Security selection in materials detracted as Summit Materials, Inc. Class A (SUM) underperformed. The company struggled as the shutdown heavily impacted the long-term outlook for public budgets and nonresidential construction spending.

Consumer discretionary was a very slight negative. While we missed out on owning some top performers, there were some notable contributors. 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. Although quarterly results missed some estimates, Crocs, Inc. (CROX) outperformed as the company's strong balance sheet and comfortable, cleanable products position them well in a COVID-19 impacted retail environment. TRI Pointe Group Inc. (TPH) outperformed as homebuilders benefited from falling interest rates, lean inventories, decent demand, a better-than-feared earnings season, and a potential tailwind from deurbanization.

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 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 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: ON Semiconductor Corp. (1.4%), Highwoods Properties, Inc (1.3%), Medical Properties Trust, Inc (1.3%), Voya Financial, Inc. (1.3%), Brunswick Corp. (1.2%), Knight-Swift Transportation Holdings Inc. Class A (1.2%), Nuance Communications, Inc. (1.20%), Apartment Investment and Management Co (1.2%), AGNC Investment Corp (1.2%), and STORE Capital Corp (1.1%). 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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