Victory Munder Mid-Capitalization Core Growth Fund
Quarterly Commentary

MUNDER Capital Management®

As of September 30, 2019

3Q 2019 MARKET REVIEW

Slowing Growth Pressures Rates and Limits Stock Market Returns

The third quarter's 0.48% total return put the Russell Midcap® Index up 21.93% for the year; the Russell Top 200® Index returned 1.78% for the quarter and is up 20.01% year-to-date, while the Russell 2000® Index declined 2.40% and is up 14.18% for the year. U.S. markets and the dollar continue to outperform relevant international alternatives as investors try to reconcile slowing global growth and an industrial/manufacturing recession with increasingly dovish global monetary policy and resilient job creation/consumer spending in the U.S.

Indeed, in September we saw a very powerful rotation out of growth and momentum and into value factors, including some inexpensive cyclical stocks. This contrasts greatly with the growth-led market that we've experienced the last two years, which has largely been driven by negative earners and/or very high valuation stocks.

Our philosophy is built on the premise that we can construct a portfolio of high-quality, reasonably priced stocks that also offer good growth, and that over any reasonable time frame this type of portfolio will outperform the market. The last couple years have been unique in that the market is seemingly saying the opposite; i.e., that high valuation names are underpriced and/or that high valuation is a good predictor of future returns, a belief we think is in direct contradiction to the 30+ years of stock market history we have experienced. Our philosophy to minimize valuation risk has served us well over time, and we believe it will continue to be prudent over the long term. We remain confident that a stock's price ultimately reverts to intrinsic value, which is determined not only by growth but also by profitability and risk, and when it does our valuation discipline and quality bias will ultimately pay off.

ATTRIBUTION

Stock Selection Positive Against Both Benchmarks

The Victory Munder Mid-Capitalization Core Growth Fund generated a -0.39% total return (Class A shares without sales load) for the third quarter, with gains in Real Estate, Utilities, Materials, Health Care, and Communication Services offset by declines in Consumer Staples, Energy, Industrials, Technology, Financials, and Consumer Discretionary. The Fund generated positive stock selection against both the Russell Midcap® Index (the Core Index) and the Russell Midcap® Growth Index (the Growth Index). Sector allocation and style factors (underweight defensive sectors, higher exposure to growth and momentum) detracted from relative returns against the Core Index, but represented a modest tailwind vs. the Growth Index (overweight defensive sectors, but style factors neutral). Importantly, we believe the strong rotation in September out of growth and momentum and into value and, more importantly for the Fund, out of hyper-growth/high-valuation stocks represents a leadership change in the market that is generally positive for our "growth at a reasonable price" philosophy, particularly vs. our Growth peers/benchmark.

Stock Selection Strong in Health Care, Materials, and Real Estate

Health Care was the second worst performing sector behind Energy in both indices, with the sector impacted by both the rotation away from high-growth/high-valuation names as well as ongoing regulatory concerns heading into the 2020 election (e.g., Medicare for all, greater drug pricing controls). The majority of the Fund's holdings outperformed this quarter, led by top contributor Edwards Lifesciences (2.1%), a medical device company with products that address heart valve disease, cardiac surgery, and critical care. The company reported a strong beat-and-raise quarter, with broad-based strength across geographies driven by strength in its transcatheter aortic valve replacement (TAVR) product. Recent favorable data for TAVR is driving growth, and we believe this momentum can continue with new FDA approval for low surgical risk patients and the introduction of new products.

The Materials sector was down slightly in the Core Index, but up mid-single- digits in the Growth Index, which has limited exposure to metals & mining, where weakness was pronounced due to weakening global growth and tariffs. For the Fund, Vulcan Materials (1.7%), the largest producer of aggregates in the U.S. (concentrated in the Southern states) as well as a producer of asphalt and ready-mix concrete, was a top performer. Vulcan reported solid 2Q results with solid volumes, pricing, and profitability despite weather-related issues. With its domestic focus, roughly half the business tied to infrastructure spending that is beginning to ramp (e.g., California, Texas), and favorable weather conditions in 3Q, shares continue to march higher as investors incorporate the better backdrop against conservative guidance.

Real Estate was the top performing sector within both indices, benefiting from the rotation out of growth and into value factors (specifically dividend yield, where lower rates increase the attractiveness of bond proxies). CyrusOne (1.2%), an owner/operator of carrier-neutral datacenters and provider of colocation services in the U.S. and Europe, was the Fund's top performer. The company reported solid 2Q results and raised full-year earnings growth guidance, as well as providing positive commentary on growth and funding for the next several years. In addition, it was later reported in the press that the company was exploring a sale of the company after it received takeover interest from a group of investors including private equity firm KKR & Co. We continue to believe the company possesses one of the best growth/value profiles within the sector, and think any take-out price would be well above $80 per share.

Industrials, Technology, and Consumer Discretionary Disappoint

The Industrials sector was up low-single-digits in both indices, with strength in services, road & rail, and aerospace & defense (A&D) offset by weakness in airlines and capital goods (ex-A&D). For the Fund, selection was challenged within capital goods, including two of our defense positions, Kratos Defense & Security Solutions (0.7%) and HEICO Corporation (1.5%), which had been really strong performers to date, and whose strong growth profiles and higher valuations made them vulnerable during the September market rotation. Kratos, a national security technology provider with proprietary expertise in the area of unmanned aerial vehicles, electronics for missile defense systems, electronic warfare systems, and satellite control and management systems, also saw weakness after lowering second-half guidance due to the delay of several large deals. Importantly, bookings remained solid for the quarter at 1.1x book-to-bill, and the company's strong backlog and pipeline support accelerating growth into 2020, leaving our multi-year, multi-program, strong long-term growth thesis intact. Specifically, Kratos' unmanned product set is a major point of emphasis for the U.S. Department of Defense, and the company is dominant in its part of the market, with several new growth programs supporting 20%+ growth for the next several years.

The Technology sector was down less than 1% in both indices this quarter, with outsized strength in semiconductor capital equipment as well as good performance in distributors and data processing/outsourcing, offset by declines in internet, consulting, and software. For the Fund, negative stock selection was in large part due to our lack of exposure to semi-cap equipment, which was up nearly 25% this quarter despite the cyclical nature of the industry, as well as our higher exposure to growth factors vs. the Core Index. Outside of this, stock selection was balanced, with contributions from our strong performers, Fiserv (2.9%), CDW (2.2%), and offset by a few disappointments, PTC Inc. (0.0%), SS&C (1.3%).

The Consumer Discretionary sector was down ~2% in both indices this quarter, with mixed industry performance, but notable outsized strength in housing-related industries. For the Fund, stock selection was negative in large part due to our holdings in specialty retailer Ulta Beauty (0.0%). The company reported slightly disappointing results and took down full-year guidance, which contrasts greatly with the beat-and-raise pattern investors had become accustomed to. Importantly, we exited our position and repositioned into homebuilder D.R. Horton (0.8%), which we think is uniquely positioned to benefit from an improving housing market (aided by a strong job market, strong household formations, and lower interest rates) and high demand for affordable, quality, entry-level/first-time product that builders have largely neglected this cycle.

The Victory Munder Mid-Capitalization Core Growth Fund's focus is to invest in mid-cap stocks that have superior growth prospects and reasonable valuations. We believe this combination of fundamental strength and attractive valuation positions the Fund for strong competitive performance. These characteristics have historically contributed to the Fund's successful long-term record, and we are confident they will continue to serve our investors well.

Top 5 Contributors (%)	
CyrusOne, Inc.	0.34
Edwards Lifesciences Corporation	0.33
L3Harris Technologies Inc	0.32
Dollar General Corporation	0.31
CDW Corp.	0.21
Top 5 Detractors (%)	
Ulta Beauty Inc	-0.58
Tractor Supply Company	-0.26
PTC Inc.	-0.25
Grand Canyon Education, Inc.	-0.23
ABIOMED, Inc.	-0.18

Source: FactSet.

Top 10 Holdings	Sector
Fiserv, Inc.	Information Technology
SBA Communications Corp. Class A	Real Estate
L3Harris Technologies Inc	Industrials
CDW Corp.	Information Technology
Zoetis, Inc. Class A	Health Care
Edwards Lifesciences Corporation	Health Care
Dollar General Corporation	Consumer Discretionary
Live Nation Entertainment, Inc.	Communication Services
Baxter International Inc.	Health Care
Advanced Micro Devices, Inc.	Information Technology
Total % of Portfolio	**22.7%**

				ANNUALIZED RETURNS				Expense Ratio	
Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception	Gross	Net
Class A, without load	-0.39	20.74	-0.10	9.81	6.87	11.33	8.15	1.28	1.28
Class A, with max. sales load (5.75%)	-6.12	13.82	-5.84	7.67	5.61	10.67	7.82	1.28	1.28
Russell Midcap® Index	0.48	21.93	3.19	10.69	9.10	13.07	—		
Russell Midcap® Growth Index	-0.67	25.23	5.20	14.50	11.12	14.08	—		

Source: StatPro.

*Since inception results are as of the Fund's inception date, June 24, 1998.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal will fluctuate so that an investor's shares when redeemed may be worth more or less than the original cost. To obtain performance information current to the most recent month end please visit www.vcm.com. The Adviser has contractually agreed to waive its management fee and/or reimburse expenses so that the total annual operating expenses of Class A and R of the Fund (excluding acquired fund fees and expenses and certain items such as interest, taxes and brokerage commissions) do not exceed 1.32% and 1.57%, respectively, until at least October 31, 2019. The Adviser is permitted to recoup advisory fees waived and expenses reimbursed for up to three years after the fiscal year in which the waiver or reimbursement took place. This agreement may only be terminated by the Fund's Board of Trustees. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year are annualized.

Risks Associated with Investing in the Fund: There is no guarantee that the Fund will achieve its objective. All investing involves risk, including potential loss of principal. The Fund invests in smaller and medium-sized company stocks, which are more volatile and less liquid than larger, more established company securities. 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.

Indexes Defined The Russell Midcap® Index includes approximately 800 of the smallest companies in the Russell 1000® Index (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). Securities indexes assume reinvestment of all distributions and interest payments and do not take into account brokerage fees or taxes. Securities in the Fund may not match those in the index and performance of the Fund will differ. Direct investment in an index is not possible.

Active return is the percentage gain or loss of an investment relative to the investment's benchmark.

Fund holdings mentioned in the Quarterly Commentary are as of most recent quarter end 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. 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. Percentages shown are for the most recent quarter.

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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.

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