

Victory NewBridge Large Cap Growth Fund

Quarterly Commentary

As of September 30, 2019

Executive Summary

- Stock selection was the main driver of the Fund's underperformance, as the second quarter earnings season was the most challenged the team has experienced in its more than two decades together.
- The Fund was further challenged by a dramatic style rotation away from growth stocks into value stocks.
- The quarter was filled with continued macro "noise," which led to increased volatility for equities.
- Financials was the portfolio's best relative performing sector, while technology and health care were the largest sector detractors.
- As always, our focus is on company fundamentals and we will continue to manage the portfolio by investing in companies with market leadership, solid financial bases, talented management teams, and sustainable revenue and earnings growth.

Market Review

During the third quarter, the Fund posted a negative return and underperformed its benchmark, the Russell 1000® Growth Index. The portfolio suffered through one of the worst quarterly earnings seasons our team has experienced in our 23 years of managing stocks together – i.e., the number of stocks in the Fund that performed poorly following financial results and guidance issuance this quarter was unprecedented. Adding to the portfolio's woes was a sharp rotation out of growth stocks and into value stocks that occurred in September. This style reversal negatively affected those stocks that had been among the market's best year-to-date performers.

The market continued to experience periods of instability which centered around trade, Fed policy, geopolitical fears, and domestic concerns. Perhaps the most influential factor remains the ongoing trade dispute with China. Stocks have been volatile in response to trade headlines and are likely to remain so. Additionally, the uncertainty around Fed policy and the Trump administration's opinion on it have weighed on investor sentiment. Investors believe that the Fed will remain accommodative, and language and actions to the contrary could potentially lead to weakness in equities. These issues, which currently do not allow for any certainty – along with concerns over Brexit, Iran, global economic growth, and others – have influenced the markets throughout the quarter and year. That said, the market has remained mostly resilient, and a combination of favorable macro outcomes and solid corporate financial results should continue to be supportive for stocks.

Portfolio Review

During the quarter, growth generally underperformed value, as evidenced by the quarterly returns of the Fund, the Russell 1000® Growth Index, and the Russell 1000® Value Index. The portfolio was underweight the quantitative factors that outperformed during the quarter. The best performing factors were: E/P Forward – Sector Relative (Value), Dividend Yield (Value), ROE (Quality), and Composite Value – Sector Relative (Value). The portfolio was overweight the worst performing factors: Estimated Long-Term Growth (Growth), Sales Growth (Growth), Composite Growth (Growth), and Low Financial Leverage (Quality). Unlike the second quarter of 2019, which was more of a mixed bag of growth and value factors, the third quarter leaned decidedly to value.

We maintained our high-growth, high-quality mandate throughout the quarter. The Fund is composed mostly of emerging growth and established growth cycle* companies, along with a smaller allocation to mature growth companies. By contrast, the benchmark Russell 1000® Growth Index has a significant weighting in mature growth and traditional value stocks. At the end of the quarter, two growth cycle categories made up 84% of the portfolio. The portfolio's emerging growth holdings represented 46% of the portfolio, whereas the benchmark had only 18%. Established growth is the portfolio's second largest growth cycle constituent, with an allocation of 39% versus the Russell 1000® Growth Index's 47%. The mature growth category represented 9% of the portfolio and 23% of the benchmark. The emerging growth category significantly underperformed the other categories during the quarter, reflecting the style shift away from high-growth, high-expectation stocks.

As of September 30, 2019, the portfolio consisted of 27 companies, with the top ten representing approximately 48%. Sector (GICS) weights at quarter-end were: Information Technology (34.8% vs. 37.6% for the index weight); Consumer Discretionary (20.5% vs. 14.4%); Health Care (19.2% vs. 14.2%);

Communication Services (12.3% vs. 11.4%); Industrials (6.3% vs. 10.0%); Financials (2.7% vs. 3.1%); Energy (0.0% vs. 0.3%); Consumer Staples (0.0% vs. 4.9%); Real Estate (0.0% vs. 2.6%); and Materials (0% vs. 1.5%). Active share was 79%.

Attribution

Stock selection was the key detractor to relative performance, as the second quarter earnings season was among the worst the team has experienced during its over two-decade tenure. In addition, the Fund's return suffered during a sudden style reversal in September, which saw value stocks significantly outperform growth stocks. Health care was the worst performing sector in both the portfolio and the benchmark and detracted the most from relative performance. Edwards Lifesciences and Zoetis were the top health care sector performers in the portfolio, while Alexion Pharmaceuticals, ABIOMED, Inc., Align Technologies, Canopy Growth Corporation, and Illumina, Inc. were the largest detractors. Each of these companies, save Alexion, did not meet consensus financial expectations. The portfolio's technology, consumer discretionary, financials, communication services, and industrials sector stocks also underperformed those of the benchmark. The portfolio's technology sector's largest detractors were Workday, Inc. and PTC, Inc. There were several portfolio stocks within technology that outperformed those of the benchmark, but were not enough to offset the detractors: Keysight Technologies, KLA Corporation, and NVIDIA. Keysight and NVIDIA came under pressure primarily over U.S./China trade tensions in the prior quarter, but recovered following solid second quarter financial results. KLA was new to the portfolio and benefited from solid fundamentals and a rotation into semiconductors over software. The portfolio's consumer discretionary stocks underperformed those of the benchmark. The biggest detractor within the sector was Ulta Beauty Inc. Ulta reported second quarter results that were slightly below expectations. However, management unexpectedly lowered guidance for the remainder of fiscal 2019. There has been a slowdown in cosmetic industry sales that until this quarter had not affected Ulta due to its market share gains. Investors assigned a lower multiple on lowered earnings, and the stock sold off precipitously. Weakness in Ulta offset strong performance from Burlington Stores and Lululemon Athletica Inc. – both reported better than expected quarterly results and outperformed the benchmark's consumer discretionary sector stocks. The portfolio's communication services stocks performed below those of the benchmark. Netflix, Inc. was the largest detractor. The company reported poor results in the face of looming competition from deep-pocketed and content-rich entrants, like Disney. Separately and encouragingly, Alphabet Inc. posted strong second quarter financial results and the stock was rewarded by investors, as year-over-year revenue growth was above 20% after falling below that bogey in the prior quarter. The industrials sector was one of the better performing sectors in the benchmark during the third quarter. The portfolio's CoStar Group posted record billings growth and was rewarded by investors. Union Pacific Corporation fell during the quarter despite delivering solid financial results driven by its productivity-enhancing initiatives.

The Fund's return was impaired by not owning materials, real estate, and consumer staples sector stocks, as those categories outperformed the index. These sectors benefited from a shift away from higher growth sectors.

Within financials, CME Group benefited from solid quarterly results and increased trading volume resulting from Fed policy uncertainty and geopolitical risks.

As stated above, relative performance was driven primarily by stock selection as opposed to sector allocation.

When the Fund's high-growth, high-expectation stocks missed second quarter results or guided below consensus expectations, they were mercilessly struck down during the quarter. In many cases, these stocks had previously been the portfolio's top performers. It became clear that these stocks were priced for perfection. When optimistic expectations were not realized, stock prices declined dramatically. In hindsight, their punishing setbacks seem to have foreshadowed the equity style reversal the markets experienced in September when valuations for high-growth, high-expectation stocks contracted significantly in a short period of time. Investors' appetite for growth and momentum clearly ebbed toward the latter part of quarter.

Portfolio Actions

We made several changes to the portfolio in keeping with our long-term, "bottom-up" investment approach. During the quarter, we initiated three positions and sold six. In addition to the whole position changes, we also increased and trimmed existing positions.

New Positions

KLA Corporation (KLAC): KLA Corporation (formerly KLA-Tencor Corporation) is among the largest semiconductor equipment companies in the world. They are a supplier of process control and yield management solutions for the semiconductor and related nanoelectronics industries. KLA's greater exposure to foundry and logic customers is an asset in the current turbulent memory demand environment. KLA's technological leadership and premium margin profile should enable the company to outgrow the overall market and drive EPS CAGR of 15-20% over the next three years. Additionally, the company's cash generation remains best in class as KLA is expected to deliver free-cash-flow margins in the high-20% range over the next few years.

Activision Blizzard (ATVI): Activision is one of the world's largest video game developers. It has a rich history of developing such iconic titles as Call of Duty and World of Warcraft and also owns the Candy Crush franchise. We sold our position after the company faltered last year, but bought it back in the belief that the company's recovery efforts will ultimately drive meaningful improvements in financial results. ATVI's lineup of game releases has been promising and should lead to heightened enthusiasm for gamers and investors.

Proofpoint, Inc. (PFPT): Proofpoint is a security-as-a-service (SaaS) vendor offering on-demand cloud-based, hybrid, or on-premise software to defend, protect, archive, and govern sensitive data. The company's core product expertise is in email threat detection and mitigation, which protects customers from threats including spam, phishing, email-borne malware, and other forms of suspicious content. The company is an industry leader, which we believe will continue to garner market share domestically and internationally. We believe the company will continue to grow revenue at a 20% rate over the next few years.

Eliminated Positions

Netflix Inc. (NFLX): Netflix posted disappointing second quarter results, with domestic paid net adds dramatically missing estimates. The quarter marked the first U.S. subscriber losses since 2011. International subscribers also significantly missed estimates. Management attributed the weakness to seasonality (the second quarter is typically the lowest quarter for net sub adds) and a relatively weak content slate. They also acknowledged the recent price increases likely led to elevated churn. The company expects to return to more typical growth in the third quarter and is already seeing this in the early weeks of the current quarter as the content slate begins to improve, but rising competition cannot be ignored. While Netflix remains the dominant video streaming service today, deep-pocketed players like Disney and Apple are moving aggressively to launch their own subscription services later this year. The increased competition potentially puts subscribers at risk, drives content costs higher, and likely caps Netflix's pricing power. These issues challenge some of the primary tenets of our investment thesis. Given the uncertainty created by this, we determined it was best to sell the remaining position and reinvest the proceeds elsewhere.

PTC Inc. (PTC): Following another set of disappointing results (the third poor quarter in a row), we decided to sell PTC. The fiscal third quarter's license and subscription metrics came in below guidance, and investor expectations and management also reduced full fiscal year 2019 guidance. Deficient execution has unfortunately become a theme for PTC as they attempt to shift to a

subscription model, realign their sales force, and transition to a new CFO. Disappointing leadership, combined with questions around lumpy global PMI trends, creates too much uncertainty to support its premium multiple and a position in the portfolio.

Alexion Pharmaceuticals, Inc. (ALXN): Despite strong execution by the ALXN's new management team over the last two years, as measured by top- and bottom-line beats in each of the last eight quarters, we decided to sell our position in ALXN given the intense investor focus in the looming 2023 patent expiry for ALXN's core franchise drug Solaris. While we have been optimistic and encouraged by the pace that ALXN has already converted patients away from Solaris and on to their next-generation drug Ultomiris (>50% of PNH have converted), we can no longer ignore the pressure investors have placed on the shares following the EU decision to not extend the patent life of Solaris in the EU and the U.S. PTAB decision to hear Amgen's challenge to reverse the patent office's decision to extend the Solaris patent life in the U.S.

Canopy Growth Corporation (CGC): The long-term trajectory for the cannabis industry remains favorable. However, lower wholesale prices and increased investment costs and competition prolong the path to CGC's profitability. Those industry trends, combined with the fact that the company continues to look for a CEO replacement after ousting (founder) Bruce Linton, made it difficult to continue owning the stock in the portfolio.

Align Technology, Inc. (ALGN): ALGN reported a troubling quarter as top-line results were in line with management's guidance, but case shipments were below management expectations. With shares trading at a heightened valuation, there was no room for error and shares traded significantly lower. Beyond the second quarter shipment shortfall that management attributed to an abrupt slowdown in China sales, as well as softness in the North American age 20-29 segment, management lowered third quarter volume guidance well below sell-side expectations. With the second quarter being the second miss/soft guide in the last four quarters, many investors (including us) questioned management's ability to re-accelerate volumes to meet its (recently raised) long-term guidance of 20% to 30% revenue growth. With ALGN's top line decelerating at a faster pace than originally anticipated and increased spending likely to impact the operating margin profile for the company, we decided to sell the position.

Charles Schwab Corporation (SCHW): Despite SCHW's strong customer franchise and impressive ability to add significant net new assets every quarter, the increasing pressure from yield-seeking customers limits balance sheet growth. As other firms offer high-yielding cash substitutes, SCHW is limited by how much it can lower deposit costs even though U.S. Treasury yields have declined significantly. SCHW's ability to manage costs is a positive, but there's only so much it can do without starving the business. Finally, if the Fed rules that SCHW is subject to CCAR like many other banks its size, the compliance costs will offset many of the expense savings SCHW has highlighted as a contributor to earnings growth.

Strategy & Outlook

Following periods of outperformance in 2018 and in the first quarter of 2019, the Fund's return has been disappointing this year. In particular, the second quarter earnings season displayed an uncharacteristic number of disappointments – the worst we've experienced in our 23 years of investing together – in which nine stocks were down over 17% (July 1–September 30). The damage was broad-based, affecting both existing holdings that have been our biggest winners over the course of the past 18 months, as well as stocks that we have recently added to the portfolio. When a concentrated and differentiated portfolio like ours misses the mark that often, performance certainly suffers. Some of our peers had done well by owning a select group of software companies, which in many cases traded at 25-30x revenue (not earnings). We found it difficult to justify such high valuations in those cases, and in turn, the portfolio fell behind on a relative basis due to our lack of participation in these companies. Over the last several weeks we have seen many of these stocks significantly underperform the market, as the trade favoring momentum and rich valuation growth started to unwind. It is unclear whether this trend will continue.

We remain sanguine about the economy and prospects for growth as corporate fundamentals remain mostly sound, central banks are skewed more dovish, and China's government has been stimulating its economy through pro-growth programs. Unemployment remains low, interest rates and inflation are still muted by historical standards, and company profits are still anticipated to grow for the remainder of 2019. We remain confident that the portfolio's companies will report attractive financial results in the current environment.

As we have seen over time, the equity market and the portfolio could experience future volatility as investors contemplate global trade policy, future Fed decisions, the yield curve, inflation trends, geopolitical risks (e.g., an impeachment inquiry, Brexit, and Iran), the scale of regulatory action on large technology/e-commerce companies, and other exogenous factors. Pro-growth policy changes (such as tax reform/cuts and deregulation) had increased investor and business confidence earlier this year and last, but their effect has been muted over the last several months due to the U.S. trade war with China. Better news on the trade front would likely be supportive for stocks.

We live in a dynamic world where economic data, corporate news, and geopolitical shocks can rapidly shift investor sentiment. We will continue to follow the opportunities and potential risks that could become market- and

stock-specific moving events. We are committed to adhering to our investment process and philosophy of finding and buying high-quality, high-growth stocks that will be successful over the longer term. Our focus remains on company fundamentals, and we will continue to manage the portfolio by investing in companies with market leadership, solid financial bases, talented management teams, and sustainable revenue and earnings growth. We believe we have upgraded the growth and quality composition of the Fund over the last few months and look forward to the next set of data points

Top 5 Contributors (% Contribution to Return)	
Alphabet Inc. Class C	0.48
Burlington Stores, Inc.	0.46
Edwards Lifesciences Corporation	0.39
Zoetis, Inc. Class A	0.38
Lululemon Athletica Inc	0.22
Top 5 Detractors (% Contribution to Return)	
Ulta Beauty Inc	-1.10
Netflix, Inc.	-0.82
Align Technology, Inc.	-0.82
Alexion Pharmaceuticals, Inc.	-0.78
ABIOMED, Inc.	-0.73

Source: FactSet.

Top 10 Holdings (% of Portfolio)	
Visa Inc. Class A	6.86
Amazon.com, Inc.	6.75
ServiceNow, Inc.	4.89
Alphabet Inc. Class C	4.74
Facebook, Inc. Class A	4.57
Zoetis, Inc. Class A	4.41
Lululemon Athletica Inc	4.30
Alibaba Group Holding Ltd. Sponsored ADR	4.15
CoStar Group, Inc.	3.96
NVIDIA Corporation	3.92

ANNUALIZED RETURNS

Investment Performance (%)	QTR	YTD	1-YR	ANNUALIZED RETURNS			Since Inception 12.31.2003	Expense Ratio	
				3-YR	5-YR	10-YR		Gross	Net
A Shares without sales charge	-6.39	11.75	-9.12	9.45	7.83	10.74	7.64	1.47	1.36
A Shares with sales charge (max 5.75%)	-11.73	5.24	-14.37	7.31	6.56	10.08	7.24	1.47	1.36
Russell 1000® Growth Index	1.49	23.30	3.71	16.89	13.39	14.94	—		

Source: StatPro. Returns are calculated and stated in U.S. dollars.

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. Class A Shares with sales charge performance figures reflect a maximum sales charge of 5.75%.

The Adviser has contractually agreed to waive a portion of its management fee and/or reimburse certain expenses though at least February 29, 2020. The Adviser is permitted to recoup fees waived/expenses reimbursed for up to 3 years after the fiscal year in which the waiver/reimbursement took place, subject to certain limitations. Please read the prospectus for details.

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 net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes. Mid-sized companies may lose market share or profits to a greater extent than larger, established companies as a result of deteriorating economic conditions. In addition, the securities of foreign companies acquired by the Fund tend to experience more volatility than their domestic counterparts in part because of higher political and economic risks, lack of reliable information, fluctuations in currency exchange rates and the risks that a foreign government may take over assets, restrict the ability to exchange currency or restrict the delivery of securities. Political and economic risks, along with other factors, could adversely affect the Fund's investments in U.S.-traded foreign companies, ADRs and GDRs.

Indexes Defined Russell 1000® Growth: An unmanaged index comprised of Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. This index does not include the effect of expenses, is not representative of any specific fund or product and cannot be invested in directly.

Fund holdings mentioned in the Quarterly Commentary are as of the 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.

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.

Definitions:

*Growth Cycles: A growth and value score is calculated for each company and is utilized to assign companies into five baskets. Growth score components include: long-term forward growth, 1-year forward EPS growth rate, 5-year earnings growth trend, and 5-year sales growth trend. Value score components include: price to book, dividends, and forward price to earnings.

*Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index.

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.VICTORYFUNDS.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.

V17.072 // 3Q 2019 NB Large Cap GRO Fund COM



For more information about separate accounts and mutual funds, contact Victory Capital Management at 800.991.8191 or visit vcm.com.