Victory NewBridge Large Cap Growth Fund Quarterly Commentary

NEWBRIDGE ASSET MANAGEMENT
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2018

Executive Summary

- The Fund posted a positive return but underperformed its benchmark, the Russell 1000® Growth Index, for the quarter.
- Health Care and Industrials were the portfolio's best relative-performing sectors during the quarter, while Technology, Consumer Discretionary, and Financials were the weakest relative-performing sectors. The portfolio benefited by being underweight Real Estate, Materials, Energy, and Consumer Staples.
- While not immune from investor sentiment in the face of uncertainty, we believe the portfolio's high-quality growth companies are well-insulated from macro pressure.
- 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

The portfolio posted a positive return but underperformed its benchmark, the Russell 1000® Growth Index, for the quarter. As in prior quarters, the portfolio's absolute return benefited from a combination of long-held, high-conviction positions and newer holdings. The portfolio's relative return was disappointing and resulted from stock-specific issues and from the absence of owning heavily weighted stocks in the benchmark that significantly outperformed during the quarter. The market and portfolio, as in the previous quarter, experienced some volatility during the third quarter. The primary causes for the volatility and general investor angst focused on concerns over trade policy with China and disappointing financial results and guidance from Facebook, which sparked a sell-off in high-growth, momentum-related stocks. Encouragingly, this period of instability was short-lived, as the benchmark reached new highs by the end of the quarter. During the quarter, growth generally outperformed value as evidenced by the quarterly returns from the Russell 1000® Growth Index and the Russell 1000® Value Index. Despite global trade fears, the headline large-cap indexes (S&P 500®, Russell 1000® Growth, and the Russell 1000® Value Index) outperformed the (small-cap) Russell 2000® Index. In the second quarter, the opposite dynamic transpired as investors appeared more concerned with larger companies' international sales and earnings exposure risk in an impending trade war. We continue to believe that investors have positively digested commentary from the Federal Reserve, but still recognize investors may be wary of a potential policy "mistake" in the future. As we have stated in the past, we view the Fed tightening process as a positive for the markets and active management; specifically, moving off zero interest rate policy and shifting to a more normal environment would likely lead to lower correlations and higher dispersion among stocks. We believe active managers, including ourselves, were rewarded (or penalized) during the quarter as investors focused on company-specific fundamentals. In other words, investors propelled stocks that demonstrated strong financial results and punished those that disappointed with weaker metrics. Overall, the portfolio's companies' second quarter financial results (reported during the third quarter) were strong. Underlying economic fundamentals remain solid, and investor expectations for better year-over-year corporate financial results continue.

Portfolio Review

The Fund advanced during the quarter, but underperformed its benchmark, the Russell 1000® Growth Index. Favorable stock-specific fundamentals and equity-style tailwinds contributed to the portfolio's positive return. Style factors in which the portfolio was (and has been historically) overweight performed well during most of the third quarter, but there were some factors among the top five best performers that the portfolio was underweight. The best-performing quantitative factors in third quarter were Momentum – 6 Month (Momentum), Composite Momentum (Momentum), Net Income Stability (Quality), Momentum – 12 Month (Momentum), and Asset Turnover. Among these top factors, the portfolio was overweight in the Momentum factors, but was underweight in the others. Book/Price (Value), Composite Value (Value), EBITDA/EV (Value), E/P Forward (Value), and Gross Margin (Quality) were the worst performing factors during the quarter. The portfolio was underweight these Value factors, but was overweight in Gross Margin. During the drawdown that occurred in late July, the factors that underperformed were mostly Growth, Volatility, and Momentum factors. These factors, which were overweight in the portfolio, detracted from performance during that period.

We maintained our high-growth, high-quality mandate during 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. Two growth cycle categories make up 88% of the portfolio. The portfolio's emerging growth holdings represented 51% of the portfolio, whereas the benchmark had only 21%. Established growth is the portfolio's second largest growth cycle constituent, with an allocation of 37% versus the Russell 1000® Growth Index's 31%. The mature growth category represented 8% of the portfolio and 33% of the benchmark. The mature growth category holdings in the portfolio and in the benchmark outperformed all other categories during the quarter. Apple and Microsoft constitute nearly 14% of the benchmark and are not owned in the portfolio. They are classified as mature growth companies and contributed approximately 250 bps to the benchmark's return during the quarter, which was approximately 26% of the index's return. Mature growth companies oftentimes tend to outperform other categories during times of volatility, like the one that investors experienced in late July. While still positive, the lowest performing growth cycle constituents in the benchmark were traditional value, deep value, and established growth. Combined, those three categories constituted 46% of the Russell 1000® Growth Index.

As of September 30, 2018, the portfolio consisted of 31 companies, with the top ten representing approximately 46%. Sector weights, using new GICS classifications, at quarter-end were: Information Technology (26.1% vs. 32.9% for the index weight); Health Care (24.4% vs. 13.8%); Consumer Discretionary (19.4% vs. 15.3%); Consumer Staples (3.2% vs. 5.4%); Industrials (5.7% vs. 12.0%); Financials (5.6% vs. 4.2%); Energy (0.0% vs. 0.9%); Communication Services (13.0% vs. 11.6%); Real Estate (0.0% vs. 2.0%); Materials (0% vs. 1.7%). Active share was 78%.

Attribution

Second quarter earnings season, which started in July, delivered mostly strong financial results, but presented some disappointments which negatively influenced the returns of a few portfolio stocks. The portfolio's highest-contributing, best relative performing, and largest over-weighted sector during the quarter was health care. Strength in Illumina and Edwards Lifesciences helped mitigate relative underperformers Zoetis and UnitedHealth. The portfolio's underweight industrials sector holdings, including CSX and XPO Logistics, outperformed those of the benchmark. The portfolio's communication services sector holdings performed in-line with those of the Russell 1000® Growth Index. Strength in Activision and Alphabet contributed to performance and offset the weakness in Facebook. Facebook was one of the lowest active weights in the portfolio as the company delivered weaker than expected second quarter financial results and, more importantly, gave disappointing forward guidance. Investors drove the stock down precipitously following the earnings call. Facebook remains in the portfolio, as we believe long-term growth prospects remain intact. The portfolio's relative return was aided by not owning real estate, materials, and energy, as these underperformed the portfolio's overall return and that of the Russell 1000® Growth Index.

The portfolio's consumer discretionary sector contributed positively to absolute

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performance during the quarter, but underperformed the benchmark. The portfolio's worst performing stock was Floor & Decor. The company missed second quarter earnings estimates and lowered guidance for the remainder of the year. The stock has traded at a premium relative to other housing-related retail stocks given investor expectations for outsized future growth at F&D. Because of the stock's high valuation, investors were especially intolerant of the results and tempered commentary and consequently "dumped" the stock. The stock remains in the portfolio, as we currently believe the company's unique and underpenetrated store concept will continue to win customers. The portfolio's consumer discretionary sector did have some highlights. Ulta Beauty and Amazon, the portfolio's largest holding, posted strong second quarter financial results and were rewarded by investors. While higher during the quarter, the portfolio's technology sector stocks underperformed those of the benchmark. Alibaba was the largest detractor from the sector, while strength came from Salesforce.com, Visa, ServiceNow, and NVIDIA. As mentioned above, Apple and Microsoft, the two largest stocks in the benchmark, performed well during the quarter and contributed 260 bps to the benchmark's return. The portfolio's technology sector holdings, while producing positive results, were unable to counter the outperformance of Apple and Microsoft. The portfolio's overweight financials sector detracted from the quarterly return and underperformed the benchmark. The portfolio was underweight consumer staples versus the index, and the portfolio's only staples holding, Monster Beverage, performed worse than the benchmark's staples holdings, which were up about 5% during the quarter.

Portfolio Actions

We made a number of changes to the portfolio in keeping with our long-term, "bottom-up" investment approach. During the quarter, we initiated positions in PTC Inc., Canopy Growth Corporation, and GrubHub, Inc. We sold Adobe Systems, Inc. and Arista Networks, Inc. We also increased and trimmed several existing positions as opportunities arose.

New Positions

PTC Inc. (PTC): PTC engages in the development of software-based products and solutions primarily for the manufacturing industry. It operates through three segments: the Solutions Group, the Internet of Things (IoT) Group, and the Professional Services Group. The company (like others, including Adobe Systems) is shifting to a subscription software sales model, which should enhance financial visibility, reduce the reliance on closing large deals each quarter, lower distribution costs, and reduce software piracy. PTC operates in dynamic verticals and has engaged in several very meaningful partnerships with companies including Rockwell Automation, Microsoft, and ANSYS. We believe these relationships help to illustrate PTC's attractive end markets and industry-leading position. We expect the company to post attractive financial results over the next few years.

Canopy Growth Corporation (CGC): Canopy Growth Corporation is one of the world's largest producers and sellers of medical cannabis. The medical marijuana market is nascent. Legally approved in about thirty countries around the world, the acceptance of medical cannabis continues to grow as interested parties (government officials, the medical community, patients, etc.) acknowledge its various benefits. The cannabis industry's growth opportunity is truly global – the medical and recreational market may become a $200 billion market in the next five years. The company possesses the scale to meet increasing global demand as greater legal adoption continues. After an initial investment of $200 million into Canopy in October 2017, Constellation Brands significantly increased its investment by an additional $4 billion. Over time we expect Canopy to look more like a traditional CPG (consumer packaged goods) company, and with Constellation's marketing and distribution muscle behind it, we see the opportunity for a very lucrative partnership. Of course, much of the potential success of Canopy lies with the opening of cannabis sales in other markets, but we believe this is coming. Constellation's investment into the industry through Canopy only solidifies the legitimacy of the company and of marijuana commerce generally. We expect the company and its industry to grow at a rapid pace over the foreseeable future.

GrubHub, Inc. (GRUB): GrubHub is one of the most dominant third-party delivery and order management service providers to the U.S. restaurant industry. It represents one of those rare companies at scale that has been a positive disruptive force within an industry that has not seen this level of change in decades. The company has rapidly expanded its presence in new and existing markets, while increasing its value proposition through enhanced services to its growing customer base. While restaurants have delivered meals for decades, third-party food delivery providers make up only about 4% of off-premise restaurant sales. This low penetration rate demonstrates the potential for continued share gains among the delivery providers, with GRUB being the largest domestic player. GRUB also offers restaurants website management and customer order services (marketplace). In an evolving world where consumers are demanding convenience without sacrificing value (measure of quality and price), GrubHub has and should continue to meet customer expectations. GRUB and other providers are disrupting the restaurant industry, but are also creating positive network effects within it. As more consumers use GrubHub, more restaurants partner with them and as more restaurants partner with GRUB, more consumers will use GRUB. We expect the company will continue to report attractive sales and earnings growth over the next few years as it enters new markets, increases penetration in existing markets, and continues to increase value for its customers.

Eliminated Positions

Adobe Systems, Inc. (ADBE): When Adobe was first added to the portfolio in December 2013, the secular driver of growth was the increasing demand for the company's digital marketing and digital media software. Importantly, we recognized the potential benefits to the company as it transitioned from a license software company to a cloud-based subscription software model known as "software as a service" (SaaS). This transition would benefit Adobe in many ways, including: less cyclical and recurring subscription revenue, higher margins, better user experience, and less software piracy. Adobe was one of the first companies in the software industry to successfully implement such a conversion, a move that has since been adopted by many of its software peers. Fast-forward five years, and the benefits of this conversion have largely been realized by Adobe, bringing many of the benefits we expected, while at the same time expanding their addressable market. With the lion's share of this transition behind them, we expect Adobe's growth rate to begin to slow. We perhaps saw evidence of this in Adobe's FQ2-18 results, where certain items slowed a bit compared to recent trends, namely annualized recurring revenue (ARR) and operating margins. Additionally, we see signs that Adobe recognizes the need to diversify away from their core Digital Media products, as evidenced by their recent acquisition of Magneto, an e-commerce company that helps businesses run web stores and handle online purchases, shipping and returns. While this move is a logical extension of their existing businesses, it puts them in direct competition with companies like Salesforce.com (another portfolio holding), who we believe is further ahead and has a more complete product offering. Given the potential for slowing growth and for increased competition, we elected to use Adobe as a source of funds for other high-growth opportunities elsewhere in the portfolio, including another software company, PTC Inc.

Arista Networks, Inc. (ANET): Arista shares have appreciated almost 50% since our initial purchase one year ago. The company is a leading provider of high-end Ethernet switches that are sold to data centers, cloud computing and enterprise companies. Over the last few years Arista has delivered outstanding growth, gaining significant market share due to their industry-leading technology combined with massive data center expansion by their CloudTitan customers (Microsoft, Facebook, Google, etc.). That said, the last two quarters have raised questions about the sustainability of these high levels of growth in the intermediate term, and their ability to continue to gain market share. Investors had grown accustomed to sizable EPS and revenue beats, along with management increasing forward guidance, but the magnitude of upside has decreased in the last two quarterly reports. More recently we've seen industry channel checks that indicate data center growth may slow in the second half of 2018. Admittedly these checks are not always reliable, but other considerations contribute to an opaque outlook. The company's current product is a 100GB switch, but next year the industry will likely begin adopting 400GB. Many debate whether Arista will command the same market share in 400GB as they have achieved in 100GB. There is also the long-term threat from "white box" network switches, which are assembled using low-cost commodity parts and which would threaten the networking industry much like what we witnessed in the server market. Lastly, the company is moving into the "campus switch" market, where they will compete head-on with Cisco, the dominant incumbent. It remains quite possible that the 400GB transition and Campus Switch opportunity turn out to be long-term positives for Arista, but in the meantime these issues collectively limit earnings visibility for a company that still maintains a lofty valuation. For these reasons we decided to sell our position

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and reallocate the proceeds into other high-growth opportunities (GRUB). We maintain the utmost respect for the capabilities of this management team, and believe in the long-term potential of Arista. We will therefore keep close tabs on the company and dynamics within the industry, looking for signs of sustainable growth and improved visibility.

Strategy & Outlook

The Fund's return benefited from a combination of long-held, high-conviction holdings along with relatively new positions. We believe we have made several constructive changes to the portfolio over the last 21 months and have seen those investments contribute positively to the portfolio's absolute and relative returns. We are optimistic that these newer companies and those longer-held ones can continue to post solid financial results in the future. As we have written in the past, we continue to expect that correlations among stocks will move lower over time. This dynamic should allow company fundamentals (namely, revenue and earnings) to be the main drivers of stock performance. There is precedent suggesting that dispersion among stocks generally increases in a tightening cycle – much as it did in 2004–2005. This creates a much better stock-picking environment for active managers. That said, we continue to monitor non-stock-specific factors, which may further impact equity markets. Equity markets and the portfolio could experience some future volatility as investors contemplate the consequences of a potential global trade war, future Fed policy decisions, inflation trends, and the scale of regulatory threats made to large technology/e-commerce companies. In addition, investors will determine the condition of the Chinese and other countries' economies, struggle with geopolitical risks, ascertain the future price of oil and the direction of the U.S. dollar, and evaluate other exogenous factors. Pro-growth policy changes, such as tax reform/cuts and deregulation, have increased investor and business confidence and contributed to positive market action. We remain optimistic that improving economic conditions will lead to stronger corporate fundamentals, a supportive equity market, and a solid backdrop for the portfolio. We live in a dynamic world where economic data, corporate news and geopolitical shocks can swiftly shift investor sentiment. We will continue to follow the opportunities and potential risks that could become market- and stock-specific moving events. As we have written in the past, 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 that many of last year's and this year's winners will continue to report financial results that meet or exceed expectations. It is also our expectation that many of the companies we purchased recently will become more prominent fixtures in the future.

Top 5 Contributors (%)	
Amazon.com, Inc.	1.34
Visa Inc. Class A	0.69
Illumina, Inc.	0.63
Ulta Beauty Inc	0.56
NVIDIA Corporation	0.56
Top 5 Detractors (%)	
Floor & Decor Holdings, Inc. Class A	-0.99
Facebook, Inc. Class A	-0.69
Alibaba Group Holding Ltd. Sponsored ADR	-0.33
MarketAxess Holdings Inc.	-0.21
Booking Holdings Inc.	-0.09

Source: FactSet.

Top 10 Holdings (%)	
Amazon.com, Inc.	8.41
Visa Inc. Class A	5.52
UnitedHealth Group Incorporated	5.02
Alphabet Inc. Class C	4.97
Facebook, Inc. Class A	4.81
Zoetis, Inc. Class A	3.59
Alexion Pharmaceuticals, Inc.	3.42
Booking Holdings Inc.	3.37
NVIDIA Corporation	3.36
ABIOMED, Inc.	3.29

ANNUALIZED RETURNS

Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception 12.31.2003	Expense Ratio Gross	Expense Ratio Net
A Shares without sales charge	6.79	21.71	27.08	16.16	13.06	11.64	8.88	1.40	1.36
A Shares with sales charge (max 5.75%)	0.67	14.71	19.74	13.89	11.73	10.98	8.45	2.27	2.10
Russell 1000® Growth Index	9.17	17.09	26.30	20.55	16.58	14.31	N/A		

Source: StatPro. Returns are calculated and stated in U.S. dollars. The return may increase or decrease as a result of currency fluctuations.

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 28, 2019. 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 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. 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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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.

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