

VICTORY RS GLOBAL FUND QUARTERLY COMMENTARY



As of September 30, 2019

Executive Summary

- Global equities, as measured by the MSCI All Country World Index, were essentially flat. The strategy posted a positive return and outperformed its benchmark, the MSCI All Country World Index.
- Stock selection was the main driver of the Fund's outperformance.
- Financials, information technology, and consumer staples were the portfolio's best performing sectors.
- As always, the portfolio is guided by our philosophy that positive investment outcomes can be attained through the use of a data-driven discipline in conjunction with a bottom-up approach to investing.
- Our proprietary research methodology, combined with a set of industry standard and team-generated global risk factors, seeks to capture information inefficiencies in the global equity markets.

Market Review

Global equities, as measured by the MSCI All Country World Index, were essentially flat in the third quarter as positive performance in North America (+1.2%) and Japan (+3.1%) was offset by declines in emerging markets (-3.5%) and Europe (-1.6%). Though the ultimate quarter-end result was unremarkable, it masked significant intra-quarter volatility. An August swoon followed by a September recovery made for a turbulent ride as macroeconomic activity as well as market factor leadership fluctuated a great deal.

In the United States, though, GDP growth appears to be slowing from its second quarter 2018 peak of 3.2%, the labor market remains supportive, and a recession does not appear imminent. In China, monetary and fiscal stimulus (including tax cuts) are having a positive effect, as the Caixin China PMI rose to 51.4 in September.

On the political front, in a bid to further his Brexit agenda, U.K. Prime Minister Boris Johnson asked Queen Elizabeth II to suspend Parliament, only to have the Supreme Court in London rule the act unlawful and Parliament enact a law prohibiting the country from leaving the European Union without an agreement. The Irish border remains the biggest sticking point and, as of this writing, negotiations remains ongoing ahead of an October 31 deadline. This uncertainty continued to weigh on the U.K. market as stocks underperformed, down 2.5%.

As for Europe more broadly, economic data was largely disappointing. The September Manufacturing PMI slipped to 45.6 (below 50 indicates contraction), while the Services PMI slowed by 1.5 points to 52. Leading indicators such as new orders were particularly lackluster and suggest GDP may slow below 1% in the fourth quarter. Germany, long considered the engine of Europe, sputtered to a 49.1 reading, the lowest reading in six years. At the same time, as growth prospects for the continent dwindled, the euro continued to grind lower against a strong U.S. dollar.

QVS Factor Performance

In this section, we offer insight into the factors driving market performance from a quantitative point of view. The RS Developed Markets team's proprietary QVS (Quality, Value and Sentiment) Model scours the globe, screening over 10,000 companies while looking for the best investment opportunities. It is designed to identify companies that have the potential to consistently create shareholder value, are reasonably valued, and exhibit favorable market sentiment. We continually use this quantitative model to help us focus our resources and fundamental research on those companies with the highest probability of outperformance.

While all factors contributed positively to performance in the third quarter, leadership fluctuated substantially on a week-to-week basis. Indeed, from late August through mid-September, Quality and Sentiment posted some of their worst readings since 2013, while Value strung together one of its best streaks. Alas, the long-awaited Value rally quickly fizzled in the second half of September, and Quality/Sentiment regained leadership.

Portfolio Review

As of September 30, 2019, the portfolio consisted of 93 securities, with the top ten representing approximately 23%. Sector (GICS) weights at quarter-end were: Information Technology (14.0% vs. 16.3% for the index weight); Health Care (11.8% vs. 11.4%); Consumer Discretionary (11.7% vs. 10.9%); Communication Services (7.4% vs. 8.9%); Financials (18.5% vs. 16.6%); Industrials (12.5% vs. 10.4%); Energy (4.6% vs. 5.6%); Consumer Staples (9.3% vs. 8.5%); Real Estate (1.2% vs. 3.3%); and Materials (3.8% vs. 4.8%). Active share was 81%.

Attribution

The Victory RS Global Fund (Class A-shares without sales load) once again outperformed the MSCI All Country World Index (Net). Stock selection and sector allocation both contributed to the portfolio's outperformance. The Fund's financials, information technology, consumer staples, health care, utilities, energy, and communication services sector holdings outperformed those of the MSCI All Country World Index during the third quarter. The portfolio's health care sector holdings showed the highest relative return, with stock selection leading the way. Notably, industrials was the worst performing sector in the benchmark. Texas Instruments, Estee Lauder, MGE Energy, Inc., CVS Health Corporation, Nestle, Ross Stores, and Alphabet Inc. Class C were the top contributors to the portfolio, while Rio Tinto PLC, Evraz PLC, MSCI Inc., WashTec AG, and Cisco Systems were the largest detractors from performance.

The Fund benefited by being overweight in health care, consumer staples, and financials. The portfolio also benefited from being underweight in energy, information technology, and communication services. The portfolio was disadvantaged by its underweight in materials and real estate, as well as by its overweight in consumer discretionary and industrials.

Portfolio Actions

We made a few changes to the Fund in keeping with our long-term, bottom-up investment approach for the third quarter. During the quarter, we initiated two positions. We also increased and trimmed existing positions.

This quarter the portfolio initiated two new positions: Kirkland Lake Gold and Parex Resources. Kirkland is a gold producer with mines in Australia and Canada. Its main assets are the Fosterville and Macassa mines, accounting for more than 80% of the total production, which reached 723.7 koz in 2018. The Holt Mine Complex in northeastern Ontario accounts for the remaining 20%. The company has an extensive pipeline of growth projects and exploration opportunities.

Parex is engaged in crude oil exploration, development, and production in Colombia. It holds interests in onshore exploration and production blocks totaling approximately 2.3 million gross acres.

No positions were eliminated.

Outlook

We expect market volatility to continue and will remain vigilant when constructing our portfolios, remaining sector and region neutral, as we believe that strong risk management should be at the forefront of any global equities strategy in this market. Making correct macro allocation calls can be immensely challenging; therefore, we do not forecast regional performance. In our view, stock selection can be far more impactful to portfolio performance than allocation.

We thank you for your continued support.

Sincerely,

The Victory RS Developed Markets Team

Regional Allocation

as of September 30, 2019

Region	% of Portfolio
North America	55.32
Europe	16.55
Japan	7.89
Asia/Pac x Japan	7.39
United Kingdom	5.82
Emerging	4.84
Cash / Other Assets and Liabilities	1.69
ETF / Other	0.50

Top 10 Holdings²

as of September 30, 2019

Holding	% of Portfolio
Microsoft Corporation	3.68
Apple Inc.	2.80
JPMorgan Chase & Co.	2.42
Mastercard Incorporated Class A	2.17
PepsiCo, Inc.	2.04
Honeywell International Inc.	2.03
Alphabet Inc. Class C	1.92
Amazon.com, Inc.	1.91
Verizon Communications Inc.	1.91
Roche Holding AG	1.90

Performance

Average Annual Returns (%) as of September 30, 2019

Victory RS Global Fund (Class A – RSGGX)	QTR	1-YR	3-YR	5-YR	10-YR	Since Inception (05/16/11)
without sales charge	0.37	4.47	11.76	9.10	—	9.59
with maximum sales charge (5.75%)	-5.41	-1.51	9.58	7.82	—	8.82
MSCI All Country World Index (Net) ¹	-0.03	1.38	9.71	6.65	—	—

Performance returns for periods of less than one year are not annualized. Returns include reinvestment of dividends and capital gains.

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 value 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 call 1-800-539-FUND or visit www.vcm.com. Please keep in mind that any high double-digit returns are highly unusual and cannot be sustained.

Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index. The Fund's total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.75%/0.85%. The Adviser has contractually agreed to waive a portion of its management fee and/or reimburse certain expenses through at least April 30, 2020. The Adviser is permitted to recoup fees waived /expenses 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.

All investing involves risk, including potential loss of principal. There is no guarantee that the Fund will achieve its objective. Investments in small and mid-size companies can involve risks such as less publicly available information, higher volatility, and less liquidity than larger companies. International investing involves special risks, which include changes in currency rates, foreign taxation and differences in auditing standards and securities regulations, political uncertainty and greater volatility. These risks are even greater when investing in emerging markets. Any discussions of specific securities should not be considered a recommendation to buy or sell those securities. Fund holdings will vary.

- 1 The MSCI All Country World Index (Net) is generally considered to be representative of the international stock market activity. The Index is unmanaged and not available for direct investment. The Index reflects no deduction for fees, expenses or taxes except foreign withholding taxes.
- 2 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

An investor should consider the fund's investment objectives, risks, 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, or, if available, the summary prospectus. To obtain a copy, visit www.victoryfunds.com. Read the prospectus carefully before investing.

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