

VICTORY RS INTERNATIONAL FUND QUARTERLY COMMENTARY



As of September 30, 2019

Executive Summary

- International equities slid 1.1% in the third quarter. The Fund underperformed its benchmark, the MSCI EAFE Index.
- Stock selection was the main driver of the portfolio's underperformance.
- Consumer staples and utilities were the portfolio's best performing sectors.
- As always, the Fund 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

International equities, as measured by the MSCI EAFE Index, slid 1.1% in the third quarter. 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.

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.

Heading east, Asia was home to a mix of both the best and worst performing markets. Japan rose 3.1%, placing it among the best performing countries in the MSCI ACWI. Though the Bank of Japan left its policy unchanged, it kept the door open for additional easing given overseas risks. Meanwhile, on the domestic front a 2% consumption tax hike came into effect, partially distorting consumer spending patterns. While the government sought to avoid a boom-bust cycle similar to that which occurred in 2014 after the initial hike, economists still expect a quarter-over-quarter contraction in fourth quarter GDP. On the opposite end of the spectrum was Hong Kong, which plunged 12% on the back of continued protests.

QVS Factor Performance

In this section, we offer insight into the factors driving market performance from a quantitative point of view. The RS Global 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 Fund consisted of 80 securities, with the top ten representing approximately 25%. Sector (GICS) weights at quarter-end were: Information Technology (5.8% vs. 6.8% for the index weight); Health Care (12.0% vs. 11.5%); Consumer Discretionary (9.4% vs. 11.3%); Communication Services (5.7% vs. 5.5%); Financials (18.3% vs. 18.6%); Industrials (14.0% vs. 14.7%); Energy (5.1% vs. 5.2%); Consumer Staples (10.7% vs. 12.0%); Real Estate (4.9% vs. 3.6%); and Materials (5.2% vs. 7.1%). Active share was 77%.

Attribution

The Victory RS International Fund (Class A shares without sales load) underperformed the MSCI EAFE Index (Net). Most of the Fund's performance gap was attributed to negative stock selection, while sector allocation was neutral for the quarter. The portfolio's consumer staples and utilities sector holdings outperformed those of the MSCI EAFE Index during the third quarter. The portfolio's consumer discretionary and materials sector holdings were the largest detractors. Notably, Matsumotokiyoshi Holdings and Royal Unibrew A/S were top contributors to the portfolio's consumer staples stocks, while Rio Tinto PLC and Evraz PLC were key detractors in the materials sector.

The Fund benefited by being underweight in consumer staples and overweight in utilities. The portfolio was disadvantaged by its overweight in the communication services, health care, and real estate sectors, and its underweight in the materials, consumer discretionary, and information technology sectors.

Portfolio Actions

No new securities were added, nor were any securities eliminated from the portfolio.

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. 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
Europe	45.57
Japan	22.93
United Kingdom	16.62
Asia/Pac x Japan	12.20
Cash / Other Assets and Liabilities	2.18
ETF / Other	0.50

Top 10 Holdings²

as of September 30, 2019

Holding	% of Portfolio
Nestle S.A.	3.86
Roche Holding AG	3.09
Toyota Motor Corp.	2.72
Novartis AG	2.59
Enel SpA	2.49
LVMH Moet Hennessy Louis Vuitton SE	2.17
Royal Dutch Shell Plc Class A	2.10
Royal KPN NV	1.98
Atlas Copco AB Class B	1.97
Wolters Kluwer NV	1.95

Performance

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

Victory RS International Fund (Class A – GUBGX)	QTR	1-YR	3-YR	5-YR	10-YR	Since Inception 02/16/1993
without sales charge	-1.88	1.37	8.15	4.94	5.66	5.74
with maximum sales charge (5.75%)	-7.53	-4.47	6.04	3.71	5.04	5.50
MSCI EAFE Index (Net) ¹	-1.07	-1.34	6.48	3.27	4.90	—

Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year are annualized.

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. APlease keep in mind that any high double-digit returns are highly unusual and cannot be sustained.

The Fund's annual gross and net expense ratios for the Class A Shares were 1.61% and 1.13% respectively. Net expense ratio reflects the waiver, reimbursement or recoupment, as applicable, contractually agreed to through April 30, 2020. See the prospectus for details.

A Fund's portfolio differs significantly from the securities held in an index. An index is unmanaged and not available for direct investment.

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 EAFE Index (Net) is generally considered to be representative of the international stock market activity. The indices are unmanaged and not available for direct investment. The MSCI EAFE Index (Net) 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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