VICTORY RS LARGE CAP ALPHA FUND QUARTERLY COMMENTARY

RS Investments
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2019

Market Commentary

U.S. equity market performance was volatile during the third quarter of 2019, reflecting uncertainties regarding future global growth rates and trade negotiations, as well as an evolving monetary policy. Throughout it all, however, the broad Russell 3000® Index[1] ended the third quarter relatively unchanged (at 1.16%). In early September, economic data alleviated concerns about the speed with which the U.S. economy was slowing. Improvement in long-term U.S. Treasury yields and the slope of the yield curve coincided with improvement in equities. Value-oriented stocks, as measured by the Russell 3000® Value Index,[2] increased 1.23% during the quarter. Mid- and large-cap stocks outperformed small-cap stocks during the quarter, as measured by the Russell family of indices, a continuation of the trend seen in 2018.

Broader returns were mixed among U.S. equity styles, as large-cap stocks delivered positive returns, with the Russell 1000® Index[3] returning 1.42%, while small-cap stocks disappointed with a -2.40% return for the Russell 2000® Index.[4] The underperformance has been most pronounced during this cycle in value indices vs. growth, and small-cap vs. large-cap. Although in the third quarter value outperformed growth within small- and mid-caps (by 3.6% and 1.9%, respectively), the Russell 2000® Value Index[5] now trades at its largest discount relative to the Russell 1000® Growth Index[6] since the early 2000s. Since the end of 2016, the Russell 1000® Value Index[7] has underperformed the Russell 1000® Growth Index by more than 1,000 bps annualized, something not seen since the late 1990s.

Looking ahead, we expect the Fed to "slow walk" interest rates lower, and we think there is a very low probability that a meaningful trade resolution will occur prior to the November 2020 elections. We wouldn't expect the Fed to get more aggressive with interest rates unless there was a significant disruption in the market. However, the relative strength in both the U.S. economy and labor market continues to be a safe haven for the rest of the world, and we would expect U.S. markets to continue to benefit from a positive flow of funds despite full valuations. Credit quality remains excellent, GDP growth is positive, most investment grade corporate balance sheets are in good shape, and the consumer is healthy for now.

Performance Review

For the three months ended September 30, 2019, the Victory RS Large Cap Alpha Fund (A shares at NAV) outperformed its benchmark Russell 1000® Value Index[7] (the "Index") and returned 2.54% versus a return of 1.36% for the Index.

In the third quarter, relative outperformance was the result of positive selection in Consumer Discretionary, Health Care, and Financials, partially offset by negative stock selection within Energy, Materials, and Consumer Staples. Allocation was not a meaningful driver in the quarter.

Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, which are attractively valued. Our decision to invest in any company starts with business analysis and an understanding of the company's unit-level economics. Our work on unit-level economics helps us determine the quality and key drivers of the business. We are Return on Invested Capital (ROIC)-focused investors and seek to invest in companies that can create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We are long-term investors who use our investment time horizon as a competitive advantage and are attracted to out-of-favor and/or misunderstood companies in the market.

The next step in our process is to assess the management team, which is critical to our investment decision. We regularly meet with management to gauge how they think about their business: Are they focused on (and compensated for) growing earnings at any cost, or do they understand return on invested capital (ROIC) and how value is created? Additionally, we perform detailed historical analyses of management's capital decisions, looking at acquisitions, asset sales, and measures of capital stewardship. This analysis provides us with the conviction to invest with strong management teams that are able to navigate short-term market volatility and deliver long-term shareholder value.

The final step in our analysis is valuation. To the RS Value Team, value investing is buying a business at a discount to what we believe it is actually worth. We determine what a company is worth by assessing its current share price versus its future cash flow streams or long-term net asset value based on the management team's plan for value creation. ROIC is the lens through which we analyze that value creation. Our research has shown that over time, stock price performance has a higher correlation to improving ROIC as opposed to traditional valuation measurements such as price to earnings (P/E). We seek to invest in companies that can create shareholder value due to an improvement in the returns of the existing assets or attractive reinvestment opportunities. We pay close attention to a company's financial strength, scrutinizing financial statements, and we run various financial models to understand our downside. This quantitative analysis gives us confidence in our investment thesis and helps us determine at what stock price we are comfortable investing.

Select Position Review

Below we review two businesses in an effort to use tangible examples to highlight our investment process.

Freeport-McMoRan (FCX) is one of the world's largest copper producing companies. During the third quarter of 2019, Freeport returned -17.2%, lagging the broad equity indices and its sector, as well as copper prices, which fell 4.6% during the quarter. Concerns about global GDP growth (and specifically, growth in China—the world's largest consumer of copper), amidst escalating tensions between the U.S. and China around trade and tariffs, caused sentiment on the shares to dramatically worsen during the quarter.

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While we acknowledge that it is difficult to prognosticate commodity price movements in the short run, we note that even in a very low-growth world, copper supply going forward is muted, owing to substantially constrained capital expenditures across the industry, as well as deteriorating ore grades and above-ground political/regulatory risk surrounding new projects. This suggests that, all else being equal, copper pricing needs to rise from current levels in order to accommodate increased investment given the cost curve and risk profile. In the meantime, Freeport's shares appear to us to be discounting copper prices below current spot prices. Our investment thesis, predicated on (i) profitable, measured reinvestment opportunities in Indonesia and the Americas; (ii) moderate improvement in ROICs; and (iii) numerous opportunities for value creation through capital deployment as free cash flow grows in 2020-22 (debt paydown, share repurchases, dividend growth), is unchanged. We also continue to believe the company possesses assets of strategic value and is a candidate for industry consolidation. We purchased additional shares during the quarter.

Aramark (ARMK) is a leading provider of institutional food, facilities, and uniform services. Client verticals include education, health care, sports & leisure, prisons, and business & industry. ARMK's business is characterized by very stable contracted demand and a highly variable cost structure which allows it to generate significant and stable free cash flows even in more difficult economic environments. Our thesis on ARMK is that with the addition of two recent tuck-in acquisitions the company has the opportunity to noticeably improve ROIC through meaningful margin expansion over the next few years. This opportunity, combined with the continued secular outsourcing trend of institutional food and facility services, will lead to earnings power for ARMK significantly higher than current levels looking out to 2020 and beyond.

ARMK stock is up nearly 50% in 2019, with a 20% return occurring in Q3. During this past summer, activist investor Mantle Ridge established a 20% economic stake in the company. Mantle Ridge has been very successful in past investments, notably their fairly recent involvement with Canadian railroad company CSX, where Mantle Ridge took a board seat, replaced management, and oversaw a successful operational improvement at the company leading to a doubling of CSX's share price. With Mantle Ridge's involvement, the market has refocused attention with respect to the operational improvement opportunity at ARMK and the stock has responded. With shares up 50% YTD, we've trimmed our position slightly as the risk asymmetry that existed at the end of last year has diminished. That being said, we still maintain a core position in ARMK as shares are still undervalued relative to the earnings potential of the company.

Outlook

After more than a decade of consistent underlying conditions for equity investing following the financial crisis, fundamentals are shifting. Economic growth is slowing, and macro concerns have given investors pause and led to a rerating of certain risk assets. Implications from the continuing trade war, a partially inverted yield curve, and the uncertainty regarding the 2020 presidential election cycle do not appear to be appropriately discounted. However, the U.S. economy remains relatively healthy and continues to be a global leader. The health of the consumer is currently solid and is a critical element to continued economic prosperity.

Interest and mortgage rates continue near historically low levels, having fallen by over 120 basis points from the October 2018 highs as inflation remains benign and home price appreciation moderates. Although we are clearly late in the economic cycle, and the odds of a further economic slowdown are increasing, we continue to think it is too early to be able to call a recession in the next 12 months. However, we remain very watchful of the current economic slowing and of any potential offsetting impacts from monetary or fiscal policy.

Investment-grade corporations have decent balance sheets and are currently producing acceptable free cash flows. We are carefully monitoring aggregate corporate debt levels (especially the BBB- debt, which is a single notch above junk status), which now sit above pre-2008 crisis levels. The 2018 corporate tax cuts and the ability to repatriate foreign cash holdings should continue to drive M&A activity and capital returns, including buybacks and dividends. Profit margins remain near all-time high levels, currently 11%, and look to be at some risk from higher wages and input costs.

In our estimation, equity valuations have quickly bounced back to elevated levels. During the last four months of 2018, we moved to the seventh decile from the tenth decile on trailing operating earnings, only to rebound back to the ninth decile. Equities look most reasonable when comparing earnings yields to Treasury or even high-grade corporate bond yields. In any case, the values inherent in your portfolio should attract acquirers and other investors over time. Meanwhile, we believe equities are a superior asset allocation alternative to bonds over the longer term.

We thank you, as always, for your support.

Sincerely,

RS Value Team

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Sector Allocation[8]

As of September 30, 2019

Sector	% of Portfolio
Financials	29.10
Communication Services	9.48
Health Care	9.33
Energy	8.39
Utilities	7.01
Consumer Discretionary	6.61
Industrials	6.51
Information Technology	5.80
Real Estate	5.28
Consumer Staples	4.88
Materials	3.88

Top 10 Holdings[9]

As of September 30, 2019

Holding	% of Portfolio
Facebook, Inc. Class A	4.99
Alphabet Inc. Class A	4.50
Citigroup Inc.	3.40
Mondelez International, Inc. Class A	3.38
Aflac Incorporated	3.28
Cboe Global Markets Inc.	3.27
Visa Inc. Class A	3.13
Brown & Brown, Inc.	3.13
Vistra Energy Corp.	3.04
Invitation Homes, Inc.	2.92

Performance

Average Annual Total Returns as of September 30, 2019

Victory RS Large Cap Alpha Fund (Class A – GPAFX)	Third Quarter 2019	1-Year	3-Year	5-Year	10-Year	Since Inception (6/1/72)
without sales charge	2.54%	3.79%	11.88%	7.92%	10.71%	11.59%
with maximum sales charge (5.75%)	-3.37%	-2.17%	9.70%	6.65%	10.06%	11.45%
Russell 1000® Value Index[7]	1.36%	4.00%	9.43%	7.79%	11.46%	n/a

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, visit www.vcm.com.

The Fund's total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 0.93%/0.89%. 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 advisory fees waived and expenses reimbursed by it for up to 3 years after the fiscal year in which the waiver or reimbursement took place, subject to the lesser of any operating expense limits in effect at the time of the original waiver or expense reimbursement and at the time of recoupment or reimbursement. This agreement may only be terminated by the Fund's Board of Trustees.

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Investing in small and mid-size companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. Overweighting investments in certain sectors or industries increases the risk of loss due to general declines in the prices of stocks in those sectors or industries. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments.

Any discussions of specific securities should not be considered a recommendation to buy or sell those securities.

Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

1 The Russell 3000® Index is an unmanaged market-capitalization-weighted index that measures the performance of the 3,000 largest U.S. companies.

2 The Russell 3000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 3000® Index (which consists of the 3,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

3 The Russell 1000® Index is an unmanaged market-capitalization-weighted index that measures the performance of the 1,000 largest U.S.-traded stocks.

4 The Russell 2000® Index is an unmanaged market-capitalization-weighted index that measures the performance of the 2,000 smallest-cap companies in the Russell 3000® Index, which is made up of 3,000 of the largest U.S. stocks.

5 The Russell 1000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

6 The Russell 1000® Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values. Index results assume the reinvestment of dividends paid on the stocks constituting the index. You may not invest in the index, and, unlike the Fund, the index does not incur fees and expenses.

7 The Russell 1000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 3,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

8 The Fund's holdings are allocated to each sector based on their GICS classification. If a holding is not classified by GICS, it is assigned a GICS designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.

9 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.vcm.com. Read the prospectus carefully before investing.

The Funds are distributed by Victory Capital Advisers, Inc., member FINRA and SIPC, an affiliate of Victory Capital Management, Inc.

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