

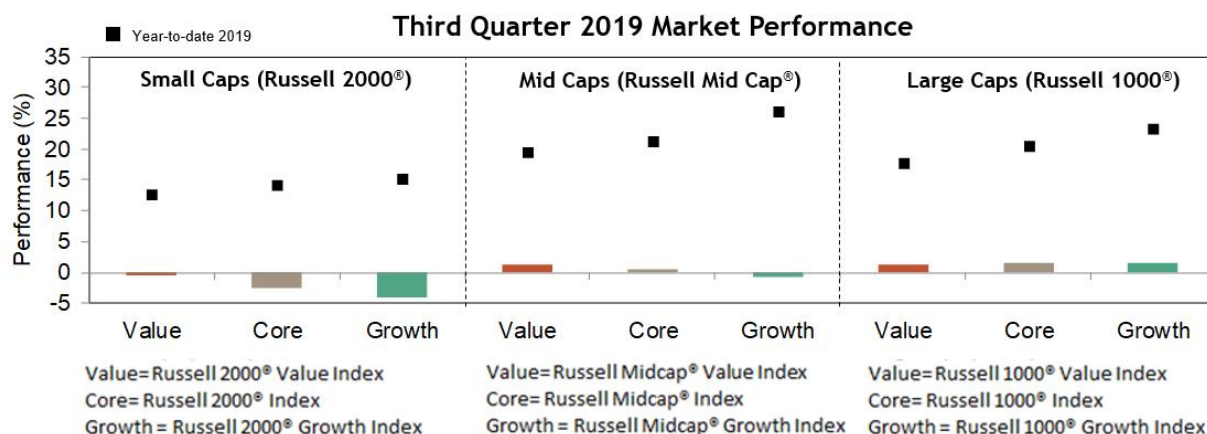
# VICTORY RS SCIENCE AND TECHNOLOGY FUND QUARTERLY COMMENTARY

As of September 30, 2019

## Quarterly Highlights

- The Victory RS Science and Technology Fund (Class A Shares) returned -7.83% for the three months ended September 30, 2019, underperforming the S&P North American Technology Sector Index™<sup>1</sup>, which returned 1.32%.
- The Fund's underperformance in the quarter was driven by the Fund's all-cap positioning, as growth-oriented small-cap companies underperformed large-cap companies, as well as by its positioning and stock selection within the Health Care sector; performance was aided by stock selection within the Electronics industry.
- We hold what we believe are innovative companies that are forecast to grow at a much higher rate than the index, while technology-oriented stocks continue to trade at a discount to their 20-year historical average.
- Science and technology-oriented stocks experienced mixed results in the third quarter, following a strong bounce back in the first half of the year from a tough Q4 2018.

## Market Performance / Fundamentals Snapshot



## Market Commentary

U.S. equity market performance was mixed in the third quarter of 2019, with the broad Russell 3000® Index<sup>2</sup> registering gains of approximately 1.16%. The move higher supports our contention that underlying fundamentals can continue to drive performance despite the political rhetoric and headline fears that often capture the attention of investors. Growth-oriented stocks, as measured by the Russell 3000® Growth Index,<sup>3</sup> were up 1.10%, underperforming value-oriented stocks, as measured by the Russell 3000® Value Index,<sup>4</sup> which increased 1.23% during the quarter. The performance represents the 15th quarter in the last 16 that returns of the Russell 3000® Growth Index have been positive. 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 since the beginning of 2018. Meanwhile, large-cap growth-versus-value outperformance continued during the third quarter of 2019 as well, and growth has now outperformed value across market caps over 3-, 5-, 10-, 15-year, and even a 30-year time frame.

Broader returns were mixed among U.S. equity styles, as large-cap stocks delivered positive returns, with the Russell 1000® Index<sup>5</sup> returning 1.42%, while small-cap stocks disappointed with a -2.40% return for the Russell 2000® Index.<sup>6</sup> We believe this reflects the shorter-term preference by investors for the perceived stability

of larger-cap bellwether companies given uncertainty surrounding reduced fiscal stimulus and mixed forecasts for global growth. Despite this consensus, we continue to find attractive fundamentals among companies across market caps, while the relative valuation of smaller-cap stocks, as measured by forward price-to-earnings, is now at decade-wide attractive levels relative to large-cap stocks.

We expect the market to benefit from an accommodative Fed that is once again in easing mode, and our continued base case is that there will be a constructive resolution to ongoing trade disputes. The relative strength in both the U.S. economy and labor market, as well as reduced expectations for inflation to impact monetary policy, have reinforced our view that earnings for growth stocks will remain attractive. This supports our view that the U.S. equity market can continue to rise despite headline concerns for U.S. growth, as gross domestic product (GDP) increased 2.3% year-over-year the second quarter, the 11th consecutive quarterly period of greater than 2% year-over-year growth. Looking ahead to the remainder of 2019 and 2020, economic growth looks to remain steady and, coupled with the continuation of the longest job growth streak in history, supports our constructive outlook for U.S. growth stocks.

## Investment Strategy

We remain committed to an intensive approach to fundamental research that focuses on understanding the long-term secular movements within science and technology in tandem with the underlying financial and company-specific fundamentals of the companies we own. The Victory RS Science and Technology Fund (the "Fund") is focused on finding innovative science- and technology-driven investments from across the market-cap spectrum, seeking out companies with strong management teams, high revenue growth, and proprietary technology. Portfolio Manager Steve Bishop was joined in 2016 by two additional portfolio managers who have been a part of the RS Growth team for many years, Chris Clark and Paul Leung. Together, they follow an investment process that centers on finding innovation, competitive advantages, and sustainable earnings growth. Supported by a team of research analysts, the portfolio managers leverage detailed fundamental research and industry contacts to identify the earnings potential of each company, focusing on "anchor points," quantifiable metrics that help determine a company's potential long-term growth trajectory. Anchor points arise from an analysis of a company's long-term capabilities and performance goals over three to five years. These long-term anchor points serve as guideposts to help the team measure a company's progress as it executes its business strategy, regardless of what is taking place in the overall market. These anchor points also help prevent distraction caused by short-term stock price movements and inevitable market volatility.

## Performance Review

The Victory RS Science and Technology Fund (Class A Shares) returned -7.83% for the three months ended September 30, 2019, underperforming the S&P North American Technology Sector Index<sup>TM</sup><sub>1</sub>, which returned 0.51%. The Fund's underperformance in the quarter was driven by the Fund's all-cap positioning, as growth-oriented small-cap companies underperformed large-cap companies, as well as by its positioning and stock selection within the Health Care sector; performance was aided by stock selection within the Electronics industry.

## Top Technology Contributor: MACOM Technology Solutions

The largest driver of positive performance was Semiconductors holding MACOM Technology Solutions (2.17% ending weight), a designer and manufacturer of analog radio frequency (RF), microwave, millimeter-wave, and lightwave spectrum products that serve various telecommunications markets, including 5G. It is the demand for their products within 5G, as well as autonomous cars, that has become the focus of a new management team put in place following a challenging 2017. The stock performed well during the quarter as management streamlined the company's projects toward products that we believe can double in revenue within the next five years.

## Top Healthcare Detractor: GW Pharmaceuticals plc

Within the Health Care sector, the largest area of relative underperformance was within Pharmaceuticals & Biotechnology, driven in part by holding GW Pharmaceuticals plc (0.85% ending

weight). GW Pharma is a biopharmaceutical company focused on discovering, developing, and commercializing cannabinoid prescription medicines using botanical extracts derived from the cannabis plant. GW Pharma underperformed in the quarter following a short report that questioned the efficacy and safety of their treatment for epilepsy and the potential for softer sales when early adopters of the drug fade. We took a hard look at the underlying analysis in the report and came away unimpressed given the lack of supporting data, as well as the non-medical view that CBD poses a danger to users.

## Market and Strategy Outlook

Our focus remains on companies that can grow earnings through high levels of innovation and by taking market share, characteristics of science and technology-oriented growth stocks. We view the recent outsized fluctuations in the market as noise, preferring to focus on how our investments perform relative to the fundamental anchor points that track the progress of our long-term growth stories. Instead of fearing these periods, we prefer to use this heightened volatility to add to some of our favorite investments or to initiate new investments at attractive prices when markets sell off and upgrade outsized winners when markets rally faster than underlying fundamentals. We believe that this environment works to our strengths as stock pickers as we work to uncover companies with high-quality growth stories that now appear to have valuations well below recent levels.

We prefer companies with strong balance sheets, healthy cash flows, and/or what we view to be long-term growth candidates supported by unique competitive advantages and attractive market positioning. We remain as committed as ever to disciplined risk management and spend extensive time on the road, visiting companies in person and seeing their operations from the ground up. We stress-test every investment we own, even as we maintain close contact with company managers, suppliers, and customers in our efforts to closely monitor each company's progress relative to our anchor points. We combine these efforts with our own financial modeling and risk-management tools designed to capture market upside while attempting to minimize downside risks. Working cohesively as a team helps us identify visionary and disciplined companies that we believe will be able to tap new markets and grow their revenues at a healthy pace, regardless of the environment.

Thank you for your continued investment.



Steve Bishop  
Portfolio Manager



Chris Clark, CFA  
Portfolio Manager



Paul Leung  
Portfolio Manager

### Sector Allocation<sup>7</sup>

As of September 30, 2019

Sector	% of Portfolio
Technology	50.9%
Health Care	28.8%
Financial Services	5.7%
Consumer Discretionary	5.2%
Other	7.1%
Cash	2.3%

### Top 10 Holdings<sup>8</sup>

As of September 30, 2019

Holding	% of Portfolio
RingCentral, Inc. Class A	3.77%
Amazon.com, Inc.	3.26%
Facebook, Inc. Class A	3.09%
Marvell Technology Group Ltd.	2.38%
bluebird bio, Inc.	2.31%
MACOM Tech Solutions Holdings, Inc.	2.17%
Visa Inc. Class A	2.05%
Netflix, Inc.	1.93%
ServiceNow, Inc.	1.88%
KLA Corporation	1.83%

### Performance

Average Annual Returns as of September 30, 2019

Victory RS Science and Technology Fund (Class A – RSIFX)	Third Quarter 2019	1-Year	3-Year	5-Year	10-Year	Since Inception (11/15/95)
without sales charge	-7.83%	-6.36%	19.16%	17.41%	16.10%	10.76%
with maximum sales charge (5.75%)	-13.14%	-11.73%	16.84%	16.03%	15.42%	10.48%
Morningstar U.S. Fund Technology Category <sup>9</sup>	-1.37%	0.90%	17.01%	14.90%	14.72%	9.21%
S&P North American Technology Sector <sup>1</sup>	1.32%	4.90%	22.02%	18.77%	17.43%	10.84%
S&P 500 <sup>®</sup> Index <sup>10</sup>	1.70%	4.25%	13.39%	10.84%	13.24%	9.03%

Returns include reinvestment of dividends and capital gains. Performance returns for periods of less than one year are not annualized. Please keep in mind that any high double-digit returns are highly unusual and cannot be sustained.

**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](http://www.vcm.com).** Investment returns reflect total fund operating expenses, net of all fees, waivers, and/or expense reimbursements.

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 1.47%/1.47%. 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 three 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.

**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](http://www.vcm.com).**

**Please read the prospectus carefully before investing.**

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. Narrowly focused investment strategies can be subject to greater market fluctuation. 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.

Performance may have been meaningfully impacted by investments in initial public offerings (IPOs). There is no guarantee that any positive impact on performance will be repeated or that the Fund will participate in any future IPOs. The prices of IPO securities may fluctuate more than prices of equity securities of companies with longer trading histories. Investing in IPOs entails special risks, including limited operating history of companies, limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the company, and high portfolio turnover.

Any discussions of specific securities should not be considered a recommendation to buy or sell those securities. Fund holdings will vary. Except as otherwise specifically stated, all information and portfolio manager commentary, including portfolio security positions, are as of September 30, 2019.

1. The S&P North American Technology Sector Index™ (formerly the S&P GSTI™ Composite Index) is a modified capitalization-weighted index based on a universe of technology-related stocks. "Since inception" return for the S&P North American Technology Sector Index™ reflects, for periods after August 29, 1996, the reinvestment of dividends paid on the securities constituting the index; for periods through August 29, 1996, index return does not reflect the reinvestment of dividends. You may not invest in the index and, unlike the Fund, the index does not incur fees or expenses.
2. The Russell 3000® Index is an unmanaged market-capitalization-weighted index that measures the performance of the 3,000 largest U.S.-traded stocks.
3. The Russell 3000® Growth 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 higher price-to-book ratios and higher forecasted growth values.

4. 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.
5. The Russell 1000® Index is an unmanaged market-capitalization-weighted index that measures the performance of the 1,000 largest U.S.-traded stocks.
6. 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.
7. The Fund's holdings are allocated to each sector based on the Russell Global Sectors Standard (RGS). If a holding is not classified by Russell, it is assigned a Russell designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.
8. Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
9. Morningstar category classifications group funds with similar average holdings statistics over the past three years to help investors and investment professionals make meaningful comparisons between funds and to form reasonable peer group comparisons.
10. The S&P 500® Index is an unmanaged market-capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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

Not a Deposit • Not FDIC or NCUA Insured • May Lose Value • No Bank or Credit Union Guarantee

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