VICTORY RS VALUE 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 Value Fund (A shares at NAV) outperformed its benchmark Russell Midcap® Value Index[8] (the "Index"), returning 1.46% versus a return of 1.22% for the Index.

In the third quarter, relative outperformance was the result of positive selection, notably within Consumer Discretionary, Health Care, Materials, and Financials, partially offset by negative selection in Information Technology and Industrials. Allocation had a modest negative impact on relative performance, due largely to our underweight vs. the benchmark within Utilities and Real Estate.

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 like 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 through 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.

Verint Systems Inc. (VRNT) is the leading developer of Customer Engagement software. Verint's software allows corporations to communicate with their customers and analyze interactions in an omni-channel environment, including phone, online chat, text messaging, email, within physical stores, ecommerce, mobile applications, and social media. The company has completed a multi-year product redesign in order to run in internet cloud environments. This investment has recently begun to drive improving revenue growth and expanding profit margins. Decades ago, Verint leveraged its voice analytics expertise to expand into Cyber Intelligence. Since this segment sells to governments, it has a very different sales cycle. Verint has been working internally for the last 18 months to separate the two businesses, and we expect additional value creation when the company spins off the division within the next 12 months. The stock declined recently because of a contentious activist fight and a very misleading short-seller report. We took advantage of the price decline to add to our position.

Axis Capital Holdings (AXS) is a specialty insurer that underwrites (re)insurance in niche markets such as maritime, aviation, small commercial, and certain catastrophe coverages. We were first attracted to this business because of its strong positive asymmetry of return possibilities, as a very strong and redundant balance sheet with excess reserves and a reliable cash flow stream provided the opportunity for consistent shareholder value creation. At the time of entry, shares traded at a modest discount to tangible book value, which we felt provided excellent downside protection. We also saw an opportunity to improve returns as management exited lower-return lines of business that were not capital-efficient. AXS makes an attractive acquisition candidate for many foreign buyers and was a free call option on improving pricing in the insurance business. Our investment in AXS performed well in Q3 as well as 2019, as the shares' low valuation, coupled with signs of improving pricing, started to be recognized by the market. While the shares have appreciated nicely this year, we continue to hold the position as we feel that we are in the early stages of the improving returns story.

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[9]

As of September 30, 2019

Sector	% of Portfolio
Financials	23.66
Information Technology	10.64
Real Estate	10.41
Consumer Discretionary	10.22
Materials	9.36
Utilities	8.28
Industrials	6.96
Consumer Staples	6.58
Energy	4.96
Health Care	4.86
Communication Services	0.00

Top 10 Holdings[10]

As of September 30, 2019

Holding	% of Portfolio
LKQ Corporation	4.15
Vistra Energy Corp.	3.89
Verint Systems Inc.	3.80
Expedia Group, Inc.	3.72
Aflac Incorporated	3.18
Euronet Worldwide, Inc.	3.16
RenaissanceRe Holdings Ltd.	3.12
E*TRADE Financial Corporation	2.96
Zimmer Biomet Holdings, Inc.	2.82
Graphic Packaging Holding Company	2.79

Performance

Average Annual Total Returns as of September 30, 2019

Victory RS Value Fund (Class A – RSVAX)	Third Quarter 2019	1-Year	3-Year	5-Year	10-Year	Since Inception (6/30/93)
without sales charge	1.46%	5.12%	10.37%	7.37%	10.43%	7.66%
with maximum sales charge (5.75%)	-4.38%	-0.93%	8.21%	6.11%	9.78%	7.42%
Russell Midcap® Value Index[8]	1.22%	1.60%	7.82%	7.55%	12.29%	10.77%

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 1.34%/1.30%. 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.

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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 2000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which consists of the 3,000 largest U.S. companies based on total market capitalization.)

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 Russell Midcap® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell Midcap® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which consists of the 1,000 largest U.S. companies based on total market capitalization.)

9 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.

10 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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