VICTORY SOPHUS EMERGING MARKETS SMALL CAP FUND QUARTERLY COMMENTARY

Sophus CAPITAL℠
A VICTORY CAPITAL℠ INVESTMENT FRANCHISE

As of September 30, 2019

Executive Summary

Sophus Capital employs a disciplined, bottom-up approach utilizing both quantitative and fundamental processes to invest in businesses with superior and sustainable earnings growth at attractive valuations, with revisions as the catalyst. By investing in companies with these characteristics, coupled with our risk-managed approach, we seek to provide a more consistent return pattern over time.

- The Victory Sophus Emerging Markets Small Cap Fund (A Shares without sales charge) outperformed the MSCI Emerging Markets Small Cap Index (Net)[1] during the third quarter, returning -2.61% versus -4.58% for the index.
- Emerging markets small-caps once again fluctuated on the on-again/off-again/on-again saga that is the US/China trade negotiations and finished the quarter down 4.58%, underperforming developed markets small-caps, which were down 0.86%.
- Looking across market factors, momentum was the best performing factor in the quarter.
- We believe the low interest rate environment, with inflation held in check and relatively stable global growth, is supportive of emerging markets equities.
- In our view, emerging markets small-caps offer an attractive long-term opportunity, as EM small-caps tend to be more driven by domestic demand, favorable demographics, local reform initiatives, and innovative niche markets/products. EM small-caps tend to be less efficient than the large-cap space, with generally limited research analyst coverage, often resulting in mispriced stocks.

Performance Recap

The Victory Sophus Emerging Markets Small Cap Fund (A Shares without sales charge) outperformed the MSCI Emerging Markets Small Cap Index (Net)[1] during the third quarter. True to our process, the largest contributor to relative performance in the quarter was stock selection. On a sector basis, the biggest contributor was stock selection in financials. The largest detractor was stock selection in materials. From a country perspective, the largest contributor to relative performance was stock selection in South Korea. The largest detractor was an overweight to the Hong Kong market. On a stock basis, the largest contributor to performance was Taiwanese IT company King Yuan Electronics (Ticker: 2449-TW). During the quarter the shares experienced a strong rally on an earnings beat and expectations of a large 5G order from Huawei. With risks from a disruption due to US/China trade tensions and higher valuations in light of the share price strength, we chose to sell the shares and move to better risk/reward opportunities. The largest detractor was Chinese consumer staples company Ausnutria Dairy Corp. (Ticker: 1717-HK). During the quarter, the shares continued to drift downward on negative sentiment created by a short sale report by an activist fund manager. Despite assurances (and denials from company management of the accusations in that report), the shares continued to sell off throughout the quarter, and we liquidated our position in the shares.

Market Overview

Like Hall of Fame catcher and grand orator Yogi Berra used to say, "It's like déjà vu all over again," as emerging markets once again fluctuated on the on-again/off-again/on-again saga that is the US/China trade negotiations. Emerging markets small-caps finished the quarter down 4.58%, underperforming developed markets small-caps, which were down 0.86%. The quarter started out on a positive note, with the US and China agreeing to resume trade talks coming out of the G20 summit in late June, and President Trump declaring he would freeze tariffs as long as the talks progressed. A dovish Fed also provided a boost. However, these could not quell investor fears of a slowdown in global growth, helping to push the US dollar higher and weighing on emerging markets equities in July. In August, EM equities started off on a weak note with the re-escalation of the trade war as President Trump announced 10% tariffs on an additional $300 billion of Chinese goods. China retaliated with the halt of purchases of US agricultural goods. The US then designated China as a currency manipulator. This back-and-forth between the US and China fueled global growth concerns, leading to a risk-off sentiment in the markets. In the middle of August, sentiment improved a bit as the US agreed to delay tariffs on certain products and both countries agreed to go back to the table. A stronger US dollar, up 0.41%, also weighed on EM equities. In September, optimism regarding the October US/China trade talks and accommodative central banks globally helped to push emerging markets equities higher. However, EM equities gave up some of their earlier gains on global growth concerns.

Commodities were down 4.54%, with oil down 8.67% on ongoing global growth concerns. Precious metals continued to rally higher, up 5.51% in the quarter as global central banks turned to easing mode. Gold advanced 4.47% in the quarter given the more defensive posture by investors. The US dollar finished the quarter up 3.38%, while a basket of EM currencies was down 4.10%. The Argentine peso saw the largest decline across emerging markets, down 26.34% as a worsening financial crisis there has increased the chances that a protectionist opposition government will unseat President Macri's pro-business administration in the country's October 27 presidential election. The Brazilian real was down 7.37%, with much of that coming in August when the central bank had to intervene and use FX reserves for the first time in 10 years.

20191016-985030

On a regional basis, Asia was worst performer, down 5.35%. Taiwan was up 4.08% in the quarter, as the country has been in the sweet spot from a trade perspective: they are not in the crosshairs of either Washington or Beijing and are doing business with both the US and China. China equities were down 7.89%, while India was down 9.96% after recovering a bit in September on the back of improved sentiment from the announced corporate tax cuts. Latin America was down 2.83%. Brazil was up 1.34% on strength in health care and consumer discretionary. Mexico declined 0.80%, outperforming the broader index on aggressive central bank rate cuts and anti-corruption investigations. EMEA was off 2.10% in the quarter and was the best performing region. Turkey advanced 9.35% on a rally in their currency and a surprise 425 basis point rate cut by the CBRT in July, followed by another 325 basis point rate cut in September in the wake of continued disinflation. Russian equities declined 3.24% despite three rate cuts by the Bank of Russia, weighed down by the materials and energy sectors. South Africa declined 4.25% on slower economic growth and a weaker rand (-6.93%).

Looking across market factors, momentum was the best performing factor in the quarter. Interestingly, in September, momentum sold off during the first half of the month, while value stocks had a big rally during the same period. Together with this dramatic switch into value, beta also outperformed significantly (but underperformed for the quarter). However, this value rally fizzled in the second half of September, while momentum rallied again. This short-lived value and beta rally serves as a reminder that a sustainable regime change may not happen without the support of improving macroeconomic signals.

Outlook

Accommodative monetary policy by the Fed has helped to drive interest rates down across emerging markets, with several countries already cutting rates. It appears that the trade tensions are wagging the monetary policy dog. Trade friction continues to feed concerns on global economic growth and, up to this point, the Fed has cut rates to try to stay out in front of this. As long as inflation and interest rates stay low, and growth stabilizes, we believe the EM equity environment will stay supportive. US and China delegates are meeting in the US in October to negotiate a trade deal. While the consensus view appears to be that some sort of truce will come out of this, with agreement to continue the dialogue on a scheduled path, we believe the markets are not reflecting this, which could be a catalyst if any progress is made.

The fluctuation in the markets lends itself well to our active bottom-up process, discovering new attractive opportunities and building on positions in those stocks where we believe price and fundamentals have become disjointed. We continue to find opportunities with the characteristics we seek, namely superior and sustainable earnings growth at attractive valuations, with revisions as a catalyst.

We thank you for your continued support.

Sincerely,

The Sophus Emerging Markets Team

Regional Allocation
As of September 30, 2019

Sector	% of Portfolio
Asia	71.90%
Latin America	13.87%
EEMEA	12.18%

Top 10 Holdings[2]
As of September 30, 2019

Holding	% of Portfolio
Manappuram Finance Limited	1.30%
Taiwan Union Technology Corporation	1.28%
PNC Infratech Ltd.	1.27%
Indian Hotels Co. Ltd.	1.27%
Engineers India Limited	1.27%
Bioteque Corporation	1.23%
Sino-American Silicon Products Inc.	1.22%
Aditya Birla Fashion & Retail Ltd.	1.19%
POYA International Co., Ltd.	1.14%

Top 5 Contributors
As of September 30, 2019

Holding	Contribution to Relative Return %
King Yuan Electronics Co., Ltd.	0.56
Wuhu Sanqi Int Ent Net Tech Grp Co., Ltd. Class A	0.50
Omega Geracao SA	0.36
PT Merdeka Copper Gold Tbk	0.34
UniTest, Inc.	0.31

Top 5 Detractors
As of September 30, 2019

Holding	Contribution to Relative Return %
African Rainbow Minerals Limited	-0.22
REC Limited	-0.23
Essel Propack Limited	-0.25
Fila Korea Ltd.	-0.28
Ausnutria Dairy Corp. Ltd.	-0.34

Performance
Average Annual Returns as of September 30, 2019

Victory Sophus Emerging Markets Small Cap Fund (Class A – RSMSX)	Quarter	YTD	1-Year	3-Year	5-Year	Since Inception (1/31/14)
without sales charge	-2.61%	10.71%	1.67%	5.17%	2.14%	3.33%
with maximum sales charge (5.75%)	-8.20%	4.35%	-4.21%	3.12%	0.94%	2.26%
MSCI Emerging Markets Small Cap Index (Net)[1]	-4.58%	1.81%	-5.49%	1.32%	-0.13%	1.65%

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. Current performance may be lower or higher than performance data quoted. 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 for the Class A Shares is 5.81%/1.79%. Investment returns reflect the reinvestment of dividends and capital gains, 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. Returns are average annual total returns, except those for periods of less than one year, which are cumulative. Performance for other share classes will vary. High, double-digit returns are unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions.

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. 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. International investing involves special risks, which include changes in currency rates, foreign taxation, differences in auditing standards and securities regulations, political uncertainty, and greater volatility. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Investments in small and mid-size companies can involve risks such as less publicly available information, higher volatility, and less liquidity than larger companies.

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.

Except as otherwise specifically stated, all information and portfolio manager commentary, including portfolio security positions, are as of September 30, 2019.

1 The MSCI Emerging Markets Small Cap Index (Net) is a free-float-adjusted market capitalization index that is designed to measure equity performance of small-capitalization companies in emerging markets countries. Index results assume the reinvestment of dividends paid on the stocks constituting the index. The index reflects no deduction for fees, expenses or taxes, except foreign withholding taxes, but there are expenses associated with the Fund.

2 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

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

V17.096 // 3Q 2019 SOP EMSC Fund COM