VICTORY SOPHUS EMERGING MARKETS SMALL CAP FUND QUARTERLY COMMENTARY

Sophus CAPITAL℠
A VICTORY CAPITAL℠ INVESTMENT FRANCHISE

As of September 30, 2018

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-Share without sales charge) underperformed the MSCI Emerging Markets Small Cap Index (Net) in the third quarter, returning -9.25% versus -4.21% for the index.
- The MSCI Emerging Markets Small Cap Index (Net), down 4.21%, underperformed developed markets small-cap, up 1.96%.
- During the third quarter, we saw a rapid reversal among styles and factors, understandably resulting in the Fund's underperformance.
- Emerging markets equities have been under pressure for the better part of this year, as the strengthening US dollar, global trade tensions, and tightening financial conditions have created significant headwinds for the asset class.
- 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 largest detractor from relative performance in the quarter was stock selection in the consumer discretionary sector. The largest contributor was stock selection in the materials sector. On a country basis, the largest detractor was stock selection in South Korea. The largest contributor in the quarter was stock selection in India. Overall, consistent with our bottom-up process, stock selection had the largest impact on performance for the quarter versus country/sector allocation. At the stock level, the largest detractor from relative performance was Korean staples company Orion Corp. (Ticker 271560:KS). During the quarter, the company announced a lower than expected earnings report. However, the miss came on higher store openings (a harbinger of future sales growth) and promotions. Top-line growth was strong, but ongoing promotional spending in the near-term is expected to weigh down earnings growth near-term. With the lack of a near-term catalyst, we sold the shares in favor of better opportunities elsewhere. The largest contributor to relative performance was a diversified South African mining company, African Rainbow Minerals Limited (Ticker: AFRBY). During the quarter, the company benefited from strengthening commodity prices, particularly in ore, and the weakening rand. As a result, the near-term earnings outlook continues to improve.

Within emerging markets, value was the only factor that outperformed. Momentum, earnings growth, revisions, volatility (high), beta (high), and quality all underperformed. Factor performance differed slightly by region. China was very much dominated by value. In markets with a rapid reversal among styles and factors, we would expect to underperform as our model recalibrates. What did surprise us was the magnitude of the underperformance. As we reviewed the quarter, many of the largest underperformers were not fundamental in nature, but event driven. For example, a wave of regulatory announcements in such diverse areas as Chinese online gaming and Indian financials shocked the markets. The general skittishness within emerging markets led to a "sell first and ask questions later" mentality, with virtually no regard for fundamentals. We continue to execute our process and philosophy, and are finding attractive opportunities with the characteristics we seek.

Market Overview

The MSCI Emerging Markets Small Cap Index (Net)[1] sold off 4.21%, underperforming developed markets, up 1.96%. It was very much a large-cap defensive quarter within emerging markets, as small-caps underperformed both large-caps and mid-caps, down 0.85% and 2.65%, respectively. Volatility sold off as a risk-off sentiment among investors took firm hold of the markets. Turkey was the worst performing country, down 22.58%, on a growing rift with the US that led to sanctions and tariffs imposed by the US, combined with the lack of investor confidence in the ability of the Turkish finance ministry to take the appropriate steps to curb the impacts on its currency. The fear of contagion to other countries with wide current account deficits with the greatest exposure to the US dollar and interest rates fueled the risk-off sentiment. China was down 10.16% on the growing trade tensions with the US as the Trump administration implemented tariffs on an additional $200 billion of Chinese goods. Adding to the pressure in China were growing fears of an economic slowdown created by the tariffs, as well as the Chinese deleveraging campaign. India was down 10.16% as the financials sector took a huge hit there following defaults by non-banking financial companies. The rally in oil also had a negative impact on Indian equities. Mexico was among the best performing countries in the index, up 11.87%, buoyed by a stronger currency on the basis of a new trade agreement with the US, as well as favorable rhetoric and cabinet appointments by the

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President-elect. Brazil finished the quarter down 3.92% on contagion fears from Turkey and uncertainty surrounding the outcome of the presidential elections in early October.

Within this climate of de-globalization, the US economic leadership has not translated to the rest of the world as we have seen GDP growth projections lowered across several countries including China, India, Brazil, and South Africa. The trade disputes with the US have only exacerbated these revisions downward.

For the quarter, the US dollar was up 0.70%, while a basket of EM currencies declined 3.74%. The Turkish lira was down 24.16% on US sanctions and lack of investor confidence in the Turkish finance ministry. The Chinese renminbi, Russian ruble, and Indian rupee were down 3.61%, 4.29%, and 5.55%, respectively. The Mexican peso was the bright spot across EM currencies, up 6.35% as President-elect Andrés Manuel López Obrador helped to negotiate a trade agreement with the United States. Commodities were down 2.53%, pushed by industrial metals, down 7.36%. Copper fell 4.95%, aluminum 4.99%, and nickel 15.57%. Oil rallied in the second half of the quarter to finish up 4.13% on tighter supply, concerns of further US sanctions on Iran, and OPEC's decision not to increase output.

Outlook

Emerging markets equities have been under pressure for the better part of this year, as the strengthening US dollar, global trade tensions, and tightening financial conditions have created significant headwinds for the asset class. We expect volatility to continue for the remainder of 2018 on US policy decisions and the impact of tightening financial conditions on economically vulnerable countries. However, we don't expect any contagion coming out of the issues with Turkey and Argentina. Furthermore, midterm elections in the US next month could ultimately be a catalyst for EM should the Democrats win a majority in Congress. If so, this could throw the government in turmoil and potentially push the dollar, and rates, lower.

We remain constructive on the asset class longer-term, recognizing the attractive valuations, strong economic growth, and favorable secular demographic trends. Further, we believe the US dollar is overbought, and thus we have a negative bias going in to late 2018/early 2019. 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.

It is important to understand that emerging markets are not homogenous. As bottom-up stock pickers, we continue to find opportunities with the characteristics we seek: superior earnings growth with attractive valuations, with revisions as the catalyst.

We thank you for your continued support.

Sincerely,

The Sophus Emerging Markets Team

Regional Allocation

As of September 30, 2018

Sector	% of Portfolio
Asia	75.5%
Latin America	15.7%
EEMEA	7.0%
Cash / Other Assets and Liabilities	1.8%

Top 10 Holdings[2]

As of September 30, 2018

Holding	% of Portfolio
Douzone Bizon Co. Ltd.	1.70%
Banco del Bajio SA	1.51%
Doosan Infracore Co., Ltd	1.49%
Quality Houses Public Co. Ltd. (Alien Mkt)	1.41%
SKC Kolon PI Inc.	1.41%
Grand Pacific Petrochemical Corp.	1.38%
Xxentria Technology Materials Co., Ltd.	1.34%
LOTTE Himart Co., Ltd.	1.34%
Grupo Cementos de Chihuahua	1.27%
Dino Polska SA	1.70%

Performance

Average Annual Returns as of September 30, 2018

Victory Sophus Emerging Markets Small Cap Fund (Class A – RSMSX)	Third Quarter 2018	YTD	1-Year	3-Year	Since Inception (1/31/14)
without sales charge	-9.25%	-14.81%	-7.86%	7.73%	3.69%
with maximum sales charge (5.75%)	-14.47%	-19.72%	-13.13%	5.62%	2.38%
MSCI Emerging Markets Small Cap Index (Net)[1]	-4.21%	-12.30%	-4.20%	7.43%	3.25%

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 2.29%/1.75%. 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 July 31, 2019. 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, 2018.

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

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