SYCAMORE CAPITAL®

A VICTORY CAPITAL® INVESTMENT FRANCHISE

VICTORY SYCAMORE ESTABLISHED VALUE FUND QUARTERLY COMMENTARY

As of September 30, 2019

Executive Summary

Sycamore Capital's Mid Cap Value investment team employs a disciplined, bottom-up, fundamental process to invest in better businesses that trade at a discount to the team's estimate of intrinsic value and possess fundamental drivers that will narrow the valuation gap. By investing in businesses that exhibit these attributes, we seek to minimize downside risk without sacrificing the upside potential.

- The Victory Sycamore Established Value Fund (A Shares without sales charge) outperformed the Russell Midcap® Value Index during the third quarter.
- Stock selection was the key driver of relative performance, with sector weighting partially offsetting the favorable impact from selection. Sector allocation is a by-product of the bottom-up stock selection process.

Frenzy of Headlines Resulted in Weakest 3Q Since 2015 for U.S. Market

There was a barrage of headlines that piled onto the proverbial "wall of worry" during the quarter. Despite persistent jolts and distractions, the U.S. equity market as measured by the S&P 500® Index ended the quarter in positive territory and delivered the best year-to-date performance since 1997. Nevertheless, there were several developments that kept the market and investors on edge. Trade remained front and center, with little progress made on the negotiation front. However, a couple of actions taken by the Trump administration indicated that the White House may finally be weighing the impact tariffs are having on the consumer. The administration delayed implementation of 10% tariffs on more than half of the final tranche of approximately $300 billion of Chinese imports. Additionally, there were efforts on both sides to de-escalate tensions with the hope of finding some common ground.

The Federal Reserve (Fed) also cut rates twice during the quarter; however, that did not necessarily assuage investor concern about slowing global growth and how that may eventually impact the U.S. economy. In fact, some perceived the cuts to be relatively "hawkish," with particular focus on Chairman Powell's decision to describe the moves as a mid-cycle adjustment rather than a return to an easing regime. Furthermore, there was skepticism regarding whether the Fed has enough ammunition in its war chest to offset the effects from tariffs and prolong the expansion. The inversion of the U.S. Treasury yield curve—particularly the 10-year/2-year curve, which inverted briefly in mid-August for the first time since 2007—prompted pundits to debate its signaling effects. Markets also had to grapple with heightened geopolitical risks in Asia and the Middle East. As has been the case for most of this cycle, any negative reaction to geopolitical uncertainty was short-lived. As if all these developments were not enough, investors were treated to another spectacle in Washington. With the domestic and global outlook becoming murkier, uncertainty has spiked. It is widely understood that the market loathes uncertainty. Hence, investors could be in for a bumpy ride until there's more clarity on several of the issues currently plaguing the backdrop.

Performance by Size and Style

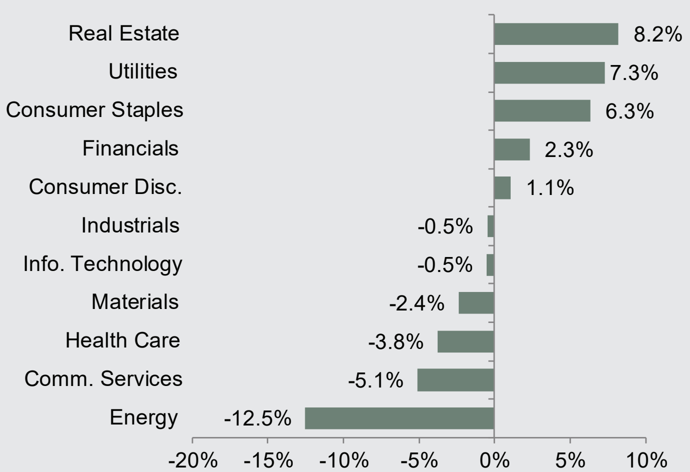
Large-cap stocks outpaced both mid- and small-cap equities during the quarter. Large-cap stocks as measured by the Russell 1000® Index and the S&P 500® Index returned 1.42% and 1.70%, respectively. Mid-cap stocks were sandwiched in the middle, with the Russell Midcap® Index returning 0.48%. Small-cap stocks were at the back of the pack again, with the Russell 2000® Index returning -2.40%. Broken down by style, growth barely bested value in the large-cap segment. Down the market cap, value finally caught a bid and outpaced growth across the mid- and small-cap size segments. Within mid-caps, the Russell Midcap® Value Index returned 1.22%, outpacing its growth counterpart, which returned -0.67%.

Portfolio Attribution – Third Quarter

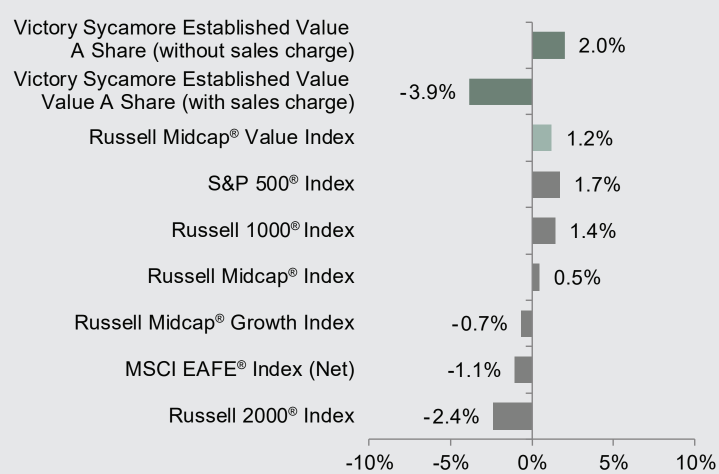
The Victory Sycamore Established Value Fund outperformed the Russell Midcap® Value Index (the "Index") in the third quarter of 2019.

Stock selection was the key driver of relative performance, with sector weighting partially offsetting the favorable impact from selection. Sector allocation is a by-product of the bottom-up security selection process and not a result of top-down tactical decisions. Returns for the Index across the 11 major economic sectors were mixed, with only five posting positive returns for the quarter. Macro developments buoyed Real Estate to the top, with the sector returning 8.21%. By contrast, the Energy sector was at the back of the pack for the second consecutive quarter, returning -12.54%, as WTI (West Texas Intermediate) oil fell 7.5%.

Russell Midcap® Value Index Sector Returns – 3Q 2019



Victory Sycamore Established Value Fund Performance – 3Q 2019



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Performance Attribution Relative to the Russell Midcap® Value Index – 3Q 2019

Positive Contributors	Negative Contributors
Stock Selection in Financials	**Underweight and Stock Selection in Real Estate**
Stock Selection in Information Technology	**Underweight in Utilities**
Stock Selection and Underweight in Health Care	**Stock Selection in Energy;** *entirely offset by underweight*
Overweight and Stock Selection in Consumer Staples	
Stock Selection in Materials	

Specifically, stock selection in the Financials, Information Technology, Health Care, Materials, and Consumer Staples sectors contributed favorably to relative performance. An overweight in Consumer Staples and an underweight in Health Care were also beneficial. Conversely, underweights in Real Estate and Utilities—the top-performing sectors for the quarter—were the largest detractors. Stock selection in Real Estate and Energy also had a negative impact on return. However, an underweight in Energy—the worst-performing sector—entirely offset the unfavorable impact from selection.

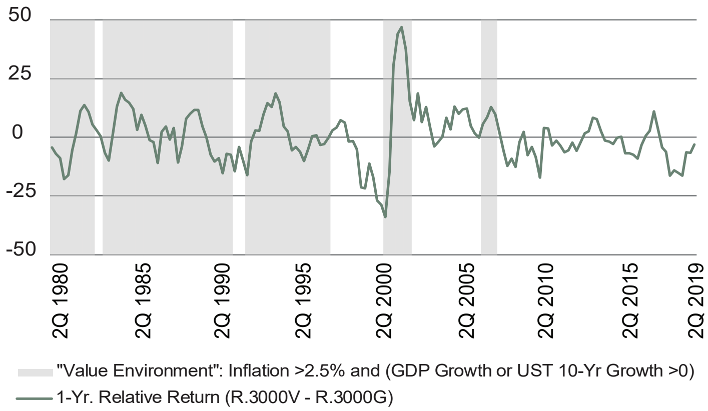
Top Contributors

KLA Corp. (KLAC), a global leader in process control and yield management for the semiconductor and nanoelectronics industries, was the top contributor for the quarter. KLAC reported second quarter results that were ahead of consensus estimates. Management commentary was upbeat on the recovery in the semiconductor market in 2020, in which KLAC commands a significant market share. Investors are also optimistic about the acquisition of Orbotech Ltd. earlier this year, which gives the company exposure to the printed circuit board (PCB) and flat panel display (FPD) areas. Additionally, management announced that it will raise the dividend by 13% in addition to increasing the amount authorized for a share buyback program. Our thesis for KLAC remains unchanged at this time. Alleghany Corp. (Y), an insurance holding company with various segments anchored by a core position in Property & Casualty insurance and reinsurance, was another top contributor. The company reported solid second quarter results driven by rate increases and robust premium growth across most lines of business. Alleghany is also well positioned to benefit from the shift to the excess and surplus (E&S) markets. The focus on specialty lines requires experience and expertise from underwriters, which gives Alleghany's E&S segment (RSUI) a competitive advantage. As other players scale back operations, RSUI is in a position to fill in the void created. Our thesis for Alleghany remains intact. Kroger Co. (KR), one of the largest grocery store operators, landed in the top contributors list after consecutive quarters of being a top detractor. Second quarter results were mixed. The company reported its strongest identical store sales (IDs) growth since management embarked on the Restock Kroger initiative. Management commentary suggested that its IDs are trending slightly higher after adjusting for last year's hurricane impacts. Additionally, KR continues to make headway in its digital business, with its Pickup & Delivery business demonstrating a favorable growth trend. However, management mentioned that it is not reiterating its 2020 financial guidance. Per the company, further detailed guidance will be provided at the Investor Day in early November. Furthermore, the pharmacy segment remains a headwind as competition intensifies. Despite the mixed quarter, the share price appreciated on the quarter. We speculate that was partly due to investors welcoming the favorable results in IDs. Sentiment has been mostly negative on Kroger—so much so that even a mixed earnings report was enough to propel the stock price higher. Second, we anticipate that the stock benefited from the rotation to value that manifested in September. Regardless, we continue to believe that KR remains a compelling opportunity over the long term. Hasbro, Inc. (HAS) was a top contributor for the second consecutive quarter. As we mentioned the previous quarter, much of the overhang from the Toys "R" Us bankruptcy which soured sentiment on the company seems to be in the rearview mirror. Additionally, the company announced the acquisition of Entertainment One (ETO), an independent producer of films, TV series, children brands and music. The acquisition was significant, but not entirely surprising for Hasbro after years of reported interest in the entertainment business. Strategically, the acquisition is in line with Hasbro's vision of opportunistically adding to its brand blueprint. With the acquisition, Hasbro will acquire existing preschool brands (Peppa Pig and PJ Masks) and other property in development (Ricky Zoom). There are potential synergies with the acquisition as well, primarily by in-sourcing ETO's toy business in-house rather than licensing it to outside partners. It was evident that investors viewed the acquisition favorably; however, a large acquisition such as this is not without risks. Hasbro did increase leverage to finance the acquisition. Additionally, given that ETO is a distinctly different business, integration could be a challenge. As we do with all our existing holdings, we will continue to monitor and reevaluate our thesis for Hasbro. AutoNation, Inc. (AN) was another top contributor. The company reported better-than-expected second quarter results, driven by improved operational execution across its business lines. AutoNation also announced a CEO change during the quarter, which is likely what helped propel the share price higher. With the former CEO only in the role for a few months, the company's board decided to replace him with someone internal. Investors welcomed the news given that the newly appointed CEO had a long tenure with the company—most recently as CFO. Our thesis for AutoNation remains unchanged at this time.

Top Detractors

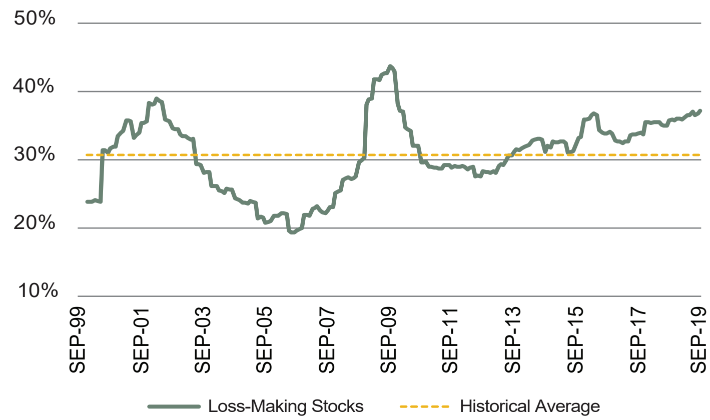
DXC Technology (DXC), a leading IT services provider, was a top detractor once again. There were a couple of developments that transpired during the quarter that put downward pressure on the stock. First, the management team reduced their FY20 guidance for revenue and EPS. Additionally, it was revealed that the company plans to invest approximately $100 million in the digital business to support growth efforts, which lowered the planned cost savings in FY20. Overall, it was a disappointing quarter given that management historically has managed investor expectations well. Additionally, the company announced a change in leadership during the quarter. DXC announced that Mike Lawrie, Chairman and CEO, would step down immediately and be replaced by Mike Salvino. The timing of the CEO change was disappointing, especially given that it occurred not too long after the company reduced its guidance for its fiscal year. It was speculated that the new CEO's success in growing a division at Accenture may have led to the decision to bring in new leadership. After reevaluating the thesis, we believe that DXC remains a compelling investment opportunity at this time for several reasons. First, the new CEO has a successful track record of growing revenue at another technology services company. Second, the company recently closed on its acquisition of software developer Luxoft Holding, which gives DXC another avenue to grow revenue. Finally, the relative valuation is attractive given DXC's free cash flow generation. At this point, we believe that all the negative news is already reflected in the current share price. As we do with all of our existing holdings, we will continue to monitor the company. Two of the top detractors for the quarter were holdings in the Energy sector. Cimarex Energy (XEC) reported 2Q19 earnings below estimates, driven largely by weaker gas/NGL pricing that offset better than expected gas/NGL production and oil prices. The company raised its fiscal year oil production guidance and maintained its 2019 capex guidance. Management alluded to slowing activity in 2020 if weak prices persist. Despite the inhospitable environment, Cimarex is addressing what it can control. The company is focused on the appropriate level of growth in this environment that enables it to generate sustainable free cash flow without jeopardizing the balance sheet. As we've stated in the past, Cimarex boasts one of the healthiest balance sheets in the space—an attribute we value. Shares of Devon Energy (DVN) were also under pressure—likely in sympathy with the entire sector. Devon delivered a modest beat versus consensus 2Q19 estimates. The company guided for oil volume to be slightly higher and for 2019 capex to be lower. Even though the oil volume guide was revised upward, it was still below consensus. We suspect that may have been why shares were

Illustration 1: Russell 3000® Value Index vs. Russell 3000® Growth Index in Various Economic Regimes



Source: Federal Reserve Economic Data, Morningstar. Analysis by Sycamore Capital.

Illustration 2: Loss-Making Stocks as a Percent of the Russell 2000® Index



Source: Factset. Analysis by Sycamore Capital.

down as much as they were on the quarter. However, the consensus estimates may be too high due to the divested Canadian assets (closed in 2Q19) not being taken out of some estimates. Devon continues to be one of the most shareholder-friendly companies in the sector. It purchased back $400 million in shares during the quarter and has $600 million remaining out of the $5 billion repurchase program. Furthermore, the company bolstered its balance sheet by paying down debt over the past year. With its Barnett assets up for sale, Devon may be well-positioned for further shareholder returns in the near term. Our theses for both Cimarex and Devon remain intact at this time. Another detractor for the quarter was CBS Corp. (CBS). During the quarter, CBS announced their long-rumored intention to merge with Viacom (VIAB). The new entity will be known as ViacomCBS. The newly created company outlined the following three-pronged approach for growth: 1) accelerate the direct-to-consumer platform growth; 2) drive strengthened affiliate and advertising partnerships; and 3) become the leading producer and licensor of premium content to third-party platforms globally. While investors have long anticipated the announcement, the lack of details on potential cost/revenue synergies from management pressured the shares of CBS. We suspect that management will provide more details in coming quarters. Our thesis remains unchanged at this time. BorgWarner Inc. (BWA), which manufactures products that assist in improving vehicle performance, fuel efficiency, stability and air quality, was also a top detractor. Shares were under pressure after the company narrowed 2019 guidance. Continuing end-market weakness as well as slowing Chinese auto demand are largely to blame. Despite these short-term headwinds, we believe that BorgWarner is well-positioned to benefit from the industry's electrification push and OEM's desire to meet rising emissions standards. Our thesis for BorgWarner remains intact.

Outlook

The economic and political backdrop has become more clouded, which has raised the level of uncertainty. One of the narratives that has surfaced recently is the notion that "bad news is good news." Essentially, that the scenario on the economic front, both domestically and globally, has reached a point where the Fed may be forced to accelerate its attempt at reigniting the economy through another round of easing. Furthermore, recent U.S. data—which has sent mixed signals—may entice Trump administration officials to find some form of resolution to the trade dispute to give the market some clarity, especially heading into an election year. Whether there's merit to the "bad news is good news" theme remains to be seen.

The other development that captured headlines and became a topic of interest for some of our clients is the rapid rotation away from momentum pockets of the market into value areas in September. The pressing question that was posed in meetings was whether this was a transitory phenomenon or a sustainable one. Unfortunately, we do not have a concise answer to that question. We simply don't know whether the rotation was due to the perception that momentum stocks are relatively "expensive" or whether value stocks were perceived to be relatively "cheap." As commonly recognized in the industry, value typically shines in environments when inflation is rising (generally 2.5% or higher), GDP is accelerating, and/or the 10-year U.S. Treasury yield curve is steepening, as illustrated above. Over this cycle, there have been spurts of GDP growth, but for the most part, growth has been anemic, inflation has been elusive and most recently, the 10-year Treasury has tumbled.

One thing we often remind our clients when the question of when value will work again comes up in conversation is that the answer boils down to how one defines "value." This is not an attempt to dodge the question. We simply don't believe that there's a right or wrong answer to the question. Some stocks may be cheap on one or more metric, and, may fall within the realm of value. However, we believe that some stocks are cheap for a reason (e.g., financially challenged, facing secular headwinds, etc.). Often, these companies do not meet our investment criteria. One example of where this is often observed is in the small-cap universe. As can be gleaned from Illustration 2, the percentage of non-earners (loss-making stocks) in the Russell 2000® Index has increased over the past several years. Essentially, the universe has become lower quality. Some of these stocks may be statistically cheap and fall within the value spectrum, but that does not necessarily suggest that they are viable investment opportunities.

Another observation worth noting about the composition of the small-cap universe is the performance dispersion between the earners and non-earners at various points of the cycle. Take for example the most recent quarter, year-

Illustration 3: Performance of Earners and Non-earners Within the Russell 2000® Index

	3Q 2019		YTD 2019		TTM (as of 9/30/2019)	
	Average Weight	Total Return	Average Weight	Total Return	Average Weight	Total Return
Earners	76.2%	-0.1%	76.3%	16.5%	76.3%	-4.8%
Non-earners	23.3%	-9.9%	23.4%	7.3%	23.4%	-21.1%
Russell 2000 Index	N/A	-2.4%	N/A	14.2%	N/A	-8.9%

Source: Factset. Analysis by Sycamore Capital.

to-date, and trailing 12-month returns. Clearly, the earners have outpaced non-earners by a wide margin. Therefore, what is not owned can also make a difference to relative performance.

The intention is not to take sides on the value vs. growth debate. We view this topic as being out of our control. However, we understand that it has been top-of-mind for many investors. Our objective is to stress that we don't think there is one answer and believe it's a function of how investors define value. Rather than focus on one or two metrics, we believe it is prudent to take a holistic approach when evaluating a potential investment candidate to determine whether it can be considered a value opportunity or not.

We thank our clients for their continuous trust. We are grateful for the confidence you have placed in Sycamore Capital.

Top Contributors (%)	
KLA Corp.	0.4
Alleghany Corp.	0.4
Kroger Co.	0.3
Hasbro, Inc.	0.2
AutoNation, Inc.	0.2
Top Detractors (%)	
DXC Technology Co.	-0.6
Cimarex Energy Co.	-0.3
CBS Corp.	-0.3
Devon Energy Corp.	-0.2
BorgWarner Inc.	-0.2

Source: FactSet.

Top Holdings (%)	
Quest Diagnostics Inc.	2.5
Alleghany Corp.	2.4
Archer Daniels Midland Co.	2.3
Eastman Chemical Co.	2.0
Reliance Steel & Aluminum Co.	2.0
Carter's, Inc.	1.9
Allstate Corp.	1.8
Kroger Co.	1.8
Textron Inc.	1.7
Lamar Advertising Co.	1.7

				ANNUALIZED RETURNS				Expense Ratio	
Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception*	Gross	Net
A Shares (without sales charge)	2.03	21.33	2.77	9.86	10.51	12.69	9.90	0.89	0.89
A Shares (with max. sales charge 5.75%)	-3.85	14.34	-3.14	7.71	9.21	12.03	9.57	0.89	0.89
Russell Midcap® Value Index	1.22	19.47	1.60	7.82	7.55	12.29	—		

Source: Citi. Returns are calculated and stated in U.S. dollars.
**Since inception results are as of the Fund's inception date, May 5, 2002.*

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, please call 1.800.539.FUND or visit www.vcm.com.

Annualized return or average annual return describes the return gained, on average, each year of a multi-year period rather than a cumulative return. Returns are historical and include the change in share price and reinvestment of dividends and capital gains distributions, if any. Performance for quarter and year-to-date are cumulative.

Risks Associated with Investing in the Fund: There is no guarantee that the Fund will achieve its objective. Equity securities are more volatile and carry more risk than other forms of investments, including investments in high grade fixed income securities. Mid-capitalization stocks typically carry additional risk, since mid-size companies generally have higher risk of failure, and historically, their stocks have experienced a greater degree of volatility. The net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes. Political and economic risks, along with other factors, could adversely affect the Fund's investments in U.S.-traded foreign companies, ADRs and GDRs.

Indexes Defined: Russell Midcap® Value: An unmanaged index comprised of Russell Midcap® Index companies with lower price-to-book ratios and lower forecasted growth values. This index does not include the effect of expenses, is not representative of any specific fund or product and cannot be invested in directly.

Fund holdings are subject to change and should not be considered purchase recommendations.

Contributors and Detractors: Source: FactSet. The contributors and detractors mentioned are presented to illustrate examples of the Fund's investments and may not be representative of the Fund's current or future investments. Percentages shown are for the most recent quarter.

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Shares of the fund may be subject to sales charges and other fees. An investor should consider the fund's investment objectives, risks and 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. To obtain a prospectus, please call 1.800.539.FUND or visit www.vcm.com. Please read the prospectus carefully before investing.

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