VICTORY SYCAMORE SMALL COMPANY OPPORTUNITY FUND QUARTERLY COMMENTARY

SYCAMORE CAPITAL®

A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2019

Executive Summary

Sycamore Capital's Small 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 Small Company Opportunity Fund (A Shares without sales charge) notably outperformed the Russell 2000® Value Index during the third quarter of 2019.
- Stock selection and sector allocation were both favorable, with selection having a larger impact on relative performance. 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 small-caps, the Russell 2000® Value Index held up better, returning -0.57%, while growth ended a two-quarter winning streak with the index returning -4.17%.

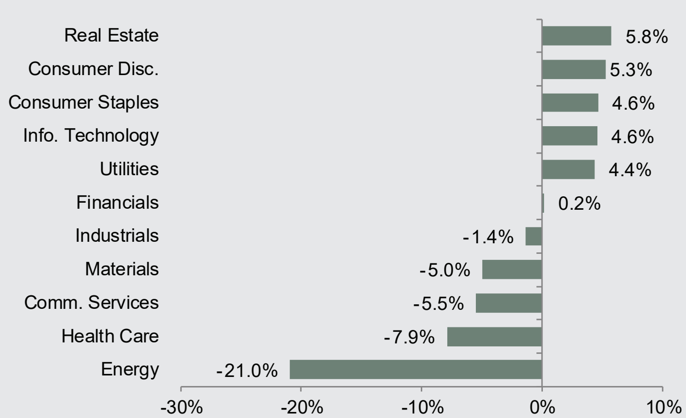
Portfolio Attribution – Third Quarter

The Victory Sycamore Small Company Opportunity Fund notably outperformed the Russell 2000® Value Index (the "Index") in the third quarter of 2019.

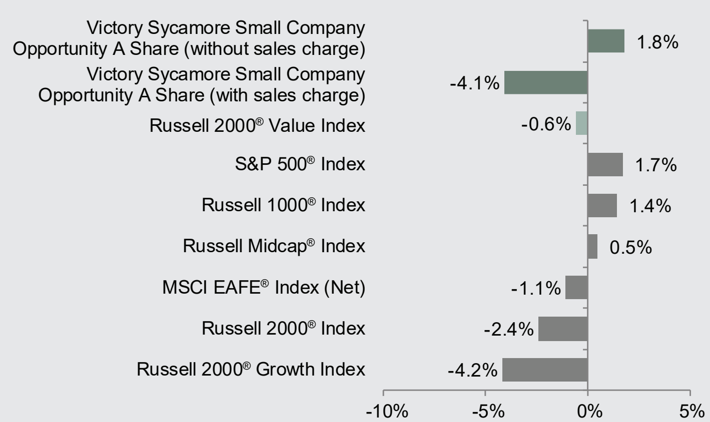
Stock selection and sector allocation were both favorable, with selection having a larger impact on relative performance. Sector allocation is a by-product of the bottom-up stock selection process. Returns for the Index across the 11 major economic sectors were mixed, with six posting positive returns for the quarter. Macro uncertainty buoyed Real Estate to the top, with the sector returning 5.75%. By contrast, the Energy sector registered a return of -20.97%, as WTI (West Texas Intermediate) oil fell 7.5%.

Specifically, stock selection in the Industrials, Financials, and Health Care sectors contributed to relative performance. An underweight in Energy and an overweight in Consumer Discretionary were also beneficial. Conversely, an underweight in Real Estate and Utilities, as well as an overweight in Materials, were the largest detractors. Stock selection in Real Estate also had a negative impact on relative return.

Russell 2000® Value Index Sector Returns – 3Q 2019



Victory Sycamore Small Company Opportunity Fund Performance – 3Q 2019



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Performance Attribution Relative to the Russell 2000® Value Index – 3Q 2019

Positive Contributors	Negative Contributors
Underweight in Energy	Underweight and Stock Selection in Real Estate
Stock Selection in Industrials	Overweight in Materials
Stock Selection in Financials	Underweight in Utilities
Overweight in Consumer Discretionary	
Stock Selection in Health Care	

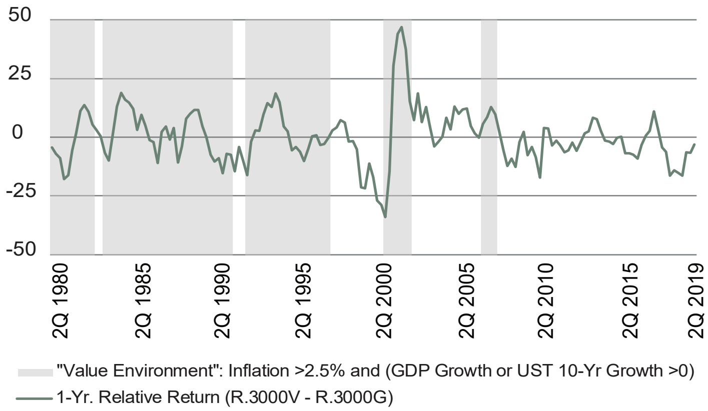
Top Contributors

Saia, Inc. (SAIA), a less-than-truckload carrier with exposure to the majority of the lower 48 states, was the top contributor for the quarter. The company reported solid 2Q19 results and delivered its first-ever sub-90% operating ratio (OR)—a metric closely monitored in the trucking industry. Not surprisingly, shares responded favorably to the results. Since 2017, Saia has been expanding its footprint in the Northeast and recent results suggest that the company is taking market share. Management continues to execute, and it is evident that the expansion strategy is bearing fruit. Our thesis remains unchanged at this time. Visteon Corp. (VC), a pure-play automotive electronics company focused on the cockpit electronics product segments, was another top contributor. Visteon reported revenue that was slightly above estimates, driven by sales that were down less than expected. However, guidance for FY19 was lowered given the challenging macroeconomic backdrop in North America, Europe and China. Long-term, Visteon is competitively positioned to capitalize on the increasing complexity of the fastest-growing product opportunities in the cockpit electronics space. Our thesis for Visteon remains intact. Asbury Automotive Group, Inc. (ABG), an automotive retailer with maintenance, replacement parts, collision repair, and financing/insurance businesses, was another top contributor. Despite new car sales dipping lower this year, Asbury's diversified model is a differentiator—evidenced by six consecutive quarters of earnings beat. The company's investment in omni-channel initiatives (online sales tools, online service appointments, and self-service kiosks) has improved operational efficiency and enhanced the customer experience. The Parts & Services segment remains robust, with the company driving record online service appointment growth in Q2. Asbury has employed a balanced approach to capital allocation and boasts a balance sheet that can be deployed to make opportunistic acquisitions, pursue share repurchases, or make further internal investments. Our thesis for Asbury remains intact. Horace Mann Educators Corp. (HMN), an insurance holding company that markets and underwrites personal lines of property and casualty insurance, retirement products, and life insurance to the educator market, was also a top contributor. The insurer reported 2Q19 results that were ahead of consensus estimates, primarily driven by stronger-than-expected Auto and Property income. Additionally, the company closed its acquisition of National Teachers Associates (NTA), which sells supplemental life products to educators, during the quarter. The acquisition enables the company to remain focused on its niche of mostly educator clients. It also expands Horace Mann's footprint by approximately 1,000 school districts and creates cross-selling opportunities for its agents. As with any acquisition, there is the potential for integration risk. However, in this case, the motivation for the acquisition was driven by the potential for cross-selling to the same customer base rather than for cost synergies purposes. Hence, the integration risk is somewhat mitigated. Our thesis for Horace Mann remains unchanged at this time. Shares of Alamo Group Inc. (ALG), a global manufacturer of specialty machinery products catering mostly to the agriculture and government markets, appreciated after the company reported 2Q19 results that beat consensus estimates. Results were particularly strong in the Industrial segment, which offset weakness in the Agricultural segment. Alamo also announced that they entered into an agreement to acquire Morbark, LLC, a leading manufacturer of equipment and after-market parts for forestry, tree maintenance, biomass, land management, and recycling markets. While few details were provided about the acquisition, the initial thought is that the acquisition fits within Alamo's core competency. Additionally, the acquisition likely offers Alamo purchasing and scale synergies. Alamo management continues to demonstrate solid execution with their ability to combine accretive M&A with operational improvement. Additionally, the company has bolstered its exposure to government business (e.g., municipal maintenance work such as snow removal, etc.), which helps to offset some of the weakness in the agricultural segment. Despite the recent share price performance, we continue to believe that Alamo is a compelling investment opportunity given their track record as solid operators.

Top Detractors

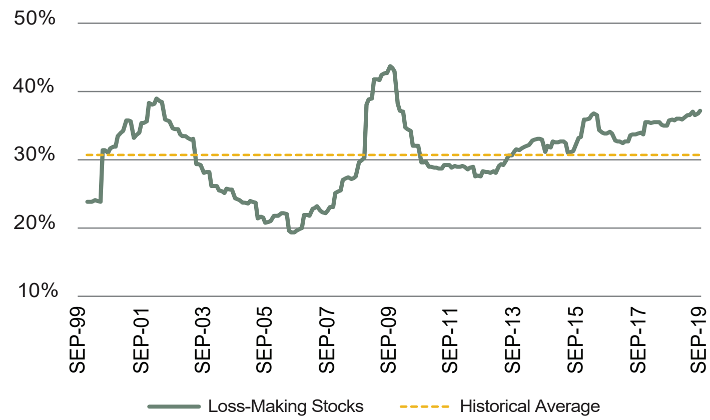
Unit Corp. (UNT), an oil and gas company with three separate businesses (contract drilling, E&P, and midstream), was the top detractor. The company missed consensus estimates in 2Q19, largely driven by weaker than expected NGL/natural gas price realizations and rig utilizations which pressured margins during the quarter. The company also experienced some operational issues at one of its well locations, which yielded fewer barrels of oil equivalent per day (BOE/D) than expected. Given that margins were pressured, coupled with the operational difficulties, it was not surprising that shares traded down on the quarter. On the brighter side, the company continues to spend within cash flow, as evidenced by a decision to drop drilling activity to focus on completing the wells drilled in 1H19 and pay down debt. Overall it was a disappointing quarter for Unit, as it has been for many peers. As we do with all existing holdings, we will continue to monitor and reevaluate our thesis. Shares of Granite Construction Inc. (GVA), an engineering and construction company, traded lower after the company took a larger than expected charge associated with four "mega" projects. These projects have been discussed on prior calls; however, the magnitude of the charge is what surprised investors. Management noted that these were bid projects between 2012 and 2014 and the charges were associated with increased completion costs and an unfavorable court ruling on a project dispute. It is widely understood that fixed price contracts on large projects are inherently risky, which is why the share prices of E&C companies are often discounted by the market. Nevertheless, management credibility took a hit and some repair work with investors is likely necessary moving forward. While recent share price performance is disappointing, after reevaluating our thesis we continue to believe that Granite is an attractive investment opportunity for several reasons. First, we believe that much of the negative news is already reflected in the current share price. Second, while charges of this nature are not out of the ordinary in this business, they generally occur infrequently. Additionally, Granite's businesses are less exposed to developments abroad given that they are highly leveraged to local and federal government work. Orion Engineered Carbons (OEC), a leader in the carbon black industry, was another top detractor. Orion reported 2Q19 earnings that slightly beat estimates; however, it was the cautious outlook that likely put pressure on the share price. Management trimmed guidance for 2019, citing several headwinds that created a challenging backdrop. The company drew down inventory levels during the quarter, which ultimately had a negative impact on margins. Furthermore, the trade dispute has resulted in increased volatility for the industry. Additionally, the company is incurring costs associated with compliance investments to meet EPA requirements. Most of these costs should be paid by 2H20. In the meantime, the company is pacing capex to manage cash flow and maintain an attractive dividend. Management also alluded to contract negotiations with customers for 2020 (and beyond) that are underway, which signals that supply-demand dynamics in the industry are robust. Our thesis for Orion remains unchanged at this time. Avanos Medical (AVNS), a medical technology company focused on infection prevention, pain management, and rapid recovery, was also a top detractor. The company's share price has been under pressure for a couple of quarters after it lowered its full-year guidance earlier this year as a result of headwinds created by short-term industry-wide drug shortages and pre-fill disruption. Additionally, several other one-time events have likely weighed on sentiment, including: slower than expected cost savings; IT system roll-out taking longer

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.

than expected; less than expected reimbursement coding for knee pain; CFO departure; and slower than expected deployment of the balance sheet. Despite the near-term headwinds, Avanos remains a compelling opportunity given its core competency (pain management), underlevered balance sheet, and cost opportunities moving forward. Eagle Bancorp (EGBN), a community bank with operations in the Washington, DC area, was another detractor for the period. The bank reported 2Q19 results that were below consensus estimates, partly due to higher than expected margin compression. Overall the quarter was mixed, with the bank delivering favorable loan growth and controlling expenses; however, margins were under pressure given competitive deposit costs and declining loan yields. While the mixed quarter likely played a role in putting pressure on the share price, a report alluding to an investigation possibly involving the former CEO exacerbated the pullback. The bank did not provide too much detail, but news outlets disclosed that the individual under investigation had a relationship with Eagle's former CEO, who stepped down in March due to health concerns. Obviously, the news is not welcomed. There are many unknowns at this time; however, it was disclosed that this is not a regulatory investigation and there is no set timetable for closure. Looking past this hurdle, the bank navigated the last credit crisis better than peers and the bank's credit quality remains in excellent shape. Furthermore, the bank recently initiated a dividend for the first time. Due to the many uncertainties, we de-risked the position and will continue to monitor the situation.

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-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.

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.

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 (%)	
Saia, Inc.	0.3
Visteon Corp.	0.3
Asbury Automotive Group, Inc.	0.2
Horace Mann Educators Corp.	0.2
Alamo Group Inc.	0.2
Top Detractors (%)	
Unit Corp.	-0.3
Granite Construction Inc.	-0.3
Orion Engineered Carbons	-0.2
Avanos Medical, Inc.	-0.2
Eagle Bancorp, Inc.	-0.2

Source: FactSet.

Top Holdings (%)	
Bank of Hawaii Corp.	1.5
Sanderson Farms, Inc.	1.4
Anixter International Inc.	1.4
Washington Real Estate Investment Trust	1.4
South State Corp.	1.4
Pinnacle Financial Partners, Inc.	1.4
Axis Capital Holdings Limited	1.4
Avanos Medical, Inc.	1.4
UniFirst Corp.	1.3
Wolverine World Wide, Inc.	1.3

				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)	1.78	18.70	1.00	11.23	11.14	12.20	10.19	1.22	1.22
A Shares (with max. sales charge 5.75%)	-4.07	11.87	-4.80	9.05	9.83	11.54	9.88	1.22	1.22
Russell 2000® Value Index	-0.57	12.82	-8.24	6.54	7.17	10.06	—		

Source: Citi. Returns are calculated and stated in U.S. dollars.
*Since inception results are as of the Fund's inception date, March 26, 1999.

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, particularly small cap stocks, are more volatile and carry more risk than other forms of investments, including investments in high grade fixed income securities. Small- and mid-capitalization stocks typically carry additional risk, since smaller 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 2000® Value Index: An unmanaged index comprised of those Russell 2000® 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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