Victory Sycamore Small Company Opportunity Fund Quarterly Commentary

SYCAMORE CAPITAL®

A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2018

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 Sycamore Small Company Opportunity Fund (A Shares without sales charge) outperformed the Russell 2000® Value Index during the third quarter of 2018.
- Both stock selection and sector weighting contributed positively, with stock selection having a larger impact on relative performance. Sector allocation is a by-product of the bottom-up stock selection process.

U.S. Equity Market Buoyed by Robust Fundamental Backdrop

Major U.S. equity indices shrugged off mounting concerns over trade, the possibility of contagion from emerging markets, a less accommodative Fed, and a political spectacle in Washington to end the quarter well into positive territory. The S&P 500® Index posted its biggest quarterly gain in almost five years and has appreciated in 11 out of the last 12 quarters. The market was buoyed by a favorable fundamental narrative, which continues to boost equity returns. Solid earnings aided by late-cycle stimulus as well as capital return by U.S. companies helped drive the market higher. GDP expanded by 4.2% in the second quarter, growing at the fastest clip since the third quarter of 2014. Business confidence also remains robust, with the NFIB's Index of Small Business Optimism August reading breaking the July 1983 record. The NFIB noted that a changing tax and regulatory climate was a key driver for optimism among small-business owners. Job creation plans, job openings, capital spending plans and inventory plans soared, which helped propel the index to an all-time high. The headline ISM Manufacturing Index also surged to a 14-year high in August, suggesting that demand remains firm. Given the steady economic backdrop, the Fed raised rates by another 25 basis points at the September meeting. That did little to shake the market, which had widely anticipated the Fed's decision. The Fed did, however, remove the "accommodative" language from its policy statement. The change was mostly interpreted as a sign that the Fed will continue its gradual pace of rate hikes. As the impact of tax reform fades and the potential for rising rates and tariffs to filter through the economy increases, it remains to be seen how the ongoing expansion will fare in such an environment.

Performance by Size and Style

While all size segments posted positive returns, the best performance accrued up the market-cap spectrum. Large-cap equities, as measured by the Russell 1000® Index and the S&P 500® Index, returned 7.42% and 7.71%, respectively, during the quarter. Mid-cap equities were sandwiched in the middle, with the Russell Midcap® Index registering a return of 5.00%. Small-cap stocks ended the quarter at the back of the pack, with the Russell 2000® Index returning 3.58%. Broken down by style, growth swept across all three cap spectrums. Within the small-cap segment, the Russell 2000® Growth Index returned 5.52%, handily outpacing the 1.60% return for the Russell 2000® Value Index.

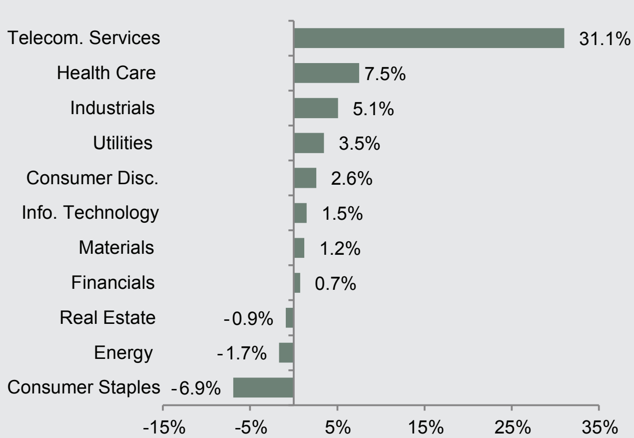
Portfolio Attribution – Third Quarter

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

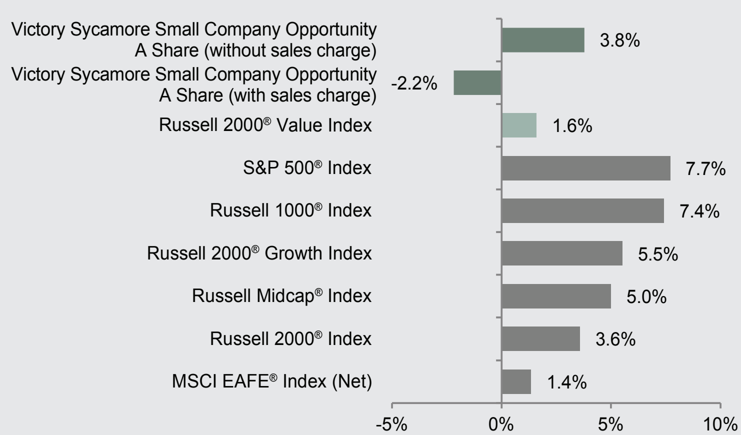
Both stock selection and sector weighting positively contributed to the relative performance, with selection having a larger impact. Returns for the Index across the 11 major economic sectors varied, with all but three posting positive returns for the quarter. The Telecommunication Services sector was the standout, returning 31.07%. By contrast, the Consumer Staples sector registered a return of -6.95%.

Stock selection in Information Technology, Consumer Staples, Health Care, Consumer Discretionary, Industrials, and Real Estate contributed to relative performance. An overweight in Consumer Staples—the worst-performing sector for the period—partially offset the favorable impact from selection. In addition, an overweight in Industrials and an underweight in Real Estate were also beneficial. Conversely, no exposure to the Telecommunication Services sector as well as an underweight in Utilities detracted from relative return.

Russell 2000® Value Index Sector Returns – 3Q 2018



Victory Sycamore Small Company Opportunity Fund Performance – 3Q 2018



Performance Attribution Relative to the Russell 2000® Value Index – 3Q 2018

Positive Contributors	Negative Contributors
Stock Selection in Information Technology	**No Exposure in Telecommunication Services**
Stock Selection in Consumer Staples; *partially offset by overweight*	**Underweight in Utilities**
Stock Selection in Health Care	
Stock Selection in Consumer Discretionary	
Stock Selection and Overweight in Industrials	
Underweight and Stock Selection in Real Estate	

Top Contributors

Molina Healthcare (MOH), which provides healthcare services under the Medicaid and Medicare programs and through the state insurance marketplace, was the top contributor for the quarter. Molina reported a significant beat to expectations in 2Q18, driven by internal improvements and non-recurring items during the quarter. Consequently, guidance was raised. Given the strong performance in the stock price, we are evaluating our thesis for Molina. After being under pressure the previous two quarters, shares of professional liability insurer ProAssurance Corp. (PRA) caught a bid. Shares reacted favorably to better-than-expected 2Q18 earnings driven by robust underwriting. Shares had been under pressure partly due to adverse healthcare litigation trends. However, pricing firmed for the company during the quarter. ProAssurance is well-positioned to capitalize should this trend continue or accelerate. Our thesis remains intact at this time. Shares of Crane Co. (CR), a diversified manufacturer of industrial products, rebounded after selling off the previous quarter despite an earnings beat and raised guidance. Crane beat estimates during 2Q18 and raised guidance again. The strong results were attributed to a large order in the Currency business and better performance in the Aerospace segment. Our thesis for Crane remains unchanged. Avanos Medical (AVNS, formerly Halyard Health), a pure-play medical device company with a focus on pain management and chronic care markets, was another top contributor. The company reported above-consensus 2Q18 results and raised guidance for the year. Results were driven by strength in Coolief, a treatment for pain associated with osteoarthritis of the knee, and strong demand in chronic care. Organic growth across its portfolio is accelerating, and the company is well-positioned from a product standpoint for potential opioid legislation. FTI Consulting (FCN) was also a top contributor. The company reported solid 2Q18 results driven by higher utilization, particularly in its Corporate Finance & Restructuring and Forensic & Litigation Consulting segments. Management commentary did, however, mention that utilization is unsustainably high in certain parts of the business. That is not surprising, given that historical patterns imply that performance typically moderates in the back half of the year for a variety of reasons.

Top Detractors

SRC Energy (SRCI), an E&P with operations in Colorado, was a top detractor. Despite strong performance the previous quarter, the share price retreated given the noise surrounding Proposition 112 in Colorado, which will be on the ballot for the November 6 election. If passed, the initiative increases the 500-foot setback requirement for oil and gas development to a minimum of 2,500 feet from occupied buildings or other public gathering areas. The proposition will likely have a significant impact on the economy if passed. Consequently, the industry is funding a public education program to communicate to voters the potential impact of this proposition on the Colorado economy. Additionally, both political parties oppose the measure, so the likelihood that it passes is relatively low. Nevertheless, the fact that this initiative is on the ballot has weighed on sentiment. Our thesis for SRC has not changed. Shares of Eagle Bancorp (EGBN), a community bank with a footprint in the Washington, DC, metro area, pulled back on the quarter after the 2Q18 earnings release. The bank reported an in-line quarter; however, deposit costs were higher than expected, and are the likely reason for the pullback in the share price. Eagle is focused on securing funding with longer-dated CDs, as well as growing non-interest-bearing deposits. Until the bank gains traction on that front, margins will likely continue to be under pressure. Eagle is an attractive franchise, has a solid management team, and operates in a desirable geographic footprint. Our thesis for this high-quality bank remains unchanged at this time. Performance Food Group (PFGC) was another detractor for the quarter. Overall, guidance came in below expectations, primarily driven by increased investment and higher transportation costs. Management is confident about the current operating environment and believes that investments in the business will have only a short-term impact on margins. The management team is long-term focused and has demonstrated in the past a propensity to invest in the business to grow market share and retain customers. This is an attribute that we find desirable. Our thesis for Performance remains intact. Granite Construction (GVA) shares pulled back due to an earnings miss. The company stated that its Large Project business and pipeline for smaller projects slowed. Management commentary suggested that negative revisions in large projects should abate in the third quarter. Furthermore, the reason for the decline in the small-project construction backlog was due to a concerted effort to raise margins through the bidding process. Per Granite, the bidding environment is as healthy as it has been in 10 years. Also weighing on shares near-term is the risk of repeal of Senate Bill 1 (SB-1) in California—a core market for the company. SB-1 provides more than $5 billion annually for infrastructure improvement in the state. Voters in California will vote on Proposition 6 in November, an initiative which aims to repeal SB-1. Optically, the quarter was underwhelming; however, the fundamentals are improving for Granite. Our thesis remains unchanged. Shares of Minerals Technologies (MTX), a resource and technology company focused on minerals-based products, pulled back despite all the company's businesses reporting revenue growth during the quarter. Higher raw materials, logistics and energy costs were in focus, which will likely be a headwind near-term. The company has increased prices and is expected to continue to do so; however, there is a lag in their offsetting impact due to timing of contracts. Our thesis remains unchanged at this time.

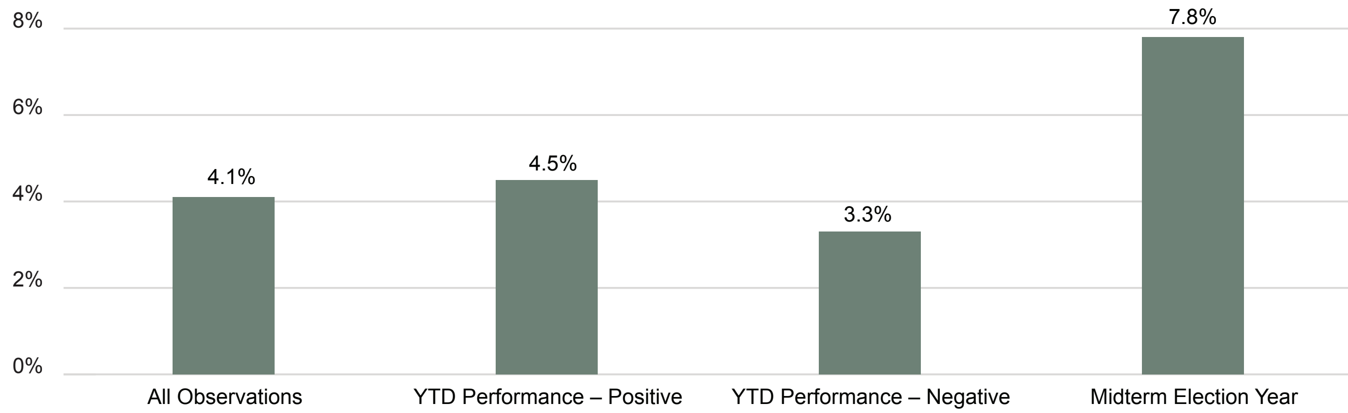
Outlook

Conventional wisdom may suggest that an abundance of concerns percolating should be sufficient to derail this expansion. However, not even an escalation in U.S.-China trade rhetoric was enough to unnerve the market during the third quarter. Perhaps the market has become accustomed to the Trump administration's way of negotiating. After months of transatlantic wrangling, President Trump struck a deal with European Commission President Jean-Claude Juncker in July and averted a potential trade conflict. And after sparring with North American trading partners, the administration also struck a deal with Mexico and Canada to restructure NAFTA late in the quarter. The market may have interpreted these decisions as a sign that the administration is willing to make concessions. Whether similar concessions can be reached with China is unclear. The policy issues at the heart of the trade dispute with China appear difficult to resolve. If Washington and Beijing do not find a solution and tariffs are levied, corporate earnings may eventually be adversely impacted partly due to rising input costs. With rising wage and commodity inflation mixing in, companies could face margin pressures in the future. However, until tariffs begin to actually impact profit margins, it would not be surprising if the equity market continues to appreciate in the near term.

If History Is Any Indication…

Putting trade aside for a moment, and if history is any indication, fourth quarter performance during midterm cycles is generally stronger than in the typical year. As the following chart illustrates, since 1950, the S&P 500® Index returned on average 4.1% in the fourth quarter. During a midterm election year, the index posted an average return of 7.8% during the last three months.

EXHIBIT 1: Historical S&P 500® Index 4Q Performance (since 1950)



Source: Strategas

Furthermore, a strong performance during the third quarter typically bodes well for U.S. equities during the last quarter. The following chart illustrates that when the S&P 500® Index returns 7% or more in the third quarter, fourth quarter returns are positive across 93% of the observations. With that said, there are many variables currently at play that could negatively impact market returns. We'll leave it to the market to determine whether it wants to side with history or buck the trend.

EXHIBIT 2: Historical S&P 500® Index 3Q Performance (since 1950)

Rank	Year	3Q Performance	+1Q Performance	+2Q Performance
1	1970	15.8%	9.4%	19.1%
2	2009	15.0%	5.5%	10.6%
3	1951	11.0%	2.2%	4.8%
4	2010	10.7%	10.2%	16.2%
5	1958	10.7%	10.3%	10.7%
6	1954	10.6%	11.4%	13.2%
7	1950	9.9%	5.0%	10.4%
8	1982	9.9%	16.8%	27.0%
9	1980	9.8%	8.2%	8.4%
10	1989	9.8%	1.2%	-2.6%
11	1984	8.4%	0.7%	8.8%
12	1978	7.3%	-6.3%	-0.9%
13	1995	7.3%	5.4%	10.5%
14	2018	7.2%	—	—
15	1997	7.0%	2.4%	16.3%
		AVERAGE	**5.9%**	**10.9%**
		OBSERVATIONS	**14**	**14**
		% POSITIVE	**92.9%**	**85.7%**

Source: Strategas

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

Top Contributors (%)	
Molina Healthcare, Inc.	0.4
ProAssurance Corp.	0.3
Crane Co.	0.3
Avanos Medical, Inc.	0.2
FTI Consulting, Inc.	0.2
Top Detractors (%)	
SRC Energy Inc	-0.2
Eagle Bancorp, Inc.	-0.2
Performance Food Group Co.	-0.1
Granite Construction Inc.	-0.1
Minerals Technologies Inc.	-0.1

Source: FactSet.

Top Holdings (%)	
Sanderson Farms, Inc.	1.6
EMCOR Group, Inc.	1.5
Horace Mann Educators Corp.	1.4
Performance Food Group Co.	1.4
Washington Real Estate Investment Trust	1.4
Andersons, Inc.	1.4
Carlisle Companies Inc.	1.4
Wolverine World Wide, Inc.	1.4
UniFirst Corp.	1.4
Choice Hotels International, Inc.	1.4

				ANNUALIZED RETURNS					
Investment Performance (%)	**QTR**	**YTD**	**1-YR**	**3-YR**	**5-YR**	**10-YR**	**Since Inception***	**Expense Ratio Gross**	**Expense Ratio Net**
A Shares (without sales charge)	3.78	7.47	10.79	16.83	12.63	11.71	10.68	1.23	1.23
A Shares (with max. sales charge 5.75%)	-2.18	1.29	4.42	14.55	11.30	11.05	10.35	1.23	1.23
Russell 2000® Value Index	1.60	7.14	9.33	16.12	9.91	9.52	—		

Source: Citi. Returns are calculated and stated in U.S. dollars. The return may increase or decrease as a result of currency fluctuations.
*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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