

Victory Trivalent Emerging Markets Small-Cap Fund Quarterly Commentary



As of September 30, 2019

Market Environment

Emerging-market small-cap equities declined in the third quarter as trade uncertainty lingered and concerns over slowing global growth dampened investor sentiment for the asset class. For the full quarter, the MSCI Emerging Markets Small Cap Index declined 4.6%. The Victory Trivalent Emerging Markets Small-Cap Fund (Class A, without load) underperformed the index for the quarter but remains ahead of the index year-to-date. As investors remained focused on trade talks and central bank policy, most country returns finished in negative territory. Argentina was by far the worst performing market, as it declined 39.0% after a surprisingly poor performance by the country's center-right President Macri in the August primary. Poland fell 17.8% as the Polish zloty depreciated over 7% and manufacturing declined. Korea dropped 10.1% as the Korean economy is heavily dependent on exports, and trade acrimony with Japan and China-U.S. tensions have spooked investors. India declined 10.0% as the GDP growth rate in India has fallen for six straight quarters. In late September, Indian equities rallied after the government announced a significant cut to corporate tax rates. Despite the overall market's decline, several countries managed to post positive returns in the quarter. Turkey was the best performing country, as it returned 9.4% after its central bank slashed the key interest rate by 4.25% in August. Thinly traded Middle Eastern nations Saudi Arabia and United Arab Emirates both rose 7.6% as structural reforms and government-led spending programs improved the outlook for small-cap equities. Taiwan advanced 4.1% as GDP growth has been resilient and more Taiwanese companies are investing in the domestic market to insulate themselves from trade uncertainty. Brazil continued its solid 2019 performance trend by rising 1.3% as the Central Bank of Brazil cut rates, bringing borrowing costs down to the lowest level on record.

Sector returns were mostly negative, with only Information Technology (5.1%) finishing in positive territory. Basic Materials stocks were also resilient, declining 3.9%. At the other end of the spectrum, Financials was the worst performing sector as it fell 11.3%. Health Care stocks declined 7.5%.

Portfolio Review

Overall security selection was a negative and detracted from relative performance. A significant portion of the Fund's underperformance was centered in the Europe, Middle East, and South Africa regions. Elsewhere, slight relative underperformance in Latin America was offset by outperformance in Asia. Overall the fund outperformed in four of the eleven economic sectors. The underperformance in the EMEA region was driven by three holdings. African Rainbow, the South African diversified mining company, fell 24.5% as the company came under pressure due to iron and manganese ore demand declining with global trade tensions rising between China and the U.S. Another South African holding, paper and packaging company Mpact, declined 32%

as demand for its paper products has been weak. No meaningful recovery is expected in the local market this year. Within Communication Services, Polish mobile service provider Play Communications declined 22.4% after the company announced they were cutting their dividend to accelerate the repayment of debt. The fund also underperformed in Consumer Discretionary, as Super Group (a logistics, fleet management, and auto dealer in South Africa, Europe, and Australia) declined 21.5% as economic conditions in its core geographies deteriorated and reduced demand expectations.

While the overall fund underperformed the index, there were pockets of outperformance as well. Security selection was strong within Consumer Staples and Utilities. La Comer, the Mexican grocery store operator, rose 17% as the company generated solid revenue growth and even better profitability while opening six new stores. The Turkish beverage company Coca-Cola Icecek returned 15.5% as the company reported strong Q2 results in early August. Utilities performance got a boost from Brazilian integrated natural gas power generator Eneva, which rose 17.0% after third quarter results demonstrated that the company continues to execute on its strategy post-bankruptcy. The largest contributor to returns was Soulbrain, the Korean chemical producer, which rallied 49.1% after the company's liquid hydrogen fluoride passed quality tests from Samsung Electronics and will be used in the production of their memory chips.

Market Outlook

Market uncertainty is likely to continue as global trade tensions weigh on economic growth, particularly impacting export-oriented manufacturing companies. Central banks will remain accommodative if inflation remains below target and trade uncertainty lingers. The last several years have forced policy makers in emerging markets to balance between spurring growth and controlling inflation, and this balancing act is unlikely to change in the near term. Recent elections in both Brazil and India left the governments in both countries with the mandate to follow through on economic reforms intended to reinvigorate domestic demand. In China, while headlines have focused on slower GDP growth, Chinese authorities appear committed to continue transitioning the economy toward more consumer-driven demand. This transition will take time but in the long run should be beneficial to domestic-oriented small-cap companies. In Korea and Taiwan education reforms and investment are bearing fruit as innovation in the health care and technology sectors are now critical components of growth. From a valuation standpoint, emerging markets' earnings multiples remain attractive relative to developed equities. Opportunities for relative outperformance remain, particularly among the diverse and broad segment of emerging market small-cap equities. We continue to be guided by our bottom-up analysis and remain focused on stock selection while adhering to our disciplined country and sector risk exposures.

Top 5 Contributors* (%)	Return	Contribution to Relative Return
Soulbrain Co., Ltd	49.1	0.3
King Yuan Electronics Co., Ltd.	34.8	0.2
Accton Technology Corp.	27.5	0.2
Eneva S.A.	17.0	0.2
Notre Dame Intermedica Participacoes SA	23.8	0.2

Top 5 Detractors* (%)	Return	Contribution to Relative Return
Fila Korea Ltd	-27.1	-0.4
NRB Bearings Ltd.	-46.2	-0.3
Osstem Implant Co., Ltd.	-46.3	-0.3
Tekfen Holding Anonim Sirketi	-24.5	-0.3
African Rainbow Minerals Limited	-24.5	-0.3

Source: FactSet.

Top 10 Holdings	Country	Sector
Construtora Tenda SA	Brazil	Consumer Discretionary
Maeil Dairies Co., Ltd.	Korea	Consumer Staples
Eneva S.A.	Brazil	Utilities
SINBON Electronics Co., Ltd.	Taiwan	Information Technology
Tripod Technology Corporation	Taiwan	Information Technology
SFA Engineering Corp.	Korea	Information Technology
WNS (Holdings) Limited Sponsored ADR	India	Information Technology
China SCE Group Holdings Limited	China	Real Estate
Soulbrain Co., Ltd	Korea	Materials
Radiant Opto-Electronics Corp.	Taiwan	Information Technology
Total % of Portfolio		12.26%

ANNUALIZED RETURNS EXPENSE RATIO

Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception	Gross	Net
							7.2.13		
Class A, without load	-6.46	2.32	-7.13	3.88	1.42	—	3.74	3.48%	1.75%
Class A, with max. sales load (5.75%)	-11.85	-3.59	-12.49	1.86	0.23	—	2.76	3.48%	1.75%
Class Y	-6.37	2.51	-6.91	4.13	1.66	—	4.00	3.04%	1.50%
MSCI Emerging Markets Small Cap Index (net)	-4.58	1.82	-5.49	1.32	-0.13	—	—		
S&P® Emerging Plus SmallCap Index (net)	-4.87	4.30	-4.58	1.81	0.43	—	—		

Source: Zephyr StyleADVISOR.

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 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 visit www.vcm.com.

Net expense ratios reflect the waiver, reimbursement or recoupment, as applicable, contractually agreed to through October 31, 2019.

Returns include reinvestment of dividends and capital gains. Not all share classes are available to all investors. Please read the prospectus for details.

Risks Associated with Investing in the Fund: There is no guarantee that the Fund will achieve its objective. All investing involves risk, including potential loss of principal. Investors should note that investments in foreign securities involve additional risks due to currency fluctuations, economic and political conditions, and differences in financial reporting standards. There are greater risks involved in investing in emerging market countries than those associated with investment in developed foreign markets. Smaller company stocks are more volatile and less liquid than larger, more established company securities. A substantial portion of the Fund's assets may be invested in securities issued in a small number of countries; therefore, adverse market conditions impacting those countries may have a more pronounced effect on the Fund.

Indexes Defined: The S&P® Emerging SmallCap Plus Korea Index measures the equity performance of the bottom 15% (based on market capitalization) of companies from each country represented in the S&P® Emerging BMI plus Korea. The MSCI Emerging Markets Small Cap Index is a free float-adjusted, market-capitalization-weighted index that measures the performance of small-cap stocks in 26 emerging markets.

Fund holdings are as of the most recent quarter end, and the percentages shown are based on net assets as of that date. Fund holdings are subject to change and should not be considered purchase recommendations. There is no assurance that the securities mentioned remain in the Fund's portfolio or that securities sold have not been repurchased. Top holdings do not reflect cash, money market instruments, or options/futures contracts holdings. The most current available data regarding portfolio holdings can be found on our website, www.vcm.com.

*** 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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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.victoryfunds.com. Please read the prospectus carefully before investing.

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