

# Victory Trivalent International Fund – Core Equity Quarterly Commentary



As of September 30, 2019

## Market Environment

International equities retreated in the third quarter amid rising trade tensions and weak global economic data. For the quarter, the MSCI ACWI (All Country World) ex USA Index declined -1.8%, while the Victory Trivalent International Fund – Core Equity (Class A, without load) outperformed the benchmark. Most countries ended in negative territory. Hong Kong fell 11.9% on growing concerns over mass pro-democracy protests to resist mainland China authority. Germany, Europe's largest economy, fell 4.0% as manufacturing orders declined more than expected. The United Kingdom was down 2.5% as hard-line Brexiter Boris Johnson was elected to succeed Theresa May as Britain's Prime Minister. On the upside, Belgium rose 3.4% and was the best performing market, largely driven by Anheuser-Busch InBev's decision to divest its Australian subsidiary, which the market viewed positively. Japan also outperformed, up 2.7% despite an escalating trade dispute with South Korea.

Seven of eleven sectors posted negative returns. Energy stocks were hit the hardest, down 6.5% as the price of Brent Crude fell 8.7%. Materials stocks declined 5.4% largely due to weaker metals prices. The more defensive HealthCare and Utilities sectors were the top performers, up 2.4% and 2.3%, respectively.

## Portfolio Review

Overall security selection was positive and accounted for most of the Fund's outperformance. Excess returns were generated in three of four regions and seven of the eleven economic sectors. Notable outperformance was generated in the Consumer Discretionary, Energy, and Industrials sectors. Beach Energy was among the top contributors. The Australian oil and gas producer rose 23.0% after delivering strong full-year results and increasing mid-term production and financial guidance. A sizable position in Sony Corporation boosted relative performance in the Consumer Discretionary sector. The Japanese consumer electronics manufacturer rose 12.3% as earnings results were better than expected with particularly strong growth in its image sensor business. Within Industrials, Japanese trading company Itochu Corporation rose 9.6% with results outperforming peers as its non-resource domestic businesses are proving resilient.

On the downside, security selection was weakest in the Materials sector and was most negatively impacted by three holdings. Rio Tinto and Anglo American declined 11.2% and 16.8%, respectively on renewed trade war concerns in the third quarter. Global commodity prices declined as well with copper falling 5% and iron ore declining 18% during the period. ArcelorMittal, the global steel producer, fell 21.5% as the industry is experiencing slowing global steel consumption due to the weaker economic environment in many of the company's main markets. The company reported a second quarter loss during the quarter.

## Market Outlook

Market uncertainty is likely to continue as global trade tensions weigh on economic growth, particularly impacting export-oriented manufacturing companies. Within the Eurozone, manufacturing PMI has remained below the contraction level for the last eight months. In response, the European Central Bank has cut the interest rate on bank reserves by a tenth of a percentage point to -0.5% and has restarted its asset purchase program at €20B per month. The rate cut pushes the ECB's monetary policy further into uncharted territory as investors remain uncertain of the implications and overall effectiveness of negative interest rates. In theory, ultra-accommodative monetary policy should be stimulative. Despite the macroeconomic headwinds facing the Eurozone, domestic demand remains resilient as lending to eurozone business grew at the fastest pace in a decade. Any positive trade developments between the United States and China would be a meaningful boost to international equities, particularly for Europe and Japan. Within the United Kingdom, Brexit remains key as Parliament voted to prevent Prime Minister Boris Johnson from withdrawing from the European Union on October 31st without a deal in place. The Benn Act requires the Prime Minister to ask the European Union for an extension to the Brexit negotiation period. From a valuation standpoint, international earnings multiples remain attractive relative to U.S. equities and historical levels, trading below their five-year average multiples. Opportunities for relative outperformance remain, particularly among the diverse and broad segment of international 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
Advantest Corp.	62.0	0.2
Sony Corporation	12.3	0.2
Beach Energy Limited	23.0	0.1
ANTA Sports Products Ltd.	21.0	0.1
JD Sports Fashion Plc	24.1	0.1

  

Top 5 Detractors* (%)	Return	Contribution to Relative Return
Rio Tinto Limited	-11.2	-0.2
Anglo American plc	-16.8	-0.2
PT Wijaya Karya Tbk	-21.2	-0.1
Teck Resources Limited Class B	-29.7	-0.1
Kumba Iron Ore Limited	-26.1	-0.1

Source: FactSet.

Top 10 Holdings	Country	Sector
Nestle S.A.	Switzerland	Consumer Staples
Roche Holding AG	Switzerland	Health Care
Alibaba Group Holding Ltd. Sponsored ADR	China	Consumer Discretionary
Sony Corporation	Japan	Consumer Discretionary
Rio Tinto Limited	Australia	Materials
Novartis AG	Switzerland	Health Care
3i Group plc	United Kingdom	Financials
Toyota Motor Corp.	Japan	Consumer Discretionary
BP p.l.c.	United Kingdom	Energy
Swiss Life Holding AG	Switzerland	Financials

**Total % of Portfolio 13.13%**

Investment Performance (%)	QTR	YTD	1-YR	ANNUALIZED RETURNS			EXPENSE RATIO		
				3-YR	5-YR	10-YR	Since Inception 08.16.07	Gross	Net
Class A, without load	-1.31	12.05	-2.70	5.41	2.81	4.91	0.46	1.93%	0.97%
Class A, with max. sales load (5.75%)	-6.99	5.60	-8.26	3.36	1.60	4.29	-0.03	1.93%	0.97%
Class I	-1.30	12.17	-2.33	5.81	3.23	5.42	0.93	2.69%	0.62%
Class Y	-1.16	12.23	-2.35	5.67	3.07	5.19	0.70	1.51%	0.72%
MSCI ACWI ex USA Index (net dividends)	-1.80	11.56	-1.23	6.33	2.90	4.45	—		

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](http://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. A substantial portion of the Fund's assets may be invested in the securities of issuers from a single country; therefore, adverse market conditions impacting that country may have a more pronounced effect on the Fund.

**Indexes Defined:** The MSCI ACWI (All Country World Index) ex USA Index is a free float-adjusted, market-capitalization-weighted index that is designed to measure equity market performance of developed and emerging markets, excluding the United States.

Fund holdings mentioned in the Quarterly Commentary 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](http://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](http://www.victoryfunds.com). Please read the prospectus carefully before investing.**

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