Victory Trivalent International Fund – Core Equity Quarterly Commentary

Trivalent INVESTMENTS

A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2018

Market Environment

International equities rose in the third quarter despite ongoing global trade tensions, notably between the U.S. and China. For the quarter, the MSCI ACWI (All Country World) ex USA Index advanced 0.7%, while the Victory Trivalent International Fund – Core Equity Fund (Class A, without load) trailed the benchmark. There was wide dispersion among country returns, with emerging equities underperforming their developed peers. Thailand rose 13.7% and was the best performing country. Manufacturing growth in Thailand was strong, and improving consumer confidence had a positive effect on private consumption. Switzerland rose 7.3%, driven by strength in the Health Care sector. Japan, the largest weighted country in the index, rose 3.8% as the Yen depreciated 2.5% against the U.S. Dollar, benefiting Japanese exporters. On the downside, Turkey declined 20.5% and was the worst performing market. The Turkish Lira depreciated by over 30% relative to the U.S. Dollar during the quarter, and economic confidence hit a nine-year low. China sold off 7.4% as rising concerns of a trade war with the United States and slowing economic growth have been a headwind for Chinese equities. Italy fell 4.3% as banking stocks sold off on concerns of deteriorating credit quality. The United Kingdom was down 1.7% as the Bank of England increased interest rates for just the second time since the financial crisis.

Seven out of the eleven sectors posted positive returns. Health Care stocks gained 4.5% and were the top performers. The Energy sector advanced 4.5%, driven by a 4.1% increase in the Brent crude oil price. Materials were up 0.5% despite declining metals prices. On the other end of the spectrum, Real Estate stocks sold off 3.5% during the quarter.

Portfolio Review

Overall security selection was negative and accounted for all of the Fund's relative underperformance. Excess returns were generated in two of six regions and five of the eleven economic sectors. Underperformance was centered in the Information Technology and Materials sectors. Two of the top detractors in Information Technology were both semiconductor companies. Tokyo Electron, the Japanese semiconductor equipment company, fell 18.3% as forecast earnings have been adjusted to reflect lower spending by the major memory chip companies. STMicroelectronics, the Franco-Italian semiconductor company, fell 18.2% on concern over auto end-market demand in addition to generally weak sentiment around semi companies. Although the market has de-rated the shares, the company has made no change to full-year guidance. Within Materials, Rio Tinto, the Anglo-Australian miner, fell 5.5% following the company's slight miss in half-year earnings and escalating trade tensions between the U.S. and China triggered a general sell-off in commodity prices.

Notable outperformance was generated in the Health Care sector. Swiss custom manufacturer of biotechnology products Lonza rose 28.3% after reporting strong results that exceeded expectations. Lonza has expanded its biological manufacturing business to meet strong demand in clinical development. In addition, its newly formed Consumer Health division has shown strong sales momentum, while its Capsugel acquisition from 2016 has exceeded expectations. Japanese pharmaceutical company Shionogi rose 27.9% as phase 3 results for its HIV treatment using a combination of two long-acting injectable drugs met its primary endpoint.

Market Outlook

Uncertainty with respect to the duration of ongoing trade tensions and the potential impact on global growth, corporate profits and inflation continues to weigh on investor sentiment. Despite current trade frictions, the global economic backdrop remains favorable and company earnings remain strong. Although the European economy is exposed to trade war escalation and heightened political risk, particularly in Italy, economic fundamentals and growth in the region remains solid. Consumer spending is expected to continue growing in the Eurozone albeit at a slower pace. Within Japan, accommodative monetary policy and healthy consumer spending should continue to support aggregate demand. Emerging markets equities have underperformed developed markets in 2018 as currency weakness in several markets has coupled with rate hikes in the U.S. and protectionist economic policies to dampen sentiment for the asset class. However, several emerging countries have reported improving economic performance that could become a catalyst for stock returns. India has seen an expansion in manufacturing and construction that boosted GDP growth above market expectations. Taiwan continues to have a tight labor market and generous fiscal policy, which bodes well for a continuation of above-average growth and improving domestic demand. In China, The People's Bank of China has introduced policies this year that provide access to capital for smaller, domestic-oriented companies which historically have struggled to gain access to credit. On the commodities front, higher oil prices should continue to benefit Canada, one of the world's top oil exporters. In addition, the new United States-Mexico-Canada Agreement (USMCA) has eliminated uncertainty surrounding the North American Free Trade Agreement after a year of intense negotiations. The United States also recently signed a revised trade deal with South Korea which may suggest the Trump administration is willing to execute more bilateral trade deals with other foreign countries. Opportunities for relative outperformance remain, particularly among the diverse and broad segment of international equities. We will maintain our portfolio construction guidelines and we remain confident that over the long run, high-quality companies with improving business momentum and attractive valuations will outperform the overall market.

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Top 5 Contributors* (%)	Return	Contribution to Relative Return
Parex Resources Inc.	34.2	0.2
Macquarie Group Limited	19.1	0.2
BP p.l.c.	15.1	0.2
Beach Energy Limited	39.1	0.1
Tesco PLC	18.3	0.1

Top 5 Detractors* (%)	Return	Contribution to Relative Return
Tencent Holdings Ltd.	-17.7	-0.2
Tokyo Electron Ltd.	-18.3	-0.2
GlobalWafers Co., Ltd.	-32.7	-0.1
Indiabulls Housing Finance Ltd.	-28.6	-0.1
Country Garden Holdings Co. Ltd.	-26.8	-0.1

Source: FactSet.

Top 10 Holdings	Country	Sector
Nestle S.A.	Switzerland	Consumer Staples
Sony Corporation	Japan	Consumer Discretionary
BP p.l.c.	United Kingdom	Energy
Novartis AG	Switzerland	Health Care
Rio Tinto Limited	Australia	Materials
Samsung Electronics Co., Ltd.	Korea	Information Technology
Lonza Group AG	Switzerland	Health Care
Macquarie Group Limited	Australia	Financials
Roche Holding Ltd Genusssch.	Switzerland	Health Care
Ashtead Group plc	United Kingdom	Industrials
Total % of Portfolio		**11.84%**

				ANNUALIZED RETURNS				EXPENSE RATIO	
Investment Performance (%)	**QTR**	**YTD**	**1-YR**	**3-YR**	**5-YR**	**10-YR**	**Since Inception 08.16.07**	**Gross**	**Net**
Class A, without load	-0.14	-3.58	0.49	8.97	5.00	4.32	0.75	2.29%	0.97%
Class A, with max. sales load (5.75%)	-5.83	-9.13	-5.28	6.84	3.76	3.70	0.22	2.29%	0.97%
Class I	0.00	-3.44	0.68	9.43	5.45	4.81	1.23	6.50%	0.62%
Class Y	-0.14	-3.46	0.59	9.21	5.25	4.57	0.98	1.60%	0.72%
MSCI ACWI ex USA Index (net dividends)	0.71	-3.09	1.76	9.97	4.12	5.18	—		

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, 2018. Returns include reinvestment of dividends and capital gains.

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 09/30/18 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 currently 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.vcm.com. Please read the prospectus carefully before investing.

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