

Victory Trivalent International Small-Cap Fund Quarterly Commentary



As of September 30, 2019

Market Environment

International small-cap equities retreated in the third quarter amid rising trade tensions and weak global economic data. For the quarter, the S&P Developed ex-U.S. SmallCap Index declined 1.6%, while the Victory Trivalent International Small-Cap Fund (Class A Shares without sales load) outperformed the benchmark. Most countries ended in negative territory. South Korea declined 12.5% after it was removed from Japan's favored trade partners list due to worsening diplomatic relations between the two countries. Hong Kong fell 11.1% on growing concerns over mass pro-democracy protests to resist mainland China authority. The United Kingdom was down 1.9% as hard-line Brexiter Boris Johnson was elected to succeed Theresa May as Britain's prime minister. On the upside, Israel and Belgium were the top performing countries, advancing 8.1% and 6.6%, respectively. Japan also outperformed, up 2.7% despite an escalating trade dispute with South Korea.

Nine of eleven sectors posted negative returns. Energy stocks were hit the hardest, down 5.4% as the price of Brent Crude fell 8.7%. Health Care stocks were also weak, down 5.2%. The more defensive Real Estate and Utilities sectors were the top performers, up 5.5% and 2.7%, respectively.

Portfolio Review

Overall security selection was positive and accounted for most of the Fund's outperformance. Excess returns were generated in all five regions and ten of the eleven economic sectors. Notable outperformance was generated in the Consumer Discretionary, Health Care, and Information Technology sectors. JD Sports Fashion was among the top contributors. The United Kingdom-listed athleisure retailer rose 24.1% as its JD Sports and Finish Line formats continue to gain market share in their respective markets, backed by strong relationships with Nike and Adidas. A sizable position in Carl Zeiss Meditec boosted performance in the Health Care sector. The German medical technology company rose 15.4% after reporting strong earnings and raising full-year guidance. The company's ophthalmic unit has seen strong demand from Asia for laser consumables and lenses. Within Information Technology, Japanese precision equipment provider Lasertec rose 58.0% after full-year results demonstrated strong demand for its inspection equipment used in cutting-edge lithography.

On the downside, security selection was weakest in the Industrials sector and was most negatively impacted by two holdings. German diesel engine manufacturer Deutz dropped 40.6% as the CEO commented that demand for its motors may have passed the peak in the current cycle and a recent supplier bankruptcy will limit margin improvement in the near-term. Pulp and paper machinery manufacturer Valmet declined 22.2% as demand for its service business saw disappointing progress in the second quarter. Another top detractor was Materials holding Iluka Resources Limited. The Australian mineral sands producer slumped 37.2% as strict environmental regulations in China have led to a decline in zircon demand from the ceramics market.

Market Outlook

Market uncertainty is likely to continue as global trade tensions weigh on economic growth, particularly impacting the 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 businesses 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 31 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 small-cap 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 small- and mid-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
Lasertec Corp.	58.0	0.3
JD Sports Fashion Plc	24.1	0.3
Beach Energy Limited	23.0	0.2
Advantest Corp.	61.9	0.2
Entertainment One Ltd.	38.4	0.2

Top 5 Detractors* (%)	Return	Contribution to Relative Return
DEUTZ AG	-40.6	-0.2
Valmet Corp	-22.2	-0.1
Iluka Resources Limited	-37.2	-0.1
Enerflex Ltd.	-32.3	-0.1
Nexteer Automotive Group Limited	-37.5	-0.1

Source: FactSet.

Top 10 Holdings	Country	Sector
Teleperformance SE	France	Industrials
JD Sports Fashion Plc	United Kingdom	Consumer Discretionary
Swiss Life Holding AG	Switzerland	Financials
Charter Hall Group	Australia	Real Estate
Beach Energy Limited	Australia	Energy
Net One Systems Co., Ltd.	Japan	Information Technology
Carl Zeiss Meditec AG	Germany	Health Care
Logitech International S.A.	Switzerland	Information Technology
TIS Inc.	Japan	Information Technology
Eiffage SA	France	Industrials

Total % of Portfolio 11.84%

Investment Performance (%)	QTR	YTD	ANNUALIZED RETURNS				EXPENSE RATIO		
			1-YR	3-YR	5-YR	10-YR	Since Inception 08.17.07	Gross	Net
Class A, without load	0.31	15.99	-6.06	6.51	5.70	9.49	3.63	1.60%	1.39%
Class A, with max. sales load (5.75%)	-5.43	9.29	-11.43	4.42	4.46	8.85	3.12	1.60%	1.39%
Class I	0.38	16.43	-5.63	6.92	6.12	9.96	4.09	1.18%	0.99%
Class Y	0.38	16.31	-5.74	6.77	5.97	9.76	3.87	1.23%	1.14%
S&P® Developed ex-U.S. SmallCap Index (Net)	-1.61	11.11	-7.35	4.85	4.80	6.75	—		

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.

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. A substantial portion of the Fund's assets may be invested in securities of issuers from a single country; therefore, adverse market conditions impacting that country may have a more pronounced effect on the Fund. Smaller company stocks are more volatile and less liquid than larger, more established company securities.

Not all share classes are available to all investors. Please read the prospectus for details.

Indexes Defined: The S&P® Developed ex-U.S. SmallCap Index consists of the stocks representing the lowest 15% of float-adjusted market capitalization in each country other than the U.S. represented in the S&P® Developed Broad Market Index (BMI). The S&P® Developed BMI includes all listed shares of companies from 24 developed countries with float-adjusted market capitalizations of at least US\$100 million and annual trading value of at least US\$50 million. You cannot invest directly in an index, securities in the Fund will not match those in an index, and performance of the Fund will differ. Although reinvestment of dividend and interest payments is assumed, no expenses are netted against an index's returns.

Fund holdings mentioned in the Quarterly Commentary are as of as of the most recent quarter 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.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. Furthermore, Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report.

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.

The Funds are distributed by Victory Capital Advisers, Inc. ("VCA"), member FINRA and SIPC. Victory Capital Management Inc., an affiliate of VCA, is the investment advisor to the Funds and receives a fee from the Funds for its services.

V17.108 // 3Q 2019 TRI Intl Small Cap Fund COM

For more information about separate accounts and mutual funds, contact Victory Capital Management at 877•660•4400 or visit vcm.com.

