

Victory Trivalent International Small-Cap Fund Quarterly Commentary



As of September 30, 2018

Market Environment

International small-cap equities declined in the third quarter amid ongoing global trade tensions. For the quarter, The S&P Developed ex-U.S. SmallCap Index declined 0.34%, while the Victory Trivalent International Small-Cap Fund (Class A, without load) modestly trailed the benchmark. All five regions ended in negative territory, and there was wide dispersion among country returns. Portugal and Hong Kong were the worst performing markets, down 7.7% and 7.5%, respectively. The United Kingdom dropped 1.9% as the Bank of England increased interest rates for just the second time since the financial crisis. On the upside, Israel was the top performing country, rising 10.1%. Sweden advanced 3.8% and was boosted by strength in the Health Care sector. Japan, the largest weighted country in the index, rose 0.10% despite the Yen depreciating 2.5% against the U.S. Dollar.

Seven out of the eleven sectors posted negative returns. Materials was the worst performing sector, selling off 4.0% primarily on declining metals prices. The consumer-oriented names were also weak, as Consumer Discretionary fell 3.1% while Consumer Staples was down 2.6%. On the other end of the spectrum, Health Care stocks were the top performers, up 7.5%. The Energy sector advanced 4.1%, driven by a 4.1% increase in the Brent crude oil price.

Portfolio Review

Overall security selection was slightly negative and accounted for most of the Fund's underperformance. Excess returns were generated in two of five regions and five of the eleven economic sectors. Security selection was weakest in the Financials and Health Care sectors. Swiss asset management company GAM Holding was among the top detractors, down 37.8% following a mid-July profit warning and the suspension of the director of fixed income investment strategies. The profit warning relates to a write-down in the carrying value of Cantab, an in-house hedge fund manager facing client withdrawals following disappointing performance. The suspension of the senior investment officer came after the company determined risk management procedures were not being followed per company policy. Within Health Care, Irish commercialization solutions provider UDG Healthcare dropped 18.6% following a mixed third quarter trading update. Management also announced the sale of a non-core

unit at a discount price, which will likely lead to a non-cash write-down.

Notable outperformance was generated in the Consumer Discretionary sector and was largely impacted by two holdings. SodaStream International, the Israeli maker of home beverage carbonation systems, gained 67.3% as the board recommended accepting an offer from PepsiCo to purchase the company. A sizable position in Canada Goose also boosted relative performance in the Consumer Discretionary sector. The outerwear designer known for high-end winter jackets rose 9.7% as sales growth continued to exceed expectations particularly through direct-to-consumer channels, which generate higher gross margins.

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. 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 small-cap 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.

Top 5 Contributors* (%)	Return	Contribution to Relative Return
Wirecard AG	34.6	0.43
Net One Systems Co., Ltd.	40.5	0.26
SodaStream International Ltd.	67.3	0.26
Beach Energy Limited	20.0	0.18
Carl Zeiss Meditec AG	23.4	0.14

Top 5 Detractors* (%)	Return	Contribution to Relative Return
IAMGOLD Corporation	-36.9	-0.24
Melco International Development Limited	-34.9	-0.16
Wizz Air Holdings Plc	-21.1	-0.16
Taiyo Yuden Co., Ltd.	-19.2	-0.14
CKD Corporation	-20.9	-0.13

Source: FactSet.

Top 10 Holdings	Country	Sector
Teleperformance SE	France	Industrials
Amplifon S.p.A.	Italy	Health Care
Beach Energy Limited	Australia	Energy
Wirecard AG	Germany	Information Technology
Logitech International S.A.	Switzerland	Information Technology
Arkema SA	France	Materials
Canada Goose Holdings, Inc.	Canada	Consumer Discretionary
Net One Systems Co., Ltd.	Japan	Information Technology
Georg Fischer AG	Switzerland	Industrials
Swiss Life Holding AG	Switzerland	Financials
Total % of Portfolio		10.45%

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	-0.83	-1.85	4.88	11.77	9.08	9.93	4.55	1.53%	1.36%
Class A, with max. sales load (5.75%)	-6.52	-7.48	-1.17	9.57	7.80	9.28	3.99	1.53%	1.36%
Class Y	-0.83	-1.71	5.04	12.04	9.35	10.18	4.79	1.33%	1.11%
S&P® Developed ex-U.S. SmallCap Index (Net)	-0.34	-2.57	3.48	11.77	7.35	8.55	—		

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. 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.

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 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.

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.

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