RS INTERNATIONAL STRATEGY QUARTERLY COMMENTARY

RS Investments®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2019

Executive Summary

- International equities slid 1.1% in the third quarter. The strategy underperformed its benchmark, the MSCI EAFE Index.
- Stock selection was the main driver of the portfolio's underperformance.
- Consumer staples and utilities were the portfolio's best performing sectors.
- As always, the strategy is guided by our philosophy that positive investment outcomes can be attained through the use of a data-driven discipline in conjunction with a bottom-up approach to investing.
- Our proprietary research methodology, combined with a set of industry standard and team-generated global risk factors, seeks to capture information inefficiencies in the global equity markets.

Market Review

International equities, as measured by the MSCI EAFE Index, slid 1.1% in the third quarter. Though the ultimate quarter-end result was unremarkable, it masked significant intra-quarter volatility. An August swoon followed by a September recovery made for a turbulent ride as macroeconomic activity as well as market factor leadership fluctuated a great deal.

On the political front, in a bid to further his Brexit agenda, U.K. Prime Minister Boris Johnson asked Queen Elizabeth II to suspend Parliament, only to have the Supreme Court in London rule the act unlawful and Parliament enact a law prohibiting the country from leaving the European Union without an agreement. The Irish border remains the biggest sticking point and, as of this writing, negotiations remains ongoing ahead of an October 31 deadline. This uncertainty continued to weigh on the U.K. market as stocks underperformed, down 2.5%.

As for Europe more broadly, economic data was largely disappointing. The September Manufacturing PMI slipped to 45.6 (below 50 indicates contraction), while the Services PMI slowed by 1.5 points to 52. Leading indicators such as new orders were particularly lackluster and suggest GDP may slow below 1% in the fourth quarter. Germany, long considered the engine of Europe, sputtered to a 49.1 reading, the lowest reading in six years. At the same time, as growth prospects for the continent dwindled, the euro continued to grind lower against a strong U.S. dollar.

Heading east, Asia was home to a mix of both the best and worst performing markets. Japan rose 3.1%, placing it among the best performing countries in the MSCI ACWI. Though the Bank of Japan left its policy unchanged, it kept the door open for additional easing given overseas risks. Meanwhile, on the domestic front a 2% consumption tax hike came into effect, partially distorting consumer spending patterns. While the government sought to avoid a boom-bust cycle similar to that which occurred in 2014 after the initial hike, economists still expect a quarter-over-quarter contraction in fourth quarter GDP. On the opposite end of the spectrum was Hong Kong, which plunged 12% on the back of continued protests.

QVS Factor Performance

In this section, we offer insight into the factors driving market performance from a quantitative point of view. The RS Global team's proprietary QVS (Quality, Value and Sentiment) Model scours the globe, screening over 10,000 companies while looking for the best investment opportunities. It is designed to identify companies that have the potential to consistently create shareholder value, are reasonably valued, and exhibit favorable market sentiment. We continually use this quantitative model to help us focus our resources and fundamental research on those companies with the highest probability of outperformance.

While all factors contributed positively to performance in the third quarter, leadership fluctuated substantially on a week-to-week basis. Indeed, from late August through mid-September, Quality and Sentiment posted some of their worst readings since 2013, while Value strung together one of its best streaks. Alas, the long-awaited Value rally quickly fizzled in the second half of September, and Quality/Sentiment regained leadership.

Portfolio Review

As of September 30, 2019, the portfolio consisted of 80 securities, with the top ten representing approximately 25%. Sector (GICS) weights at quarter-end were: Information Technology (5.8% vs. 6.8% for the index weight); Health Care (12.0% vs. 11.5%); Consumer Discretionary (9.4% vs. 11.3%); Communication Services (5.7% vs. 5.5%); Financials (18.3% vs. 18.6%); Industrials (14.0% vs. 14.7%); Energy (5.1% vs. 5.2%); Consumer Staples (10.7% vs. 12.0%); Real Estate (4.9% vs. 3.6%); and Materials (5.2% vs. 7.1%). Active share was 77%.

Attribution

The RS International strategy underperformed the MSCI EAFE Index (Net). Most of the portfolio's performance gap was attributed to negative stock selection, while sector allocation was neutral for the quarter. The portfolio's consumer staples and utilities sector holdings outperformed those of the MSCI EAFE Index during the third quarter. The portfolio's consumer discretionary and materials sector holdings were the largest detractors. Notably, Matsumotokiyoshi Holdings (+26% in portfolio total return) and Royal Unibrew A/S (+9%) were top contributors to the portfolio's consumer staples stocks, while Rio Tinto PLC (-13%) and Evraz PLC (-28%) were key detractors in the materials sector.

The portfolio benefited by being underweight in consumer staples and overweight in utilities. The portfolio was disadvantaged by its overweight in the communication services, health care, and real estate sectors, and its underweight in the materials, consumer discretionary, and information technology sectors.

Portfolio Actions

No new securities were added, nor were any securities eliminated from the portfolio.

Outlook

We expect market volatility to continue and will remain vigilant when constructing our portfolios, remaining sector and region neutral, as we believe that strong risk management should be at the forefront. Making correct macro allocation calls can be immensely challenging; therefore, we do not forecast regional performance. In our view, stock selection can be far more impactful to portfolio performance than allocation.

We thank you for your continued support.

Sincerely,

The Victory RS Developed Markets Team

Top 10 Holdings[2]
as of September 30, 2019

Holding	% of Portfolio
Nestle S.A.	3.86
Roche Holding AG	3.09
Toyota Motor Corp.	2.72
Novartis AG	2.59
Enel SpA	2.49
LVMH Moet Hennessy Louis Vuitton SE	2.17
Royal Dutch Shell Plc Class A	2.10
Royal KPN NV	1.98
Atlas Copco AB Class B	1.97
Wolters Kluwer NV	1.95

Representative Account Top 5 Contributors (%)	Return	Contribution to Relative Return
Matsumotokiyoshi Holdings Co., Ltd.	26.10	0.25
Enel SpA	8.58	0.18
Royal Unibrew A/S	12.84	0.16
Smith & Nephew plc	11.25	0.11
ULVAC, Inc.	26.69	0.11

Representative Account Top 5 Detractors (%)	Return	Contribution to Relative Return
WashTec AG	-24.36	-0.19
Rio Tinto plc	-13.02	-0.18
Evraz PLC	-27.99	-0.16
Wynn Macau Ltd.	-10.36	-0.14
Legal & General Group Plc	-8.77	-0.14

Regional Allocation
as of September 30, 2019

Region	% of Portfolio
Europe	45.57
Japan	22.93
United Kingdom	16.62
Asia/Pac x Japan	12.20
Cash / Other Assets and Liabilities	2.18
ETF / Other	0.50

Performance
Average Annual Returns (%) as of September 30, 2019

RS International Strategy	QTR	1-YR	3-YR	5-YR	10-YR	Since Inception (07/31/2013)
Gross of fees	-1.66	2.53	9.03	5.88	—	6.47
Net of fees	-1.74	2.17	8.41	5.18	—	5.74
MSCI EAFE Index (Net)[1]	-1.07	-1.34	6.48	3.27	—	—

Performance returns for periods of less than one year are not annualized

Past performance does not guarantee future results. Returns include reinvestment of dividends and capital gains.

For purposes of compliance with the Global Investment Standards (GIPS®), the Firm is defined as Victory Capital Management Inc. Victory Capital Management Inc. claims compliance with the Global Investment Standards (GIPS®). To receive a list of composites and/or a GIPS® compliant presentation, contact: 1-877-660-4400. Victory Capital Management Inc. is a registered investment adviser. RS Investments is a Victory Capital Management investment franchise. 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. This information should not be relied upon as research or investment advice regarding any security in particular.

Except as otherwise specifically stated, all information and portfolio manager commentary, including portfolio security positions, are as of September 30, 2019.

1 The MSCI EAFE Index (Net) is generally considered to be representative of the international stock market activity. The indices are unmanaged and not available for direct investment. The MSCI EAFE Index (Net) reflects no deduction for fees, expenses or taxes except foreign withholding taxes.

2 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

Composite and benchmark returns are presented net of non-reclaimable withholding taxes. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of fees returns are calculated by deducting 1/2 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equity to the composite net-of-fee return calculated using actual fees.

Investing involves risk, including the possible loss of principal and fluctuation of value. Returns are expressed in U.S. dollars.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. Performance quoted represents past performance and does not guarantee future results. Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities. This information should not be relied upon as research or investment advice regarding any security in particular. A complete list of all recommendations of security selection is available by request for the previous 12 months.

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