

# RS INTERNATIONAL STRATEGY QUARTERLY COMMENTARY



As of September 30, 2020

## Market Review

International equities (as measured by the MSCI EAFE Index) continued to regain ground off their March lows in the third quarter, advancing 4.80% for the period and approaching pre-COVID levels in early September. Though economic output and corporate earnings remain subdued, signs of a recovery across regions fueled market gains in July and August, as COVID-19 restrictions eased and governmental (and, especially, central bank) support remained steadfast. September, however, ushered in a market pullback, with virus hot spots popping up in Europe and parts of Asia as well as a breakdown of stimulus talks in the US. Japan and Europe were the stronger performing regions during the third quarter, while the United Kingdom and Asia/Pacific ex Japan regions lagged for the period.

## QVS Factor Performance

In this section, we offer insight into the factors driving market performance from a quantitative point of view. The RS Global Markets 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.

Our model performed best in the United Kingdom and Europe in the third quarter, driven by the strong performance of the Sentiment and Quality factors in those regions. The model did not work as well in Japan, where Sentiment was weak. Quality was the most consistent factor during the quarter, especially in the month of September, when it was positive across regions. The Value factor continued to underperform despite occasional strength in certain areas.

## Performance and Positioning

The Victory RS International Strategy returned +4.48% (net) while its benchmark, the MSCI EAFE Index (net) (the "Index"), advanced +4.80%.

Negative stock selection in the Communication Services sector detracted from relative performance, as did negative selection in the Consumer Discretionary and Health Care sectors. Positive stock selection in Financials, Consumer Staples and Industrials aided relative results. From a regional perspective, the strategy's investments in Europe detracted from relative performance, while stock selection was positive in the United Kingdom. Country-level detractors included Spain and Switzerland, while positive contributors included France and Australia.

Individual detractors from relative performance included Spanish telecommunications provider Telefonica SA, Hong Kong-based property developer CK Asset Holdings Limited, and Japanese pharmaceutical company Shionogi & Co., Ltd.

Positive contributors for the period include Royal Unibrew A/S, a beverage maker and distributor based in Denmark; UK-based multinational retailer Next plc; and Japanese construction equipment company Hitachi Construction Machinery Co., Ltd.

## Outlook

We anticipate COVID-19 trends will continue to dictate market movements, with localized case declines and resurgences impacting both economic activity and market returns across geographies. The US election in November also presents significant uncertainty, with large implications for tax policy and trade relations, and potentially the broadly destabilizing effects of a "contested" presidential race. Also, extremely high valuations for US growth stocks have some anticipating a rotation of market leadership toward value-oriented sectors and away from US stocks generally. In any event, for us, what is most important is to stay the course and be true to our quality-oriented investment process. We expect market volatility to remain elevated for a prolonged period and will remain vigilant when constructing our portfolios, remaining sector- and region-neutral, as we believe that strong risk management should remain 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 strategy performance than allocation. As always, we thank you for your strong interest and continued investment, and please stay safe!

We thank you for your continued support.

Sincerely,

***The Victory RS Global Markets Team***

**Top 10 Holdings**

as of September 30, 2020

Holding	% of Portfolio
Nestle S.A.	4.59
Roche Holding AG	3.60
Novartis AG	2.75
SAP SE	2.68
Toyota Motor Corp.	2.53
Rio Tinto plc	2.27
Enel SpA	2.23
Siemens AG	2.23
LVMH Moët Hennessy Louis Vuitton SE	2.15
BHP Group Ltd.	1.98

**Regional Allocation**

as of September 30, 2020

Region	% of Portfolio
Europe	46.11
Japan	22.64
United Kingdom	15.81
Asia/Pac ex Japan	11.11
Cash / Other Assets and Liabilities	2.84
ETF & Other	1.49

**Performance**

Average Annual Returns (%) as of September 30, 2020

RS International Strategy	QTR	1-YR	3-YR	5-YR	10-YR	Since Inception (07/31/2013)
Gross of fees	4.61	1.37	3.10	6.76	—	5.74
Net of fees	4.48	0.94	2.63	6.13	—	5.05
MSCI EAFE Index (Net)	4.80	0.49	0.62	5.26	—	—

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

Holdings are as of quarter end and may change at any time. This material should not be construed as a recommendation to buy or sell any security.

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.

The information in this commentary 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 RS International Composite combines data-driven discipline with fundamental analysis in seeking to capture information inefficiencies in non-U.S. companies across the market capitalization spectrum in order to provide a consistent, diversified return stream over market cycles. The benchmark is the MSCI EAFE Index (Net). The composite was created per inception date in Performance Table above.

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 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). Net returns prior to 1/1/2017 were calculated using actual fees. 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 equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part II of its Form ADV.

The MSCI EAFE Index (Net) is a free-float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The benchmark returns are provided to represent the investment environment existing during

the time periods shown and are not covered by the report of independent verifiers. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns have been taken from a published source and do not include any transaction fees, management fees, or other costs.

Victory Capital Management Inc. (Victory Capital) is a diversified global investment adviser registered under the Investment Advisers Act of 1940 and comprised of multiple investment franchises: INCORE Capital Management; Integrity Asset Management; Munder Capital Management; NewBridge Asset Management; RS Investments; Sophus Capital; Sycamore Capital; Trivalent Investments; USAA Investments, a Victory Capital Investment Franchise; and the VictoryShares & Solutions Platform. Munder Capital Management and Integrity Asset Management became part of the Victory Capital GIPS firm effective November 1, 2014; RS Investments and Sophus Capital effective January 1, 2017; and USAA Investments effective July 1, 2019.

Request a GIPS-compliant presentation and/or the firm's list of composite descriptions from your Institutional Relationship Manager or visit [www.vcm.com](http://www.vcm.com).

Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

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