Sycamore Mid Cap Value Equity Quarterly Commentary

As of June 30, 2018

Executive Summary
Sycamore Capital’s Mid Cap Value investment team employs a disciplined, bottom-up, fundamental process to invest in better businesses that trade at a discount to the team’s estimate of intrinsic value and possess fundamental drivers that will narrow the valuation gap. By investing in businesses that exhibit these attributes, we seek to minimize downside risk without sacrificing the upside potential.

- The Sycamore Mid Cap Value Equity strategy modestly outperformed the Russell Midcap® Value Index during the second quarter.
- Stock selection had a positive impact on relative performance, while sector weighting detracted. Sector allocation is a by-product of the bottom-up stock selection process.

U.S. Equity Market in Positive Territory Despite Mounting Concerns
U.S. equities managed to eke out gains for the quarter against a backdrop marred by rising trade tensions, political uncertainty in Europe, and slowing growth momentum overseas. While all major U.S. equity indices posted gains, small-cap equities took command as investors favored domestically oriented companies that are less likely to be impacted by an ensuing trade dispute. With economic data suggesting that the U.S. economy is still on solid footing, the Federal Reserve continued the path toward normalization by raising the federal funds rate by 25 basis points to a range of 1.75% to 2.00%. The Fed’s hawkish tilt, coupled with a murky picture abroad, helped the U.S. dollar sustain its rally. Uncertainty surrounding the outcome from the trade spat and political developments in Europe have curbed investors’ appetite for risk, which has helped lift the dollar against other world currencies. The current narrative has inflicted pain on emerging markets and commodities while at the same time boosting demand for smaller U.S.-based companies, which generally have less exposure to overseas markets. As economies in Europe and China lose steam, time will tell what the intermediate term impact will be on U.S. equity markets even as domestic economic fundamentals remain intact.

Performance by Size and Style
Small-cap stocks were the clear winners—bolstered by fears of a trade showdown, a strengthening U.S. dollar, and a favorable tax backdrop. Small-cap equities as measured by the Russell 2000® Index returned 7.75%. By contrast, large-cap stocks as measured by the Russell 1000® Index and the S&P 500® Index returned 3.57% and 3.43%, respectively, during the quarter. Mid-cap equities were at the back of the pack, with the Russell Midcap® Index registering a return of 2.82%. Broken down by style, growth outpaced in the large- and mid-cap segments while falling behind value in the small-cap arena. Within mid-caps, the Russell Midcap® Growth Index returned 3.16%, which was ahead of the 2.41% return for the Russell Midcap® Value Index.

Portfolio Attribution
Second Quarter
The Sycamore Mid Cap Value Equity strategy modestly outperformed the Russell Midcap® Value Index (the “Index”) in the second quarter.

For the quarter, stock selection had a positive impact on relative performance while sector weighting detracted. Sector allocation is a by-product of the bottom-up security selection process and not a result of top-down tactical decisions. Returns for the Index across the 11 major economic sectors varied, with all but three posting positive returns for the quarter. Only five of the sectors outpaced the broader index. Energy was the top-performing sector, returning 17.21%. By contrast, the Industrials sector posted a return of -3.99%.

Specifically, stock selection in the Consumer Discretionary, Consumer Staples, Industrials, and Health Care sectors was the largest contributor to relative performance. However, an overweight in both Consumer Staples and Industrials partially offset the favorable impact from selection. Conversely, stock selection in Information Technology and Utilities detracted from return. An overweight position in Information Technology helped offset the negative impact from selection. An underweight to Real Estate, Energy, and Utilities also detracted. However, favorable stock selection in Energy and Real Estate partially negated some of the impact from allocation.

Exhibit 1: U.S. Dollar Index vs. Year-to-Date Returns for the Russell 2000® Index and MSCI Emerging Markets Index

Source: Factset and Sycamore Capital.
Performance Attribution Relative to the Russell Midcap® Value Index – 2Q 2018

Positive Contributors

Stock Selection in Consumer Discretionary
Stock Selection in Consumer Staples; partially offset by overweight
Stock Selection in Health Care
Stock Selection in Industrials; partially offset by overweight

Top Contributors

Devon Energy was the top-performing holding for the quarter. After selling off the previous quarter, shares rebounded on strong operational performance. The company’s well production is above expectations and is coming online faster than anticipated. Devon continues to sell non-core assets to fund production and return cash to shareholders. Our thesis for Devon remains unchanged. Tiffany & Co. was also a top contributor. Shares of the luxury retailer were rewarded after the company delivered a strong beat—driven by better-than-expected sales growth. Positive sales momentum was recorded across most regions and categories. Consequently, management raised guidance and announced a share repurchase authorization. A relatively new addition to the portfolio, Darden Restaurants, was also a top performer. The company reported solid quarterly results, with favorable same-store sales across most of its concepts. Darden also announced that it will increase its dividend and repurchase shares. A strong economy, coupled with tax relief that is filtering to the consumer, has also improved the backdrop for the industry. Our thesis for Darden remains intact. Another new addition to the portfolio, Kroger Co., also landed a spot in the top performers for the quarter. The grocer reported an in-line quarter; however, that was enough to propel shares higher given the mixed sentiment on the stock and the uncertainty surrounding the industry landscape. The company has been clear with investors that 2018 will be an “investment year”; therefore, earnings could be volatile. Nevertheless, we believe that Kroger continues to be a compelling long-term investment opportunity. PDC Energy shares rebounded during the quarter as concerns over DJ Basin (Wattenberg) bottleneck eased. The company’s 1Q results came in ahead of consensus, driven by positive operational momentum in both the Delaware and DJ basins. PDC also signed deals that lock in market rates and takeaway capacity in ’18 and ’19. With one of the healthiest balance sheets in the group, PDC is also in a position to deploy cash for shareholder-friendly purposes. Our investment thesis for PDC remains unchanged.

Top Detractors

Ingredion Inc., a leading producer and supplier of starch and sweetener ingredients, was the top detractor. Ingredion reported 1Q18 results that were slightly ahead of expectations but revised down its full-year guidance. Favorable volume growth was offset by margin declines given higher input costs for tapioca (Asia) and rising freight costs in North America. The company was expected to be impacted by the rising input costs, which led to revisions by some sell-side analysts. North America is likely to see continued impact on freight, but the outlook in South America is positive after a few years of poor performance. Our thesis for Ingredion remains unchanged. Hewlett Packard Enterprise was also a top detractor. The technology company reported quarterly results that were ahead of expectations due to revenue growth across segments and a lower tax rate. However, Pointnext, which is the high-margin services segment, grew more slowly than expected—spurring some concern about lower attach rates for high-margin services. This is a development that we will continue to monitor. Despite the moderating growth momentum in its high-margin business, the company continues to generate significant free cash flow, which is used to return cash to shareholders. Our investment thesis remains intact at this time. Shares of Perrigo Co., the OTC consumer goods and specialty pharmaceutical company, retreated during the quarter. In May, the company announced that the expected launch of its generic version of asthma inhaler ProAir will be delayed beyond the fourth quarter. We don’t perceive this development to be detrimental to the long-term outlook for the company. Perrigo is a market leader with an unmatched product breadth that serves various consumer channels. The company is well positioned to benefit from a push toward more affordable healthcare products. Furthermore, the new CEO commenced his role early this year, so we anticipate that the management team will communicate future strategy in the coming months. Our thesis remains unchanged. Another detractor for the quarter was sketch-to-scale company Flex Ltd. The company reported a mixed quarter, which was not well received by investors. Additionally, it was revealed that the company’s partnership with Nike will not turn profitable as early as it was anticipated. This was a disappointing development that hurts its credibility. Furthermore, the company disclosed that its audit committee, with assistance of independent counsel, is undertaking an investigation into alleged improper accounting practices. No further details were given by management. We are evaluating our thesis for Flex. Owens Corning shares also pulled back on concerns around roofing segment margins. Concerns are based on the notion that the company will be unable to offset higher freight and asphalt prices by raising prices for its products. We believe that some of the concern is overblown. Recent industry data indicated that pricing momentum in roofing is favorable. Furthermore, remarks from management suggest that they should be able to offset cost inflation through pricing actions. Our thesis for Owens Corning remains intact at this time.

Russell Midcap® Value Index Sector Returns – 2Q 2018

Sycamore Mid Cap Value Equity Performance – 2Q 2018

<table>
<thead>
<tr>
<th>Sector</th>
<th>Russell Midcap® Value Index</th>
<th>Sycamore Mid Cap Value Equity (Gross of fees)</th>
<th>Sycamore Mid Cap Value Equity (Net of fees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>17.2%</td>
<td>2.7%</td>
<td>2.5%</td>
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<tr>
<td>Telecom. Services</td>
<td>13.3%</td>
<td>2.4%</td>
<td>7.8%</td>
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<td>Real Estate</td>
<td>8.5%</td>
<td>3.6%</td>
<td>3.4%</td>
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<tr>
<td>Utilities</td>
<td>4.5%</td>
<td>3.2%</td>
<td>3.2%</td>
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<tr>
<td>Info. Technology</td>
<td>3.8%</td>
<td>-1.2%</td>
<td>2.8%</td>
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<tr>
<td>Materials</td>
<td>1.8%</td>
<td>2.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Consumer Disc.</td>
<td>0.8%</td>
<td>2.8%</td>
<td>2.8%</td>
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<tr>
<td>Health Care</td>
<td>0.4%</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>-1.5%</td>
<td>-1.2%</td>
<td>-1.2%</td>
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<tr>
<td>Financials</td>
<td>-2.6%</td>
<td>-10%</td>
<td>-10%</td>
</tr>
<tr>
<td>Industrials</td>
<td>-4.0%</td>
<td>-20%</td>
<td>-20%</td>
</tr>
</tbody>
</table>
As of June 30, 2018

Outlook

Trade dominated the headlines during the quarter and was a leading source of volatility in the market. The trade skirmish between the U.S. and China overshadowed (arguably) another major headline—the resiliency of the U.S. economy. As economies in Europe and China slow, the U.S. economic narrative remains positive. Nevertheless, we fully acknowledge why the prospect for any sort of “trade war” is concerning. However, there are some points to consider that pertain to the unfolding trade rhetoric that are noteworthy, in our opinion.

We take the view that both the U.S. and China are rational actors. Even though the Trump administration’s proposal is to place tariffs on up to $450 billion worth of Chinese goods, it is still premature to think that the entire amount will be implemented. There is a process for any tariffs to go into effect and that takes time, leaving room for behind-the-scenes negotiations before tensions lead to a full-blown trade war. Moreover, there may be limitations to Chinese retaliation. Essentially, Beijing may run out of options in its tit for tat with Washington. In 2017, U.S. exports to China were roughly $130 billion. By comparison, the U.S. imported approximately $505 billion from China last year, per the U.S. Department of Commerce. In other words, China may run out of U.S. products to tax. The wild card in this equation concerns the asymmetrical options that China has at its disposal—principally, currency devaluation or dumping of U.S. Treasury holdings. Both options are likely not in China’s best interest, especially since the Chinese economy appears to be losing steam.

Another point to consider is that the U.S. is in the middle of an election cycle. With midterms around the corner and Republicans possibly in position to lose the lower house, the Trump administration may hesitate to take drastic measures that could derail the economic recovery. The president is currently enjoying one of the highest approval ratings of his presidency and may be playing to his political base before the fall elections. With trade and immigration being two key issues for his base, the topic of trade is likely to linger for longer. As long as there is a lack of a clear path on reaching a deal with trading partners, there will likely be mounting concern regarding the potential impacts from tariffs. Since markets have little appetite for uncertainty, we anticipate bouts of higher volatility ahead. Through the end of the second quarter, approximately 29% of the trading sessions witnessed the S&P 500® Index move by over 1% in either direction. That’s starkly different from 2017, when just over 3% of trading sessions for the year saw moves by over 1% to the upside or downside, as the above graph illustrates. We have no visibility on how the trade dispute plays out in the end. It is out of our control. Therefore, as we’ve stated on many occasions, we remain focused on company-specific fundamentals in our investment approach.

We thank our long-term clients for their continuous trust. We are grateful for the confidence you have placed in Sycamore Capital.
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Past performance should not be considered indicative of future results. Gross and Net returns were calculated on a total return basis, including all dividends and other earnings and are net of non-reclaimable taxes, if any, and transaction costs. Net of fees performance results are calculated using a model fee set to the highest fee on the schedule for that product and deducted from the composite’s gross return on a monthly basis. Gross of fees performance reflects the deduction of trading expenses and for some accounts within the composite, custodian fees.

Russell Midcap® Value Index is a capitalization-weighted index that measures the performance of Russell Midcap® Index companies with relatively lower price-to-book ratios and lower forecasted growth. It represents the value-oriented mid-cap segment of the U.S. equity market.

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Target metrics and risk attributes reflect our stated goals and are not absolute limits as these are affected by various factors like market fluctuations.

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio’s investments and may not be representative of the portfolio’s current or future investments. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

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