

Trivalent International Core ACWI ex-U.S. Equity Strategy Quarterly Commentary



As of September 30, 2019

Market Environment

International equities retreated in the third quarter amid rising trade tensions and weak global economic data. For the quarter, the MSCI ACWI (All Country World) ex USA Index declined 1.8%, while the Trivalent International Core ACWI ex-U.S. Equity strategy outperformed the benchmark. Most countries ended in negative territory. Hong Kong fell 11.9% on growing concerns over mass pro-democracy protests to resist mainland China authority. Germany, Europe's largest economy, fell 4.0% as manufacturing orders declined more than expected. Argentina was by far the worst performing market as it declined 46.8% after a surprisingly poor performance by the country's center-right President Macri in the August primary. On the upside, Turkey was the best performing market as it returned 11.7% after the Central Bank slashed the key interest rate by 4.25% in August. Belgium rose 3.4% largely driven by Anheuser-Busch InBev's decision to divest its Australian subsidiary, which the market viewed positively. Japan also outperformed, up 2.7% despite an escalating trade dispute with South Korea.

Seven of eleven sectors posted negative returns. Materials stocks were hit the hardest, down 6.4% largely due to weaker metals prices. Energy stocks declined 4.4% as the price of Brent Crude fell 8.7%. The Information Technology sector was the top performer rising 2.4%.

Portfolio Review

Overall security selection was positive and accounted for most of the strategy's outperformance. Excess returns were generated in four of six regions and eight of the eleven economic sectors. Notable outperformance was generated in the Consumer Discretionary, Energy, and Industrials sectors. Beach Energy was among the top contributors. The Australian oil and gas producer rose 23.0% after delivering strong full-year results and increasing mid-term production and financial guidance. Within Consumer Discretionary, Chinese athletic footwear and apparel manufacturer, Anta Sports Products gained 21.0% as sales trends for both their Anta and Fila brands in China are exceeding expectations. Within Industrials, Japanese trading company Itochu Corporation rose 9.6% with results outperforming peers as its non-resource domestic businesses are proving resilient.

On the downside, security selection was weakest in the Materials sector and was most negatively impacted by three holdings. Rio Tinto and Anglo American declined 11.2% and 16.8%, respectively on renewed trade war concerns in the third quarter. Global commodity prices declined as well with copper falling 5% and iron ore declining 18% during the period. The Canadian bulk and base metals player, Teck Resources Limited, declined 29.7% as several of their commodities came under pressure on the back of the global economic slowdown and trade concerns. Coking coal prices declined by 30%, having the biggest impact on the company's performance.

Market Outlook

Market uncertainty is likely to continue as global trade tensions weigh on economic growth, particularly impacting 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 business 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 31st 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 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 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.

| Representative Account Top 5 Contributors* (%) | Return | Contribution to Relative Return |
|---|--------|------------------------------------|
|---|--------|------------------------------------|

| | | |
|---------------------------|------|-----|
| Advantest Corp. | 62.0 | 0.2 |
| Sony Corporation | 12.3 | 0.2 |
| Beach Energy Limited | 23.0 | 0.1 |
| ANTA Sports Products Ltd. | 21.0 | 0.1 |
| JD Sports Fashion Plc | 24.1 | 0.1 |

| Representative Account Top 5 Detractors* (%) | Return | Contribution to Relative Return |
|---|--------|------------------------------------|
|---|--------|------------------------------------|

| | | |
|--------------------------------|-------|------|
| Rio Tinto Limited | -11.2 | -0.2 |
| Anglo American plc | -16.8 | -0.2 |
| PT Wijaya Karya Tbk | -21.2 | -0.1 |
| Teck Resources Limited Class B | -29.7 | -0.1 |
| Kumba Iron Ore Limited | -26.1 | -0.1 |

| Representative Account Top 10 Holdings | Country | Sector |
|---|---------|--------|
|---|---------|--------|

| | | |
|--|----------------|------------------------|
| Nestle S.A. | Switzerland | Consumer Staples |
| Roche Holding AG | Switzerland | Health Care |
| Alibaba Group Holding Ltd. Sponsored ADR | China | Consumer Discretionary |
| Sony Corporation | Japan | Consumer Discretionary |
| Rio Tinto Limited | Australia | Materials |
| Novartis AG | Switzerland | Health Care |
| 3i Group plc | United Kingdom | Financials |
| Toyota Motor Corp. | Japan | Consumer Discretionary |
| BP p.l.c. | United Kingdom | Energy |
| Swiss Life Holding AG | Switzerland | Financials |

Total % of Portfolio **13.13%**

Source: FactSet.

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.

ANNUALIZED RETURNS

| Composite Performance (%) | ANNUALIZED RETURNS | | | | | | Since Inception 1.10.10 |
|--|--------------------|-------|-------|------|------|-------|-------------------------|
| | QTR | YTD | 1-YR | 3-YR | 5-YR | 10-YR | |
| Trivalent International Core ACWI ex-U.S. Equity (Gross) | -0.91 | 12.99 | -1.74 | 6.57 | 3.94 | — | 6.52 |
| Trivalent International Core ACWI ex-U.S. Equity (Net) | -1.05 | 12.47 | -2.35 | 5.83 | 3.17 | — | 5.70 |
| MSCI ACWI ex USA Index (Net) | -1.80 | 11.56 | -1.23 | 6.33 | 2.90 | — | 4.18 |

Source: Zephyr StyleADVISOR.

DISCLOSURES

Investing involves risk and there is no guarantee any investment will be profitable specifically in extreme market conditions. Loss of principal is possible. The value of an investment will fluctuate in response to macro factors such as general economic conditions, interest rates, and the political environment, as well as changes in the prospects of particular companies, including market, liquidity, credit, and management risks.

Past performance cannot guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars. Composite returns are net of transaction costs and gross of non-reclaimable withholding taxes, if any, and reflect the reinvestment of dividends and other earnings.

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). 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 Trivalent International Core ACWI ex-U.S. Equity strategy's management team seeks to provide long-term growth of capital in the portfolio by investing primarily in equity securities of companies represented in the MSCI ACWI (All Country World) ex USA Index, but also may invest in companies from other countries.

Index returns are provided to represent the investment environment during the periods shown. The index is fully invested, including the reinvestment of dividends and capital gains. Index returns do not include transaction costs, management fees or other costs. Non-US indices are net of non-reclaimable withholding taxes, if any.

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*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 in the final column is contribution to return. Holdings are as of quarter end and may change at any time.

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