

## A Healthy Blend

Victory RS Global's U-Wen Kok strikes the right balance between quantitative and qualitative analysis.

Morningstar Q2 2024 | by Laura Lалlos

If you screen Morningstar Direct for a topperforming global core fund, U-Wen Kok's Victory RS Global RGGYX will make the cut, any way you slice it. The fund's Y shares, which make up more than half of the fund's total assets, rank among the very best in the global large-stock blend Morningstar Category over the past one-, three-, five-, and 10-year periods through March 31. Even the priciest C shares rank highly. And the fund hasn't taken on undue risk to achieve that performance: All five of its share classes earn a 5-star Morningstar Rating for a combination of high returns achieved with average downside risk for the category.

When Ashley Gilbert, a Raymond James research analyst, was screening for a global core option to add to the firm's recommended list, Victory RS Global rose to the top.

"The numbers U-Wen has been able to put up have been strong in recent years. It's hard for others in the space to beat her out," says Gilbert, who's based in St. Petersburg, Florida. "And it's always fun to add a niche manager that not many people have heard of."

Several years later, the strategy remains relatively unknown: The fund still had less than \$1 billion in assets across share classes as of March. That made it a good candidate for Morningstar Prospects, a collection of up-and-coming or under-the-radar investment strategies that Morningstar's manager research analysts think are worth watching for possible inclusion on their coverage list.

Victory RS Global made the list earlier this year. Andrew Daniels, associate director of equity strategies at Morningstar Research Services, noted that the strategy benefits from an "experienced management team, a well-codified investment approach, and relatively low fees."

### An Investor's Path

Kok, chief investment officer for global equities at RS Investments, has headed that experienced team since 2013.

As for the well-codified investment approach, she has been honing it for much of her 33-year career.

Kok started on the sell side in 1990 at a smaller securities firm in Toronto, where she was raised and went to college. She was excited to be accepted into an equity research rotation program after graduating with an economics degree, but her enthusiasm waned as she encountered "inconsistencies of assumptions that could skew fundamental models." Then she rotated into the firm's quantitative group.

"It was like night and day," she recalls. "I was intrigued by the large amounts of financial data available in the databases, by the insights you could get with just a few lines of code." Kok wasn't a coder, "so I had to invest a lot of time and effort to learn. But it was worth it. I wanted to bring efficiency to my work, to develop more robustness and consistency and depth in the way that I evaluated financial information."

After a stint at the Ontario Teachers' Pension Plan—where she designed a long-short index anticipation fund, among others—Kok moved to San Francisco to join Barclays in 2001. "It was an opportunity to learn from the best people in quantitative investing. It's where the academics and the practitioners meet."

It was a big move for Kok, who arrived with a backpack and a bit of luggage, knowing nobody in her new city. "It felt strange and a bit lonely," she remembers. "But it's a beautiful city. Besides these stunning views, there's so much going for it. If you go south, you're in Silicon Valley. Right up north is Napa. Across the ocean, you're in Hawaii, and if you feel like doing some skiing in the winter, Tahoe is just around the corner."

San Francisco has become home. With a 13-year-old in the school system, Kok has built meaningful connections outside of work. Family time with her husband and son often

includes the city's diverse restaurant scene: "Trying new foods and cuisines is high on our list. We're lucky we're in the land of great produce and great food." They also indulge this passion at their property in the nearby wine country, where Kok's husband experiments with growing vegetables, citrus fruits, and avocados.

### Building a Model and a Team

At Barclays, Kok learned how to build sophisticated models that use statistical metrics to glean information from large datasets that is "as reflective, as concise, and as accurate as possible."

She also learned that even a strong model has its limits: "You should put some human oversight on the model. Let the computers and the data do what they do best, the mundane work, and let the humans do what they're best at, which is taking that work and making sense of it, and then projecting it forward."

Kok brought what she terms her "blended approach" to San Francisco-based RS Investments (now a franchise of Victory Capital Management) in 2012. At the time, RS was a purely fundamental shop, but it saw the value of a quantitative model to sort through the thousands of names available to global investors.

"I was a nice hybrid," says Kok. "I spoke the lingo that fundamental people speak." She took the helm of the Global fund, as well as its smaller sibling Victory RS International, which has a solid record in the foreign large-blend Morningstar Category. (Four of the share classes have 4- or 5-star ratings, but high expenses have hamstrung the C shares, which have a 3-star rating.)

The blended approach helped seal the deal for Raymond James, says Gilbert: "We hear a lot about 'quantamental' strategies, but their approach is differentiated, with the quantitative aspect first and then layering fundamental research on top of that. You get the best of both worlds." Kok has assembled what might be termed a blended team to support the strategies: comanager Adam Mezan, quantitative researcher Bud Vigil, and analysts Mac Rygiel and Rose Ziegler. In Kok's experience, it's unusual to have quantitative and fundamental professionals working so closely together. She notes that when hiring fundamental analysts, one of her priorities was finding candidates who

"exhibited the least biases" against working within a quantitative framework.

Everyone on the team has a primary responsibility, whether for particular sectors or the quantitative piece, but the goal is for all to be generalists who can work comfortably within the model and discuss positions across all sectors. There are formal weekly meetings on portfolio risk positioning and daily meetings that may include stock pitches, company updates, and the like. The team members are rewarded for overall fund performance, not the success of their individual picks.

"It's not about the five names that you bring to the table. It's about what the model is bringing to the table," Kok says. "We're all driving for the same thing, which is to consistently deliver the [kind of] risk-adjusted returns that you see now."

### A Systematic Process

The model is calibrated to rank prospective investments using 19 quality, valuation, and sentiment factors. It is designed to identify companies with a history of creating shareholder value (the quality factors) that aren't trading at a premium (the valuation factors) but aren't value traps, either (the sentiment factors). This allows the team to identify prospects that might otherwise remain overlooked among a worldwide universe of options.

"Any fundamental analyst will tell you that coming up with unique ideas for alpha generation is one of the toughest



U-Wen Kok, chief investment officer of the global team and portfolio manager at RS Investments.

things to do. You can waste hours and likely end up with names that are similar to everyone else's because they're all going to the same conferences," says Kok. "We enjoy the names that come out [of the model]. We might get names we can't even pronounce, but we have to look into them because that's just how the process is. We must look at the best one and then start going down the list."

The model ranks stocks by sector, which means that quality is relative. In energy, for example, the team will own "the best of the worst," says Kok. The humans use their industry expertise to home in on picks that have a high probability of continuing to create shareholder value. Before adding a new name, they assess how it will contribute to or detract from the portfolio's active risk as well its impact on various risk factor exposures.

The process is designed to keep portfolio exposure neutral relative to the strategy's benchmark, the MSCI All Country World, in order to reduce volatility caused by top-down variables. Morningstar's Daniels says that "the team has done a solid job minimizing the impact of style, country, and sector exposures over the years, while also maintaining a consistent quality tilt."

"If you focus on stock selection, that allows for much higher predictability of returns because you're focusing on company business fundamentals," Kok asserts. "Marry the stock selection with our proprietary riskmanaged framework and you're going to get a portfolio that looks something like the benchmark but performs nothing like the benchmark."

The result is a portfolio of 90 to 110 names, which the team finds optimal for achieving outperformance while minimizing risk relative to the benchmark. According to Morningstar data, its largest holdings as of year-end, such as Microsoft MSFT, Apple AAPL, and Nvidia NVDA, were similar to the stakes in its benchmark, but the portfolio also had noticeable differences, such as heavier stakes in names like McDonald's MCD and Mastercard MA, as well as positions in lesser-known names such as South African fashion retailer Mr. Price MRP:SA and French engineering company Gaztransport et Technigaz GTT:FR.

The differences have been enough to result in significant outperformance for the fund relative to its benchmark under Kok's tenure. The annualized 10-year return of the fund's

Y shares is 11.2% through March 31, well ahead of the benchmark's 8.7%, while its 10-year Sharpe ratio is 0.72 to the benchmark's 0.58.

### Long-Term Appeal

Kok says that performance will lag during "junk rallies," as it did in early 2021, but says such episodes tend to be short-lived. She says the strategy is well designed for accounts such as retirement pensions because of its lower risk profile.

Gilbert believes the fund is "appropriate for a broader swath of investors because it protects well on the downside. It's a core portfolio that consistently does well and isn't super volatile compared to category peers."

Kok isn't resting on her laurels. She enjoys her free time, which includes playing the piano "well enough to enjoy my own playing" and travel, such as recent visits to Thailand for a family reunion and Japan for cherry blossom season. But at work, maintaining the viability of her blended strategy is a constant endeavor.

"The framework continues to be refined," Kok says. "It's nonstop."

*Laura Lallo is managing editor of Morningstar magazine.  
Photography by David Lees.*

All information as of March 31, 2024.

## VICTORY RS Global Fund

Overall Morningstar Rating™ Category: Global Large-Stock Blend ★★★★★

### PERFORMANCE (%)

### MORNINGSTAR STAR RATINGS

### MORNINGSTAR PERCENTILE RANKINGS

TICKER/SHARE CLASS/INDEX	YTD	1-YR	3-YR	5-YR	10-YR	S.I	EXPENSE RATIO		OVERALL	3-YR	5-YR	10-YR	1-YR	3-YR	5-YR	10-YR
							GROSS	NET								
RSGGX, A Shares Inception: 05/16/11	8.55	26.64	9.33	13.12	10.88	10.89	1.17	0.85	5 (out of 338)	5 (out of 338)	5 (out of 300)	5 (out of 202)	10% (out of 354)	9% (out of 338)	3% (out of 300)	3% (out of 202)
RGGCS, C Shares Inception: 05/16/11	8.33	25.69	8.53	12.26	10.21	10.37	2.09	1.60	5 (out of 338)	4 (out of 338)	5 (out of 300)	5 (out of 202)	38% (out of 1191)	57% (out of 1111)	75% (out of 1037)	78% (out of 807)
RGGYX, Y Shares Inception: 05/16/11	8.61	26.94	9.62	13.39	11.18	11.21	0.84	0.60	5 (out of 338)	5 (out of 338)	5 (out of 300)	5 (out of 202)	9% (out of 354)	5% (out of 338)	1% (out of 300)	2% (out of 202)

Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through April 30, 2024.

## VICTORY RS International Fund

Overall Morningstar Rating™ Category: Foreign Large Blend ★★★★★

### PERFORMANCE (%)

### MORNINGSTAR STAR RATINGS

### MORNINGSTAR PERCENTILE RANKINGS

TICKER/SHARE CLASS/INDEX	YTD	1-YR	3-YR	5-YR	10-YR	S.I	EXPENSE RATIO		OVERALL	3-YR	5-YR	10-YR	1-YR	3-YR	5-YR	10-YR
							GROSS	NET								
GUBGX, A Shares Inception: 02/16/93	6.43	18.65	5.58	7.11	5.40	6.00	1.41	1.13	4 (out of 696)	4 (out of 696)	3 (out of 646)	4 (out of 425)	8% (out of 748)	10% (out of 696)	40% (out of 646)	16% (out of 425)
RIGCX, C Shares Inception: 08/07/00	6.27	17.74	4.82	6.31	4.72	3.41	2.51	1.88	3 (out of 696)	4 (out of 696)	3 (out of 646)	3 (out of 425)	10% (out of 748)	20% (out of 696)	59% (out of 646)	48% (out of 425)
RSIGX, Y Shares Inception: 03/10/09	6.53	18.96	5.87	7.39	5.68	9.90	1.05	0.88	4 (out of 696)	5 (out of 696)	4 (out of 646)	4 (out of 425)	7% (out of 748)	9% (out of 696)	31% (out of 646)	13% (out of 425)

Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through April 30, 2024.

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