

## Market Makes New Highs, Strategy Outperforms for the Year

The Munder Mid-Capitalization Core Growth Strategy generated a gross return of +18.3% for the fourth quarter. For the full year 2020, the Strategy was up +22.5%, which was 540 bps above the Russell Midcap<sup>®</sup> Index. While the year was dominated by growth stocks, particularly “stay-at-home,” digital transformation and e-commerce related names, it was a much broader rally that drove the market higher in 4Q, and it generally favored reopening/value names. Indeed, value experienced its first quarter of outperformance since 3Q 2019; that said, the rotation was largely a function of sector and size dynamics, and a sector-neutral barbell approach to growth/value did well.

Looking at the Russell 3000<sup>®</sup> Index, cyclical sectors like Energy and Financials rallied the most in 4Q (up 25%+) but still had negative returns for the year. Defensive sectors (Real Estate, Utilities, Consumer Staples) underperformed the index for both the quarter and year. Importantly, while Technology and Consumer Discretionary underperformed in 4Q, we didn't see the large drawdown many feared, and full-year performance remained remarkably strong (both sectors were up 45%+).

On the size front, small-caps rallied materially during the quarter to close the full-year performance gap to larger-cap alternatives. Specifically, the Russell 2000<sup>®</sup> Index garnered a +31.4% total return in 4Q, driving its full-year return to +20.0%. This compares to the +11.6% and +22.4% gains for the mega-cap Russell Top 200<sup>®</sup> Index, respectively, and +19.9% and +17.1% for the Russell Midcap<sup>®</sup> Index.

Importantly, growth stocks continue to enjoy a valuation premium not seen since the dot-com bubble in the early 2000s, and we believe this crowded trade will start running out of steam sooner rather than later. After the dot-com bubble burst, our GARP (growth at a reasonable price) style investment approach performed well, as idiosyncratic return was plentiful, and good stock selection was augmented by a style tailwind from our valuation discipline.

## Performance and Positioning

The Munder Mid-Capitalization Core Growth Strategy's 4Q total return of +18.3% was led by 30%+ gains in Communication Services and Materials, while Utilities was the weakest sector, up just low-single-digits. For the year, the Strategy's +22.5% return was driven by Technology and Consumer Discretionary (both up 30%+), while Utilities and Communication Services were the only sectors to see declines.

Relative to the benchmark, the Strategy significantly outperformed for the full year. Sector allocation, specifically our underweight in Energy and Financials, was generally a benefit for the year but a headwind in 4Q. This was also true for style factors, specifically our exposure to growth and size factors.

Stock selection for the year was strong, particularly in the Real Estate and Consumer Discretionary sectors. Many of these winners

took a break in 4Q, however, which drove negative selection in these sectors for the quarter.

In Real Estate, it was our cell tower and datacenter positions (SBA Communications, Digital Realty Trust, and CyrusOne) that drove strong results in 2020, as these properties proved resilient and even benefited from the lockdown due to greater adoption of stay-at-home and cloud-based solutions. In 4Q these stocks fell out of favor as the market rotated into reopening names, with property types like hotels and retail posting outsized gains during the quarter, though still down materially for the year. While we remain open to opportunistic purchases in COVID-impacted segments, we continue to view the growth/value profile of current holdings favorably and believe other property types face structural headwinds from changes in how people shop, work, and travel as a result of the pandemic.

In Consumer Discretionary, our homebuilders D.R. Horton and NVR, Inc. saw slight declines in 4Q, though both were still positive for the year in aggregate. Importantly, fundamentals remain robust, with strong household formations supported by demographic trends, while low mortgage rates and a pandemic-induced migration from cities to suburbs should help near-term trends. In addition, our big year-to-date winners Penn National Gaming and Chipotle Mexican Grill were modest detractors in 4Q. Penn was an opportunistic purchase we made in March after shares came under extreme pressure from the pandemic. We believed the sell-off was overdone given Penn's balance sheet and the recent acquisition of Barstool Sports that provided a leadership position in the fast-growing online sports betting market dominated by an underserved (younger) demographic.

Industrials was also a bright spot, both for the quarter and the year. Specifically, performance was driven by our positions in WESCO International and Chart Industries. WESCO, which distributes electrical supplies and equipment and offers integrated procurement services, was also an opportunistic purchase. We believed the COVID-related sell-off was an overreaction by the market, particularly as it related to the pending acquisition of a primary competitor, Anixter. Indeed, both organic trends and the Anixter integration have surprised to the upside.

## Investment Philosophy

The Munder Mid-Capitalization Core Growth Strategy's focus is to invest in mid-cap stocks that have superior growth prospects and reasonable valuations. We believe this combination of fundamental strength and attractive valuation positions the Strategy for strong competitive performance. These characteristics have historically contributed to the Strategy's successful long-term record, and we are confident they will continue to serve our investors well.

Top 5 Contributors (% Rep. Account)	
WESCO International, Inc.	1.0
Cleveland-Cliffs Inc	0.9
Freeport-McMoRan, Inc.	0.7
Ally Financial Inc	0.6
NanoString Technologies, Inc.	0.5

Top 5 Detractors (% Rep. Account)	
SBA Communications Corp. Class A	-0.2
DexCom, Inc.	-0.2
D.R. Horton, Inc.	-0.1
Franco-Nevada Corporation	-0.1
Digital Realty Trust, Inc.	-0.1

Source: FactSet.

Top 10 Holdings (Rep. Account)	Sector
Advanced Micro Devices, Inc.	Information Technology
EPAM Systems, Inc.	Information Technology
WESCO International, Inc.	Industrials
MSCI Inc. Class A	Financials
Synopsys, Inc.	Information Technology
Trane Technologies plc	Industrials
Ally Financial Inc	Financials
Freeport-McMoRan, Inc.	Materials
Veeva Systems Inc Class A	Health Care
SS&C Technologies Holdings, Inc.	Information Technology
<b>Total % of Portfolio</b>	<b>17.5%</b>

## ANNUALIZED RETURNS

Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
Munder Mid-Capitalization Core Growth Composite (Gross)	18.27	22.45	22.45	10.94	13.25	12.28	12.04
Munder Mid-Capitalization Core Growth Composite (Net)	18.02	21.48	21.48	9.97	12.23	11.34	11.21
Russell Midcap® Index	19.91	17.10	17.10	11.61	13.40	12.41	9.77
Russell Midcap® Growth Index	19.02	35.59	35.59	20.50	18.66	15.04	9.50

Source: Zephyr.

\*Since inception results are as of January 1, 1999.

**Past performance cannot guarantee future results.** Investing involves risk, including the possible loss of principal and fluctuation of value. Returns 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. The composite net-of-fees returns shown reflect gross performance less actual investment management 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 Munder Mid-Capitalization Core Growth Composite includes all fee-paying, non-wrap discretionary portfolios of \$100,000 or more that are managed according to the Munder Mid-Capitalization Core Growth strategy. The strategy focuses on mid-sized companies that we believe are high-quality companies with the potential for higher than average earnings growth and high consistency in earnings. The composite creation date is December 2001. The primary benchmark of the composite is the Russell Midcap Index. The secondary benchmark of the composite is the Russell Midcap Growth Index.

The Russell Midcap® Index is a market capitalization-weighted index that measures the performance of the 800 smallest U.S. stocks in the Russell 1000® Index.

Characteristics, Top Ten Holdings and Sector Diversification source: FactSet Research Systems, Inc. The top ten holdings and sector diversification are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients.

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.

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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.

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