

### Market Recovery Continues

The Munder Multi-Capitalization Strategy delivered a +9.59% total return (gross) for the third quarter of 2020, while the Russell 3000<sup>®</sup> Index was up 9.21%. The strong quarter was the result of improved economic activity, dovish Federal Reserve policy, and structural dynamics that position publicly traded equities as net winners in a post-COVID world. Furthermore, a case can be made that these last two points can continue to drive stocks higher even if the recovery fades.

Indeed, while reopening-oriented stocks generally saw positive price action, with some up significantly from depressed levels, overall they lagged COVID-19 winners during the quarter and remain material underperformers year-to-date. Case in point: Large-cap stocks continued to outperform, with the Russell Top 200<sup>®</sup> Index up 10.2% in 3Q. These stocks are positioned well to take share during/after the pandemic due to their scale, balance sheet and brand strength, while also primed to benefit from accelerated “stay-at-home,” digital transformation and e-commerce trends via “FANG” and other leading tech names (Microsoft, Apple, Salesforce, ServiceNow). Year-to-date the Russell Top 200<sup>®</sup> Index is up 9.6%, while the Russell Midcap<sup>®</sup> Index and the Russell 2000<sup>®</sup> Index are down -2.35% and -8.69%, respectively.

Another example is growth over value, with growth stocks also over-indexed to “stay-at-home,” digital transformation and e-commerce, while also benefiting from a ubiquitous bid for growth as a factor given its increased scarcity. While true across the market capitalization spectrum, the outperformance of the Russell 3000<sup>®</sup> Growth Index over the Russell 3000<sup>®</sup> Value Index is a good example, with the indices returning +12.86% and +5.42% during 3Q, respectively, and +23.00% vs. -12.23% on a year-to-date basis.

While these positive dynamics are important, we remain mindful of elevated risks within the market given current fundamental challenges and elevated/extreme valuations for growth stocks, particularly within the Technology sector, but still see the recent pullback as a normal bull market correction at this point. The path of the virus and fiscal stimulus remain top risk factors, the latter of which is desperately needed by small and midsized businesses, state municipalities, and the all-important consumer, which we know drives the U.S. economy. To the extent that the SCOTUS nomination and presidential election inhibit this aid, they are also risks. The implications of the election itself are harder to handicap, as fiscal stimulus is likely to be larger under a Democratic president/regime, but this must be weighed against higher taxes and regulation.

### Performance and Attribution

The Munder Multi-Capitalization Strategy's +9.59% total return was led by double-digit gains in Consumer Discretionary, Technology, and Materials, only partially offset by declines in Energy, Real Estate, and Financials. Relative to the benchmark, style factors and sector allocation both contributed to the Strategy's outperformance this quarter, particularly our active exposure to growth and momentum, and our underweight to Energy, Real Estate, and Utilities. Stock selection strength was most prominent in the Technology and Consumer Discretionary sectors, offset by challenges in Financials and Industrials.

Within Technology, outperformance was largely driven by our semiconductor holdings and position in Apple. Demand for client devices (e.g., PCs, tablets, cell phones) and datacenter compute have proven resilient during the pandemic, aided heavily by the shift to “school/work-from-home,” cloud services, and digital transformation more broadly, as well as changing leisure habits (social distancing benefits gaming and streaming services). For NVIDIA and Advanced Micro Devices (AMD), two of our semiconductor holdings and top performing stocks for the quarter, we see additional growth benefits from expanding use cases (artificial intelligence, autonomous driving, cloud gaming) and new product launches (EPYC, Xbox/PS, RTX 3080). For Apple, the emerging 5G super cycle, strong product positioning, formidable balance sheet, and its scale/vertical integration are additional

tailwinds. Within Consumer Discretionary, our homebuilder positions generated outsized excess returns, as strong existing household formation trends and tight supply were reinforced by record low interest rates and “work-from-home” city dwellers migrating to the suburbs.

Within Financials, Citigroup was our largest detractor. Banks are a COVID-impacted industry by proxy, in that economic pressures and low interest rates stand to hurt growth and profitability by driving up credit costs and reducing loan growth/net interest margin. Interestingly, they are also not participating in the positive price action we've seen more recently in many other reopening stocks, perhaps due to investor preference for more defined/obvious recovery exposure. We continue to think Citi's strong competitive position and attractive factor exposures will ultimately get rewarded. Within Industrials, our positioning within air freight and logistics had an outsized negative impact on results. Specifically, two names we did not own, UPS and FedEx, were up 51% and 80%, respectively, given heavy exposure to e-commerce trends, while our position in XPO Logistics was up just 10% during the quarter. We continue to see great value in XPO, and expect improving trucking trends as the economy reopens while a breakup of the company could act as catalyst for valuation.

### Top/Bottom Performing Stocks

On an individual basis, two of the Strategy's top-performing stocks in the third quarter were GPU/CPU vendor Advanced Micro Devices and TopBuild Corp., an installer and distributor of insulation products and other building products to the U.S. construction industry. AMD continues to take CPU market share from Intel across servers, desktops and laptops, while also benefiting on the GPU side from increased investment in cloud gaming and the 2020 gaming console (PS/Xbox) launches this year. TopBuild reported better-than-expected results on strong residential trends and resiliency in its distribution business. Commercial projects were a weak spot for the company, but represent just 25% of sales, and the current environment provides an excellent backdrop to grow externally in this highly valuable segment.

Two of our weakest stocks this quarter were oil & gas refiners Phillips 66 and Valero Energy. The pandemic has dramatically reduced demand for petroleum as social distancing practices eliminate both leisure and business travel. This has pressured both volumes and margins for refiners, while sentiment has also taken a hit due to continued positive developments from electric vehicle manufacturers, namely Tesla. While we understand the secular trend toward alternative energy and ESG related issues, and retain an underweight allocation to the sector, we continue to believe that hydrocarbons will play an important role in building a bridge to a sustainable future and see terrific value in these stocks as the reopening drives material fundamental improvement.

### Positioning

At quarter end, the Strategy had material overweight allocations to the Consumer Discretionary and Health Care sectors. Within Consumer Discretionary, our biggest active weights are in housing, general merchandise retail, and automotive retail. In Health Care we have a large overweight in life sciences tools & services and managed health care. The Strategy has material underweight allocations to the Utilities, Financials, Real Estate, and Technology sectors. Overall, the Strategy has positive exposure to price momentum, growth, earnings yield, and highly profitable companies.

### Investment Philosophy

The Munder Multi-Capitalization Strategy continues to focus on companies that we believe have superior earnings growth, return on invested capital, and positive earnings/price momentum combined with a reasonable valuation over a wide spectrum of market capitalizations. We are confident that this combination of characteristics positions the Strategy for strong competitive performance. These are the characteristics that have historically contributed to the Strategy's successful long-term record, and we firmly believe they will continue to serve our investors well.

Top 5 Contributors (% Rep. Account)	
Apple Inc.	1.7
NVIDIA Corporation	0.9
Amazon.com, Inc.	0.8
Boyd Gaming Corporation	0.5
Charles River Laboratories International, Inc.	0.4
Top 5 Detractors (% Rep. Account)	
AbbVie, Inc.	-0.2
Phillips 66	-0.2
Citigroup Inc.	-0.1
Valero Energy Corporation	-0.1
Cigna Corporation	-0.1

Source: FactSet.

Top 10 Holdings (Rep. Account)	Sector
Apple Inc.	Information Technology
Microsoft Corporation	Information Technology
Amazon.com, Inc.	Consumer Discretionary
Alphabet Inc. Class A	Communication Services
UnitedHealth Group Incorporated	Health Care
NVIDIA Corporation	Information Technology
Bristol-Myers Squibb Company	Health Care
AbbVie, Inc.	Health Care
Facebook, Inc. Class A	Communication Services
Dollar General Corporation	Consumer Discretionary
<b>Total % of Portfolio</b>	<b>30.33%</b>

## ANNUALIZED RETURNS

Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
Multi-Capitalization Composite (Gross)	9.59	1.38	11.63	7.99	10.76	14.33	10.81
Multi-Capitalization Composite (Net)	9.34	0.66	10.60	6.97	9.72	13.43	9.99
Russell 3000® Index	9.21	5.41	15.00	11.65	13.69	13.48	9.80
Russell 3000® Growth Index	12.86	23.00	36.12	20.73	19.51	16.91	11.63

Source: Zephyr.

\*Since inception results are as of July 1, 2003.

**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 Multi-Capitalization Composite includes all fee-paying, non-wrap discretionary portfolios of \$100,000 or more that are managed according to the Munder Multi-Capitalization strategy. The strategy focuses on companies with above-average earnings growth and strong earnings momentum, combined with reasonable valuations and strong investor sentiment. The composite creation date is July 2003. The primary benchmark of the composite is the Russell 3000 Index. The secondary benchmark of the composite is the Russell 3000 Growth Index.

The Russell 3000® Index is a market capitalization-weighted index that measures the performance of the 3,000 largest U.S. stocks by market capitalization and covers 98% of the investable U.S. equity universe.

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.

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 article 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.

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