

# VICTORY RS INTERNATIONAL FUND QUARTERLY COMMENTARY



As of September 30, 2020

## Market Review

International equities (as measured by the MSCI EAFE Index<sup>1</sup>) continued to regain ground off their March lows in the third quarter, advancing 4.80% for the period and approaching pre-COVID levels in early September. Though economic output and corporate earnings remain subdued, signs of a recovery across regions fueled market gains in July and August, as COVID-19 restrictions eased and governmental (and, especially, central bank) support remained steadfast. September, however, ushered in a market pullback, with virus hot spots popping up in Europe and parts of Asia as well as a breakdown of stimulus talks in the US. Japan and Europe were the stronger performing regions during the third quarter, while the United Kingdom and Asia/Pacific ex Japan regions lagged for the period.

## QVS Factor Performance

In this section, we offer insight into the factors driving market performance from a quantitative point of view. The RS Global Markets team's proprietary QVS (Quality, Value and Sentiment) Model scours the globe, screening over 10,000 companies while looking for the best investment opportunities. It is designed to identify companies that have the potential to consistently create shareholder value, are reasonably valued, and exhibit favorable market sentiment. We continually use this quantitative model to help us focus our resources and fundamental research on those companies with the highest probability of outperformance.

Our model performed best in the United Kingdom and Europe in the third quarter, driven by the strong performance of the Sentiment and Quality factors in those regions. The model did not work as well in Japan, where Sentiment was weak. Quality was the most consistent factor during the quarter, especially in the month of September, when it was positive across regions. The Value factor continued to underperform despite occasional strength in certain areas.

## Performance and Positioning

The Victory RS International Fund (the "Fund") returned +3.98% (Class A Shares at net asset value), while its benchmark, the MSCI EAFE Index (net) (the "Index"), advanced +4.80%.

Negative stock selection in the Communication Services sector detracted from relative performance, as did negative selection in the Consumer Discretionary and Health Care sectors. Positive stock selection in Financials, Consumer Staples and Industrials aided relative results. From a regional perspective, Fund investments in Europe detracted from relative performance, while stock selection was positive in the United Kingdom. Country-level detractors included Spain and Switzerland, while positive contributors included France and Australia.

Individual detractors from relative performance included Spanish telecommunications provider Telefonica SA, Hong Kong-based property developer CK Asset Holdings Limited, and Japanese pharmaceutical company Shionogi & Co., Ltd.

Positive contributors for the period include Royal Unibrew A/S, a beverage maker and distributor based in Denmark; UK-based multinational retailer Next plc; and Japanese construction equipment company Hitachi Construction Machinery Co., Ltd.

## Outlook

We anticipate COVID-19 trends will continue to dictate market movements, with localized case declines and resurgences impacting both economic activity and market returns across geographies. The US election in November also presents significant uncertainty, with large implications for tax policy and trade relations, and potentially the broadly destabilizing effects of a "contested" presidential race. Also, extremely high valuations for US growth stocks have some anticipating a rotation of market leadership toward value-oriented sectors and away from US stocks generally. In any event, for us, what is most important is to stay the course and be true to our quality-oriented investment process. We expect market volatility to remain elevated for a prolonged period and will remain vigilant when constructing our portfolios, remaining sector- and region-neutral, as we believe that strong risk management should remain at the forefront. Making correct macro allocation calls can be immensely challenging; therefore, we do not forecast regional performance. In our view, stock selection can be far more impactful to strategy performance than allocation. As always, we thank you for your strong interest and continued support, and please stay safe!

We thank you for your continued support,

Sincerely,

***The Victory RS Global Markets Team***

**Top 10 Holdings<sup>2</sup>**

as of September 30, 2020

Holding	% of Portfolio
Nestle S.A.	4.59
Roche Holding AG	3.60
Novartis AG	2.75
SAP SE	2.68
Toyota Motor Corp.	2.53
Rio Tinto plc	2.27
Enel SpA	2.23
Siemens AG	2.23
LVMH Moët Hennessy Louis Vuitton SE	2.15
BHP Group Ltd.	1.98

**Regional Allocation**

as of September 30, 2020

Region	% of Portfolio
Europe	46.11
Japan	22.64
United Kingdom	15.81
Asia/Pac ex Japan	11.11
Cash & Other Assets and Liabilities	2.84
ETF & Other	1.49

**Performance**

Average Annual Returns (%) as of September 30, 2020

Victory RS International Fund (Class A – GUBGX)	QTR	1-YR	3-YR	5-YR	10-YR	Since Inception 02/16/1993
without sales charge	3.98	-0.10	1.81	5.65	4.37	5.52
with maximum sales charge (5.75%)	-1.96	-5.82	-0.18	4.40	3.75	5.30
MSCI EAFE Index (Net) <sup>1</sup>	4.80	0.49	0.62	5.26	4.62	—

**Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please call 1-800-539-FUND or visit [www.vcm.com](http://www.vcm.com).** Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year are annualized. Fee waivers were in place for all or some of the periods shown, without which performance would have been lower.

The Fund's annual gross and net expense ratios for the Class A Shares were 1.55% and 1.13% respectively. Net expense ratio reflects the waiver, reimbursement or recoupment, as applicable, contractually agreed to through April 30, 2021. See the prospectus for details.

A Fund's portfolio differs significantly from the securities held in an index. An index is unmanaged and not available for direct investment.

**All investing involves risk, including potential loss of principal. There is no guarantee that the Fund will achieve its objective.** Investments in small and mid-size companies can involve risks such as less publicly available information, higher volatility, and less liquidity than larger companies. International investing involves special risks, which include changes in currency rates, foreign taxation and differences in auditing standards and securities regulations, political uncertainty and greater volatility. These risks are even greater when investing in emerging markets. Any discussions of specific securities should not be considered a recommendation to buy or sell those securities.

<sup>1</sup> The MSCI EAFE Index (Net) is generally considered to be representative of international stock market activity. The Index is unmanaged and not available for direct investment. The MSCI EAFE Index (Net) reflects no deduction for fees, expenses or taxes except foreign withholding taxes.

<sup>2</sup> Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

**An investor should consider the fund's investment objectives, risks, charges and expenses carefully before investing or sending money. This and other important information about the investment company can be found in the fund's prospectus, or, if available, the summary prospectus. To obtain a copy, visit [www.victoryfunds.com](http://www.victoryfunds.com). Read the prospectus carefully before investing.**

The Fund is distributed by Victory Capital Services, Inc., member FINRA. Victory Capital Services, Inc. is affiliated with Victory Capital Management Inc., the Fund's investment adviser.

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For more information about separate accounts and mutual funds, contact Victory Capital Management at 800-991-8191 or visit [vcm.com](http://vcm.com).

