VICTORY RS LARGE CAP ALPHA FUND QUARTERLY COMMENTARY

RS Investments®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2020

Market Commentary

It was quite a year for stocks in 2020, and the manner in which the fourth quarter ended just might prove to be an inflection point for value-oriented equity strategies. Are we finally on the cusp of a longer-term rotation away from technology and growth stocks? Only time will tell, but there have been promising signs that we may be in the early stages of a new economic cycle, which in turn could favor traditional value sectors.

To understand where we are in the cycle today might require a look back at this historic and unusual year. In the first quarter of 2020, an emerging pandemic shook the markets globally. Stocks were pummeled by SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2, the virus responsible for COVID-19). But almost just as quickly, U.S. equity markets rebounded in the second quarter and continued to move sharply higher to start the third quarter before taking a breather in September. And then the year ended with the strongest fourth quarter equities rally in history.

The massive fiscal and monetary stimulus that helped keep businesses open, people in their homes, and important services funded during the early stages of the economic downturn obviously fueled financial markets. Then came growing optimism for an effective vaccine (developed faster than even the best-case scenario). On top of that, election clarity and the potential for less mercurial policies of a new presidential administration also helped push investor sentiment to a multi-decade level of exuberance. And once again in the fourth quarter, stocks were propelled by expectations for more fiscal stimulus.

After much negotiating and drama, Congress delivered on its fiscal promise with more direct payments, more unemployment insurance, and additional aid to businesses. All this fiscal stimulus appears to have bridged the pre-pandemic economy to what is slowly emerging as a "new normal" economic environment. It also has been a catalyst for a rotation into the market's cheaper and economically sensitive sectors during the fourth quarter. The monetary and fiscal backdrop may, in our opinion, be setting up nicely for longer-term tailwinds for value-oriented strategies.

In terms of style performance during the fourth quarter, value-oriented stocks, as measured by the Russell 3000® Value Index,[1] increased 17.21%. This bested growth-oriented stocks, as measured by the Russell 3000® Growth Index,[2] which were up 12.41% during the same period.

Small-cap, mid-cap, and large-cap stocks all performed well during the quarter, as measured by the Russell family of indices. The Russell 2000® Index[3] rebounded sharply on a relative basis, returning 31.37% during the fourth quarter, while the Russell Midcap® Index[4] returned 19.91%, and the Russell 1000® Index[5] returned 13.69%. Meanwhile, the Russell 2000® Value Index[6] was the best performing U.S. equity style, up 33.36% during the fourth quarter. This reflects, in part, the view that small-cap value companies that had not participated in the strong performance of U.S. equity markets were priced too conservatively.

Performance Review

For the three months ended December 31, 2020, the Victory RS Large Cap Alpha Fund (A shares at NAV) outperformed its benchmark Russell 1000® Value Index[7] (the "Index") and returned 18.20% net versus a return of 16.25% for the Index.

In the fourth quarter, relative outperformance was driven primarily by stock selection in the Consumer Discretionary and Information Technology sectors, while stock selection in Financials detracted.

Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, which are attractively valued. Our decision to invest in any company starts with business analysis and an understanding of the company's unit-level economics. Our work on unit-level economics helps us determine the quality and key drivers of the business. We are Return on Invested Capital (ROIC)–focused investors and seek to invest in companies that can create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We are long-term investors who use our investment time horizon as a competitive advantage and are attracted to out-of-favor and/or misunderstood companies in the market.

The next step in our process is to assess the management team. Our evaluation of a company's management team is critical to our investment decision. We regularly meet with management to gauge how they think about their business: Are they focused on (and compensated for) growing earnings at any cost, or do they understand return on invested capital (ROIC) and how value is created? Additionally, we perform detailed historical analyses of management's capital decisions—looking at acquisitions, asset sales, and measures of capital stewardship. This analysis provides us with the conviction to invest with strong management teams that are able to navigate through short-term market volatility and deliver long-term shareholder value.

The final step in our analysis is valuation. To the RS Value Team, value investing is buying a business at a discount to what we believe it is actually worth. We determine what a company is worth by assessing a company's current share price versus its future cash flow streams or long-term net asset value based upon the management team's plan for value creation. ROIC is the lens through which we analyze that value creation. Our research has shown that, over time, stock price performance has a higher correlation to improving ROIC as opposed to traditional valuation measurements like price to earnings (P/E). We seek to invest in companies that can create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We pay close attention to a company's financial strength, scrutinizing financial statements, and we run various financial models to understand our downside. This quantitative analysis gives us confidence in our investment thesis and helps us determine at what stock price we are comfortable investing.

20210113-1474118

Select Position Review

Below, we review two businesses in an effort to use tangible examples to highlight our investment process.

Sensata Technologies (ST) provides sensors to automotive, industrial, and heavy vehicle customers around the world. Despite being a relatively small amount of the total cost of the end product, Sensata's solutions are critical in measuring the performance and operations of their clients' products, so customers are willing to pay for Sensata's premium technology. For example, Sensata sensors optimize fuel efficiency in trucks, measure tire pressure in automobiles, regulate temperature of batteries in electric vehicles, and manage industrial pumps.

Strong secular tailwinds including regulation, fuel efficiency, and electrification continue to drive more demanding operating requirements, allowing Sensata to gain content market share and become a critical partner to its customers. Unlike most of its competitors, Sensata benefits from electric vehicle growth because its dollar content is greater on EVs than internal combustion vehicles.

The sensor industry structure is also favorable, with a group of established institutions competing rationally and an ability to maintain content on a particular platform for the entire platform lifecycle. Sensata's return on invested capital (ROIC) will improve due to rising operating margins from increased scale and productivity improvements that are being implemented at recent acquisitions. We believe Sensata offers a compelling opportunity for value creation.

During the fourth quarter and throughout 2020, one area of underperformance was in property and casualty (re)insurance, where significant catastrophe losses hampered investment returns. In particular, our position in RenaissanceRe (RNR), a reinsurer with a dominant franchise in natural catastrophe reinsurance, was subject to losses from COVID-19. Although the losses from the pandemic have affected the stock price in the short term, as they have with our other property and casualty investments, our conviction in the name going forward has only increased. As a result of our focus on strong balance sheets, high quality capital allocators, and improving returns, our conviction in RNR has increased despite the losses from COVID-19.

In the world of (re)insurance, every major catastrophe leaves an impact on the industry and COVID-19 has done the same. Although total insured losses for the pandemic will continue to be calculated for some time in the future, history gives us some insight regarding how the industry may react. The lessons learned from Hurricane Andrew, September 11, Hurricane Katrina, and many others result in direct change in risk appetites, capital requirements, and (importantly) prospective assessment for pricing adequacy. The investment community response to these events typically follows a very similar pattern. Property and casualty stocks initially decline, as investors myopically focus on the losses incurred and remaining capital adequacy. Once the losses can be determined, investor focus shifts to pricing improvement and the stocks typically perform well, as future earnings improvement is discounted into current valuations. While this has been a bit slower to play out then we would have liked, we expect this playbook to unfold once again.

In general, the valuations assigned to property and casualty (re)insurers remain very attractive and pricing power is likely to persist throughout our investment time horizon. The sector remains one of our higher conviction investment themes in these uncertain times, with RenaisanceRe (RNR) being one of our larger weightings.

Outlook

The range of outcomes for 2021, while more optimistic, rests on the rollout and efficacy of recently approved vaccines to fight COVID-19. Volatility, economic activity, and the level of interest rates will be impacted by the level of success of the vaccines. In addition, the United States presidential election has resulted in a shift in power, which provides some uncertainty as to how policy decisions may impact the economy and markets.

Interest and mortgage rates continue near historically low levels, inflation is nonexistent, and the economy struggles while we await broad distribution of the vaccines. We remain very watchful of inflation, particularly as a result of the size and speed of the monetary and fiscal response to the pandemic. We continue to carefully monitor the corporate debt market, but in general, U.S. corporate balance sheets are in better shape with access to low-cost debt. The Federal Reserve has stepped in to provide liquidity to support risk assets, but there does remain some concern regarding insolvency for some businesses if the absolute level of economic activity remains weak.

Equity valuations are in the top decile compared to historical levels, in part due to depressed earnings from COVID-19, but also as a result of multiple expansion in the six largest mega-cap stocks in the S&P 500®. Excluding the six largest mega-cap stocks, valuations are more reasonable, particularly if compared to the 10-year U.S. Treasury yield. Recovery in aggregate earnings will be tempered, as certain industries such as hospitality, entertainment, banking, and travel will take longer to return to pre-coronavirus levels. However, equities continue to look attractive when compared to Treasuries and high-grade corporate bonds after the flight to safety rally during the crisis. In any case, we feel the values inherent in your portfolio should attract other investors and acquirers over time.

We thank you, as always, for your support.

Sincerely,

RS Value Team

20210113-1474118

Sector Allocation[8]

As of December 31, 2020

Sector	% of Portfolio
Financials	24.59
Industrials	14.07
Health Care	13.17
Information Technology	8.39
Consumer Discretionary	8.23
Consumer Staples	7.04
Utilities	6.35
Communication Services	5.43
Energy	5.11
Materials	3.66
Real Estate	3.39

Top 10 Holdings[9]

As of December 31, 2020

Holding	% of Portfolio
Keurig Dr Pepper Inc.	3.90
Sealed Air Corporation	3.66
Vistra Corp.	3.37
RenaissanceRe Holdings Ltd.	3.26
Mondelez International, Inc. Class A	3.14
Alphabet Inc. Class A	2.99
JPMorgan Chase & Co.	2.91
Euronet Worldwide, Inc.	2.87
Cigna Corporation	2.83
Dollar Tree, Inc.	2.68

Performance

Average Annual Total Returns as of December 31, 2020

Victory RS Large Cap Alpha Fund (Class A – GPAFX)	Fourth Quarter 2020	1-Year	3-Year	5-Year	10-Year	Since Inception (6/1/72)
without sales charge	18.20%	-1.03%	5.47%	8.57%	9.35%	11.41%
with maximum sales charge (5.75%)	11.41%	-6.72%	3.41%	7.29%	8.71%	11.28%
Russell 1000® Value Index[7]	16.25%	2.80%	6.07%	9.74%	10.50%	N/A

Performance returns for periods of less than one year are not annualized. Returns include reinvestment of dividends and capital gains.

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, visit www.vcm.com. High double-digit returns are unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions.

The Fund's total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 0.95%/0.89%. The Adviser has contractually agreed to waive a portion of its management fee and/or reimburse certain expenses through at least April 30, 2021. The Adviser is permitted to recoup advisory fees waived and expenses reimbursed by it for up to 3 years after the fiscal year in which the waiver or reimbursement took place, subject to the lesser of any operating expense limits in effect at the time of the original waiver or expense reimbursement and at the time of recoupment or reimbursement. This agreement may only be terminated by the Fund's Board of Trustees.

20210113-1474118

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Investing in small and mid-size companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. Overweighting investments in certain sectors or industries increases the risk of loss due to general declines in the prices of stocks in those sectors or industries. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments.

Any discussions of specific securities should not be considered a recommendation to buy or sell those securities.

Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

1 The Russell 3000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 3000® Index (which consists of the 3,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

2 The Russell 3000® Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 3000® Index (which consists of the 3,000 largest U.S. companies based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values.

3 The Russell 2000® Index is an unmanaged market-capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which is made up of the 3,000 largest U.S. companies based on total market capitalization.

4 The Russell Midcap® Index is an unmanaged market-capitalization-weighted index that measures the performance of the 800 smallest companies in the Russell 1000® Index, which consists of the 1,000 largest U.S. companies based on total market capitalization.

5 The Russell 1000® Index is an unmanaged market-capitalization-weighted index that measures the performance of the 1,000 largest U.S.-traded stocks.

6 The Russell 2000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which consists of the 3,000 largest U.S. companies based on total market capitalization.)

7 The Russell 1000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

8 The Fund's holdings are allocated to each sector based on their GICS classification. If a holding is not classified by GICS, it is assigned a GICS designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.

9 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.vcm.com. Read the prospectus carefully before investing.

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