

### Market Environment

International small-cap equity returns were muted in the second quarter as investors weigh concerns of slowing global growth against signs of resilient global macroeconomic data. For the quarter, the S&P<sup>®</sup> Developed Ex-U.S. SmallCap Index advanced 0.1%, while the Victory Trivalent International Small-Cap Fund (Class A, without load) outperformed the benchmark. Country returns were mixed, with European equities modestly outperforming their AsiaPac peers. After a tough start to the year, Israel bounced back 6.7% and was the best performing country in the Index as its economy slowed less than expected in the first quarter. Italy gained 4.3% and was boosted by a rebound in the banking industry as well as increasing consumer confidence. On the downside, Sweden fell 7.4% as its government forecasts a deeper-than-expected economic contraction amid high inflation and a real estate market downturn. In Asia, Hong Kong dropped 7.9% as China's sluggish manufacturing activity continues to suggest an uneven economic recovery.

Sector returns were also mixed, with five of the 11 posting positive returns. Information Technology led the way, up 3.5% as semiconductor stocks rallied on the back of Nvidia's blowout earnings results and reports of surging AI chip demand. Financials rebounded 2.8% on easing concerns of contagion across the global banking sector. Real Estate fell 3.5%, lagging the broader Index for a consecutive quarter as higher rates have increased borrowing costs and continue to pressure property values. Communication Services was the worst performing sector, down 4.7% largely due to weakness among media stocks.

### Portfolio Review

Positive stock selection was broad based as excess returns were generated in all five regions and nine of the 11 economic sectors. From a style perspective, the Fund's overall exposure to value, business momentum and quality factors contributed to performance. Value and business momentum generated positive signals, while quality was a minor headwind. Across sectors, security selection was strongest in Materials and was boosted by two holdings. Australian lithium producer Allkem rallied 34.0% following the announcement of a merger of equals between Allkem and U.S. lithium producer Livent. The joint company will make the world's third largest supplier of lithium. Canadian utility pole and lumber maker Stella-Jones increased 35.1% after beating earnings expectations and raising margin guidance for 2024. Relative performance was also strong in Communication Services, as JYP Entertainment was the top contributor for the quarter. The Korean music promoter gained 67.0% following record album sales from its core artists Stray Kids and Twice. A return to concerts has further supported growth, and the company expects to have four new groups debut across the world over the next year.

Relative underperformance was centered in the Energy sector, with the largest impact coming from a position in Saras. The Italian oil refiner declined 22.2% as excess capacity has pressured elevated refining margins. The portfolio's top contributor last quarter, Perion Network, was the largest detractor this quarter, down 22.5% after a short-seller report raised questions over the sustainability of growth and the accuracy of its financial reporting. The Israeli digital adtech firm attributes its high sales growth and robust margins to owning both demand-side and sell-side platforms, as it sells search, social and display advertisements. Hexatronic was another portfolio holding challenged by a short-seller report. The Swedish fiber to the home (FTTH) solutions provider dropped 47.5% on concerns of rising competition in the U.S. and the short-seller report claiming Hexatronic's acquisition strategy has not been well executed.

### Market Outlook

After a strong start to the year, global markets face a variety of crosscurrents for the second half of 2023 as the lagged effects of higher interest rates play out. Forecasts of a potential recession persist, albeit delayed, though the consensus outlook appears to be milder than previously feared. While inflation is gradually moderating, major central banks have slowed the pace of rate hikes but are maintaining hawkish stances until levels approach their target of 2 percent. Policymakers remain committed to a data-dependent approach with the hope of achieving a soft landing without overtightening. In contrast, the Bank of Japan has maintained accommodative monetary policy to support economic growth, holding its short-term interest rate target at -0.1% since 2016. Japanese consumer spending has accelerated as the country's delayed reopening gains momentum, boosted by inbound tourism. In addition, regulatory changes to unlock shareholder value are underway as Japanese companies trading below book value must review their capital efficiency. As a result, the activity level in restructuring efforts, share buybacks, and higher dividend payouts is materially higher and has led to increased foreign investment. Thus far, the global market rally has been quite narrow and fueled by companies with exposure to AI on enthusiasm for this rapidly advancing technology to stimulate a productivity boom. Large-caps have outperformed during this upward trend, suggesting potential for small-caps to catch up if the market rally broadens given the widened valuation dispersion. International small-cap equities are still trading at multiples below historical averages and at an attractive discount relative to U.S. peers. We remain cautiously optimistic for the asset class and believe opportunities for relative outperformance remain, particularly among the diverse and broad segment of international small-cap equities. We continue to be guided by our bottom-up analysis and remain focused on stock selection while adhering to our disciplined country and sector risk exposures.

Top 5 Contributors (%)	Return	Contribution to Absolute Return
JYP Entertainment Corp .	67.0	0.39
Abcam PLC Sponsored ADR	81.8	0.33
Sembcorp Industries Ltd.	31.4	0.28
Allkem Limited	34.0	0.22
Shinko Electric Industries Co., Ltd.	32.1	0.22

Top 5 Detractors (%)	Return	Contribution to Absolute Return
Bechtle AG	-16.0	-0.11
Hexatronic Group AB	-46.8	-0.12
Konica Minolta, Inc.	-20.8	-0.09
Lotte Chilsung Beverage Co., Ltd	-23.9	-0.09
Nuvei Corp.	-32.1	-0.12

Top Ten Holdings	% Fund
Sembcorp Industries Ltd.	1.07
Bank of Ireland Group Plc	0.94
JYP Entertainment Corp.	0.93
Finning International Inc.	0.90
BRP, Inc.	0.87
Gerresheimer AG	0.87
Shinko Electric Industries Co., Ltd.	0.84
Internet Initiative Japan Inc.	0.81
Perion Network Ltd	0.77
Sopra Steria Group SA	0.76
<b>Total</b>	<b>8.76</b>

### Investment Performance (%)

Average Annual Returns as of June 30, 2023

Victory Trivalent International Small-Cap Fund	Ticker	Inception Date	Q2 2023	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratio Gross	Expense Ratio Net
A Shares, without sales charge	MISAX	8/17/07	2.65	9.83	13.11	5.95	2.04	6.86	3.88	1.65	1.37
A Shares, with sales charge (max. 5.75%)	MISAX	8/17/07	-3.26	3.48	6.59	3.88	0.84	6.23	3.49	1.65	1.37
I Shares	MISIX	8/17/07	2.77	10.08	13.62	6.37	2.46	7.29	4.33	1.18	0.97
S&P Developed Ex-U.S. SmallCap Index (Net)	-	-	0.07	6.51	10.50	5.85	1.30	5.74	-	-	-

Source: Victory Capital data analyzed through Zephyr.

**Past performance does not guarantee future results. The performance quoted represents past performance and current performance 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](http://www.vcm.com).** Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. Other share classes are available. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which fund performance would have been lower. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through October 31, 2023.

**Carefully consider a fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus or summary prospectus containing this and other important information, visit [www.vcm.com/prospectus](http://www.vcm.com/prospectus). Read it carefully before investing.**

Other share classes are available. Not all share classes are available to all investors.

**All investing involves risk, including the potential loss of principal.** In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in smaller companies typically exhibit higher volatility. The fund is also subject to liquidity risk, which is the risk that the Adviser may not be able to sell a security at an advantageous time or price, which may adversely affect the Fund. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or

market sectors, but as an illustration of broader themes. Fund holdings are subject to change and should not be considered purchase recommendations. There is no assurance that the securities mentioned remain in the Fund's portfolio or that securities sold have not been repurchased. Top holdings do not reflect cash, money market instruments or options/futures contracts holdings. The most currently available data regarding portfolio holdings can be found on our website, [www.vcm.com](http://www.vcm.com).

**Contributors and Detractors** Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

**The S&P Developed Ex-U.S. SmallCap Index** seeks to measure the stocks representing the lowest 15% of float-adjusted market cap in each developed country, excluding the U.S.

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