RS LARGE CAP VALUE STRATEGY QUARTERLY COMMENTARY

RS Investments®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2023

Market Commentary

As the year drew to a close, financial markets celebrated, and investors cheered what may yet be known as the "immaculate disinflation." After all the peculiarities of the pandemic and the subsequent monetary and fiscal stimuli, is the economy normalizing and are we really on track for that proverbial soft landing? That's what the financial market seemed to be suggesting during the fourth quarter.

The benchmark 10-year Treasury, which rose as high as 4.99% early in the quarter, fell to as low as 3.79% toward the end of the year, as inflation continued to abate, the labor market showed signs of normalizing, and the consumer remained surprisingly resilient. Markets rallied sharply, led by sectors that had been most adversely impacted by higher interest rates and a weakening economic environment, such as Financial Services and Real Estate.

Earlier in the fourth quarter, however, the picture wasn't quite so rosy. The quarter began with small-cap stocks, as defined by the Russell 2000® Index, declining 6.82% in the month of October. Large-cap stocks, as measured by the Russell 1000® Index, also fell for their third consecutive month, declining 2.42% in October. While corporate earnings and economic growth continued to surpass expectations, concerns over rising interest rates overwhelmed fundamentals and weighed heavily on the market. Fortunately, as the quarter progressed, equity markets flipped, and there was a significant move higher across most styles beginning in late October. The rally was triggered by growing optimism that inflation was being contained, thus giving the Federal Reserve the freedom to end its aggressive interest rate hikes. Yields on 2-year and 10-year Treasurys fell 88 and 120 basis points, respectively, intra-quarter.

In terms of the overall numbers for our area of focus—domestic value-oriented strategies—the Russell 3000® Value Index returned 9.83% during the fourth quarter, bringing the full year return to 11.66%. In terms of market capitalizations, small-cap value stocks, as represented by the Russell 2000® Value Index, returned 15.26% for the quarter. The Russell Midcap® Value Index returned 12.11%, while large-cap stocks, as represented by the Russell 1000® Value Index, returned 9.50% during the same period.

Indeed, let's celebrate the good news and recent rally. Yet we should also acknowledge that after an extended period of exceedingly low interest rates, fiscal tailwinds, and easy access to cheap capital, we are firmly in a new regime. This reality has been difficult for the market to digest, and we've seen that manifest in periods of volatility and uncertainty. Naturally, this often causes prices to dislocate from fundamentals, thus creating an environment that should benefit astute active managers.

With regard to investment styles, we believe value-oriented approaches should be rewarded going forward in this higher-rate, tighter monetary policy era. Companies with sound balance sheets and solid fundamentals should once again be viewed favorably in this environment, whereas more speculative companies or those that require substantial debt to fuel growth will face higher capital costs and, in many cases, shrinking margins.

Specifically, our team seeks to identify companies with a combination of improving ROIC (return on invested capital) and stock prices trading at what we perceive as a deep discount to intrinsic value. We believe that allocating to these types of businesses is a means to generate attractive risk-adjusted returns over longer time periods, and this continues to be a primary focus for us as we look ahead to 2024.

Performance Review

For the three months ended December 31, 2023, the RS Large Cap Value strategy underperformed its benchmark Russell 1000® Value Index (the "Index") and returned 7.14% net versus a return of 9.50% for the Index.

In the fourth quarter, strong performance from stock selection in Consumer Staples and Information Technology aided relative performance, while stock selection in Financials and Consumer Discretionary detracted.

Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, that 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 ROIC-focused investors and seek to invest in companies that we believe have the potential to 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 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 we expect will be able to navigate through short-term market volatility and appear to be poised to 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 expected 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 strong correlation to improving ROIC as opposed to traditional valuation measurements like price to earnings (P/E). We seek to invest in companies that we believe 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.

Select Position Review

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

Zebra Technologies (ZBRA) provides portable computers, digital scanners and printers to track assets and inventory across many industries including retail, warehouse, manufacturing and logistics. Its software allows companies to identify, track, analyze and process physical assets in real time. Zebra's solutions increase product availability, increase efficiency through automation, lower working capital costs, and reduce labor costs.

COVID was a huge tailwind for Zebra, with revenue jumping from $4.4B in 2020 to $5.6B in 2021 and $5.8B in 2022. Zebra's customers rapidly increased warehouse and logistics spending to meet unexpected online retail demand. However, once consumers returned to pre-COVID behaviors, Zebra's customers realized they had over-expanded and have temporarily reduced spending with Zebra. 2023 revenue fell back down to $4.6B and is expected to remain weak heading into 2024. Our analysis indicates that the long-term secular trends of increasing online retail penetration and demand for automation remain in place. We initiated a position because we concluded that short-term investors have overly punished the stock. Over our investment horizon we expect to generate a compelling return on our investment.

Humana (HUM) is one of the largest managed health care companies in the U.S., with a leading position in the Medicare Advantage (MA) market. HUM's MA and Medicare Part D plans serve over 8 million American seniors.

Shares of HUM underperformed during the fourth quarter of 2023 due to growing investor concerns about increased medical utilization by seniors and the related gross margin headwind. Second, rumors were published regarding a merger process between Cigna (CI) and Humana. Investors in HUM viewed a merger negatively given that Cigna participates in lower-growth end markets, namely commercial medical and pharmacy benefits, which have resulted in CI trading for 9-11x P/E historically, well below HUM's 17-19x. While the process ended without a transaction, investors viewed Humana's willingness to consider a merger as a signal that fundamental risks may be emerging.

As a result of these developments and in line with our risk management process, we reduced exposure to HUM during the quarter. A smaller position enables us to be nimble in adding opportunistically while we are comfortable owning shares based on the attractive asymmetry of return between our downside and warranted values.

Outlook

Since March of 2022, the Federal Reserve has aggressively raised interest rates in an effort to lower inflation, causing significant uncertainty within the stock and bond markets. Although it seems likely that interest rate increases are now behind us, the U.S. and the rest of the world continue to manage through the resulting economic impact of the higher inflation and higher yields. At this juncture, we lean toward a continued slowdown in economic activity in 2024.

The biggest risk right now would seem to be from a "shock to the system" during this period of relative weakness while we are troughing the transition from a pandemic economy to a more normalized economy. Geopolitical risk remains heightened around the globe, with the potential of a systemic shock from a number of regions. As always, with our bias toward quality, we strive to mitigate the downside, while also participating in the upside.

Meanwhile, employment remains strong. Heavy fiscal stimulus from passed U.S. legislation for defense, infrastructure, semiconductors, and energy investments is only now beginning to be awarded. The spending will not peak until later in the decade. Relatively high energy costs in Europe, and Germany in particular, make manufacturing here relatively more attractive. Political risk in China makes that country less attractive to do business in. We expect housing to continue to be challenged by high mortgage rates and affordability concerns, although a shortage of housing after more than a decade of underinvestment should help home prices. Consumer balance sheets remain generally healthy for the majority of Americans, and consumer credit quality remains strong at the moment.

Following years of low interest rates helping to drive ever-higher growth-stock valuations, we feel value investing is ripe for a period of outperformance. We continue to find opportunities to invest in quality businesses with solid balance sheets and cash flows, where the return on invested capital (ROIC) is improving, and whose share prices have detached from our assessment of the fundamentals.

We thank you, as always, for your support.

Sincerely,

RS Value Team

Top Contributors (Representative Account)
As of December 31, 2023

Holding	% Contribution to Return
Progressive Corporation	0.65
Fairfax Financial Holdings Limited	0.63
Vistra Corp.	0.51
Goldman Sachs Group, Inc.	0.49
Leidos Holdings, Inc.	0.45

Top Detractors (Representative Account)
As of December 31, 2023

Holding	% Contribution to Return
Exxon Mobil Corporation	-0.40
Marathon Oil Corporation	-0.37
Markel Group Inc.	-0.28
Chevron Corporation	-0.22
Mattel, Inc.	-0.21

Composite Performance
Average Annual Returns as of December 31, 2023

RS Large Cap Value Composite	Fourth Quarter 2023	1-Year	3-Year	5-Year	10-Year	Since Inception*
Gross of fees	7.27%	14.28%	10.91%	12.44%	9.25%	12.00%
Net of fees	7.14%	13.71%	10.36%	11.88%	8.71%	11.36%
Russell 1000® Value Index	9.50%	11.46%	8.86%	10.91%	8.40%	11.58%

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual 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 2A of its Form ADV. *05/31/2009.

All investments carry a certain degree of risk, including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

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 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. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report.

The Russell 1000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index with lower price-to-book ratios and lower forecasted growth values.

The RS Large Cap Value Strategy primarily invests in a diversified portfolio of large-cap companies.

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.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

V17.084 // 4Q 2023 RS Large Cap Val Strategy COM