RS LARGE CAP VALUE STRATEGY QUARTERLY COMMENTARY

RS Investments®
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of June 30, 2022

Market Commentary

The first half of 2022 has been an interesting period, to say the least. With several broad market averages slipping into bear territory in the second quarter, investors are left pondering a host of questions. Just how healthy is the economy? Is the Federal Reserve on the verge of tightening monetary policy so much that it causes the economy to grind to a halt? Does the near-record-low unemployment rate reflect underlying economic strength, or are the recently announced layoffs across the tech industry a sign of things to come? Is Russia's invasion of Ukraine the beginning of a more dire global war, or does it reflect developed nations truly coming together for the first time to protect freedom? Are stocks cheap, given that multiples have (in some cases) hit their lowest point since the global financial crisis more than a decade ago, or do these multiples reflect future earnings that won't be achievable? It's tricky out there.

Although nobody can answer these questions with absolute certainty, we can definitively say that the current investment landscape is as polarizing as we have seen in years, and global markets have reflected this uncertainty with extreme bouts of volatility. Perhaps most troublesome to markets are inflation concerns and the Fed's subsequent monetary policy shift. On one hand, the Fed is right to be worried given that we've seen some of the highest year-over-year Consumer Price Index readings in decades. Already we've seen several aggressive bumps in the federal funds rate for the first time in years, and several more appear to be on the way. This indicates the Fed's willingness to aggressively combat inflation irrespective of the impact on the underlying economy. While global equity markets have pulled back, it's perhaps more notable that the rising rate backdrop has pushed the Bloomberg U.S. Aggregate Bond Index to its worst two quarters since 1980.

Of course, it was no picnic for equity investors either during the second quarter, though it's worth noting that Value as an investment style continued to outperform Growth. In fact, one of the key underlying themes for equity markets to start the year has been how value-oriented stocks with pricing power, such as those within the energy, utilities, or consumer staples sectors, have materially outperformed growth-oriented stocks. This trend remains mostly intact, perhaps reflecting the higher interest rate environment and corresponding higher borrowing costs facing many fast growers that only offer the promise of future earnings. Still, in terms of absolute numbers, there were not many places to hide even for Value investors. Sentiment has soured, and the Russell 3000® Value Index declined 13.2% during the second quarter of 2022, which is approximately 21% off its all-time high achieved near the beginning of 2022. As we all were reminded once again, things can change quickly in this business.

Whether the Fed can help bring down inflation without tanking the economy is anyone's guess. We believe this will continue to be the most important issue weighing on markets going forward. Global logistics that were already challenged by the pandemic are under even more pressure due to Russia's invasion of Ukraine. Energy and commodity markets have been disrupted and continue to have a detrimental effect on supply chains around the world. Many companies have had difficulty gauging demand while navigating the challenging supply chain logistics. For example, several high-profile retailers recently reported that they are now sitting on excess inventory. Oddly enough, this may actually help ease pricing pressure and provide some relief for consumers in the near term.

Although challenges persist, it's not all doom and gloom and there are some reasons for optimism. An uptick in COVID-19 cases in the United States this spring was not met with higher hospitalizations or deaths, meaning we've likely seen the true transition of the coronavirus from pandemic to endemic. Many companies, particularly those with astute management teams and pricing power, appear positioned to do well in the face of this challenging macro environment. Thus, while periods of elevated volatility may continue, we see the pockets of underlying economic strength that are being ignored. Coupled with the more attractive valuations, we see some potentially intriguing buying opportunities that could benefit patient, long-term investors.

Performance Review

For the three months ended June 30, 2022, the RS Large Cap Value strategy outperformed its benchmark Russell 1000® Value Index (the "Index") and returned -8.01% net versus a return of -12.21% for the Index.

In the second quarter, relative performance was bolstered by stock selection in the Financials and Health Care sectors, which was partially offset by performance in Communication Services and Materials.

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 Return on Invested Capital (ROIC)–focused investors and seek to invest in companies that 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 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

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are able to navigate through short-term market volatility and appear to be poised todeliver 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 higher 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.

Valero Energy Corporation (VLO) refines and markets oil and renewable transportation fuels and petrochemical products. The company is the world's largest independent refiner and has 15 petroleum refineries, most of which are located in the United States. VLO also is the world's second largest producer of renewable diesel, which is made from recycled oils and fats through its Diamond Green Diesel joint venture. Twelve ethanol plants complete the company's renewable fuels operations. Valero earns a spread on the price of its inputs and the end product, with the level of profitability dependent upon end-market demand and the supply of fuel available for a given location. Valero sells its refined fuels to independent operators, Valero-branded retailers, and bulk consumers. The refining industry in the United States has been consolidating over the past few years through mergers and acquisitions or through closures of expensive, smaller refineries. Valero hopes to continue as an important provider of fossil fuels and aid in the transition toward greener fuels in the decades to come.

Valero was a strong performer for us this quarter, as refining margins expanded and the outlook for refining profitability remains solid. We purchased Valero as we believed the world would eventually emerge from the COVID-19 pandemic, and that there would be strong demand increases from artificially low levels for transportation fuels such as gasoline, jet fuel and diesel. This would result in increases in Return on Invested Capital (ROIC) for VLO. As this occurred other factors aided the company, with the war in Ukraine further tightening up the refined markets (particularly diesel), as Russia is a large refiner of products in the petrochemical supply chain. The large difference between natural gas prices in Europe (where they are high) and the United States (where they are relatively low) improves the profitability of U.S. refiners, as natural gas is a critical input in the refining process. With no new additional refineries planned for construction in the United States and more limited refining increases worldwide, we believe Valero can continue to produce high economic returns and create value for our shareholders.

US Foods Holding Corp. (USFD) is one of America's leading foodservice distributors. It distributes food and non-food supplies to approximately 250,000 customers across the country. The company's nearly 70 distribution facilities supply more than 400,000 fresh, frozen, and dry food stock-keeping units (SKUs) to single- and multi-unit restaurants and to regional and national restaurant chains, as well as to hospitals, nursing homes, hotels and motels, country clubs, government and military organizations, colleges and universities, and retail locations.

We initiated a position in USFD at the end of 2021. In our view, there exists a meaningful company-specific opportunity for improved ROIC at US Foods by closing the operating margin differential between itself and its closest competitor, Sysco. Through strategic vendor management, improved route optimization, and higher private-label penetration, we believe USFD has the ability to generate earnings 50% higher than its current run rate over the next three years.

After rallying in the first quarter of 2022, USFD shares gave back year-to-date gains in the last quarter as the market became increasingly concerned about a U.S. recession and its impact on US Foods' business. While somewhat defensive, the business is not immune to economic cycles. During the last recession, food service distributors saw their revenues fall in the mid-single-digit range. While this outcome is possible over the next 12 months, we believe that offsetting factors such as market share gains and growth in their non-restaurant customers (education, healthcare, and government), as well as continued recovery with customers impacted by the pandemic (hospitality), will act as offsets to any weakness seen at restaurants during a recession. Moreover, margins should be able to improve given the company-specific levers for improvement.

We remain enthusiastic about the opportunity at US Foods and believe its shares trade at a significant discount to intrinsic value. We have used its recent share price weakness to add to our position.

Outlook

2022 is setting up to be a pivotal year. Much will depend on how successful the Federal Reserve is at transitioning from an ultra-stimulative posture to a much less accommodative one (the elusive soft landing), while the U.S. and the rest of the world are dealing with the impacts of Russia's invasion of Ukraine. The U.S. consumer remains resilient, with healthy balance sheets following trillions in fiscal stimulus. The impacts from the COVID-19 pandemic are waning, and immunity resulting from prior infections, increasing vaccinations, and release of antivirals should help further the reopening of our economy.

Interest and mortgage rates have lifted off historically low levels, with 30-year mortgage rates recently topping 5% – potentially a psychologically important level. We are seeing reflation in many areas of the economy and are watching this closely given the historically high levels of government spending here and around the world. Unemployment has shown significant improvement, but labor continues to be an issue as the participation rate continues to be low and labor shortages are impacting many industries.

In our estimation, overall equity valuations remain at elevated levels. Treasury and high-grade corporate bond yields look unattractive. In any case, we believe value investing is ripe for a period of outperformance. Meanwhile, we still believe equities represent a superior asset allocation alternative to bonds over the longer term.

We thank you, as always, for your support.

Sincerely,

RS Value Team

Top Contributors (Representative Account)
As of June 30, 2022

Holding	% Contribution to Return
Humana Inc.	0.31
Cigna Corporation	0.30
Merck & Co., Inc.	0.28
Lamb Weston Holdings, Inc.	0.22
LKQ Corporation	0.18

Top Detractors (Representative Account)
As of June 30, 2022

Holding	% Contribution to Return
Comerica Incorporated	-0.56
Meta Platforms Inc. Class A	-0.55
Medtronic Plc	-0.53
Newmont Corporation	-0.51
Willis Towers Watson Public Limited	-0.51

Composite Performance
Average Annual Returns as of June 30, 2022

RS Large Cap Value Composite	Second Quarter 2022	1-Year	3-Year	5-Year	10-Year	Since Inception*
Gross of fees	-7.89%	-1.29%	8.56%	9.25%	12.05%	12.05%
Net of fees	-8.01%	-1.78%	8.02%	8.70%	11.48%	11.41%
Russell 1000® Value Index	-12.21%	-6.82%	6.87%	7.17%	10.50%	11.55%

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. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your particular circumstances.

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.

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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.

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