SOPHUS EMERGING MARKETS STRATEGY QUARTERLY COMMENTARY

Sophus CAPITAL℠
A VICTORY CAPITAL℠ INVESTMENT FRANCHISE

As of March 31, 2021

Executive Summary

Sophus Capital employs a disciplined, bottom-up approach utilizing both quantitative and fundamental processes to invest in companies that we believe have the potential for strong and sustainable earnings growth at attractive valuations, with revisions as the catalyst. By investing in companies with these characteristics, coupled with our risk-managed approach, we seek to provide consistent excess returns over time.

- The Sophus Emerging Markets Strategy advanced 4.9% (gross) for the quarter, outperforming its benchmark by 256 basis points.
- It was an eventful start to the new year, with a new president in the US, rising interest rates on the heels of trillions in new stimulus, the rollout of Covid-19 vaccines and the global reopening (with some hiccups), a hot commodities market, fears of a double-dip recession in Europe, and inflation fears in the US and other parts of the globe.
- Emerging markets equities are up over 68% since the market lows in March of last year related to the pandemic. While much of the easy money has been made, we believe there are a number of reasons to be optimistic for the remainder of 2021 and beyond.

Performance Recap

The Sophus Emerging Markets Strategy advanced 4.9% (gross) for the quarter, outperforming its benchmark by 256 basis points. The largest contributor to relative performance on a sector basis was materials, driven by stock selection, particularly within South African metals and mining. The largest detractor was in financials, where a slight underweight had the largest negative impact. On a country basis, the largest contributor was China, on stock selection particularly in the IT and utilities sectors. The largest detractor was Brazil, with an overweight position in that country having the largest negative impact as Brazil lagged the broader index in the period.

At the stock level, the largest contributor to performance was Weimob, Inc. (Ticker: 2013 HK). Weimob is a China-based company which provides cloud-based commerce and marketing solutions. In the first half of the quarter, the shares responded favorably to the company's implementation of price increases and to their expanded services and product offerings. Strong investor sentiment toward China cloud service names also benefited the share price. We took profits in February and we reallocated to better opportunities elsewhere.

The largest detractor from relative performance on a stock basis was Petrolero Brasiliero SA Sponsored ADR (Ticker: PBR US). Petrobras is an oil and gas E&P company in Brazil. The shares sold off in the period as President Bolsonaro clashed with, and eventually replaced, the CEO of that country's state-owned company over the increases in gasoline and diesel prices. This political intervention, despite underlying positive fundamentals of the company, caused us to sell the shares during the period as we believed the general negative political overhang would continue to weigh on the shares.

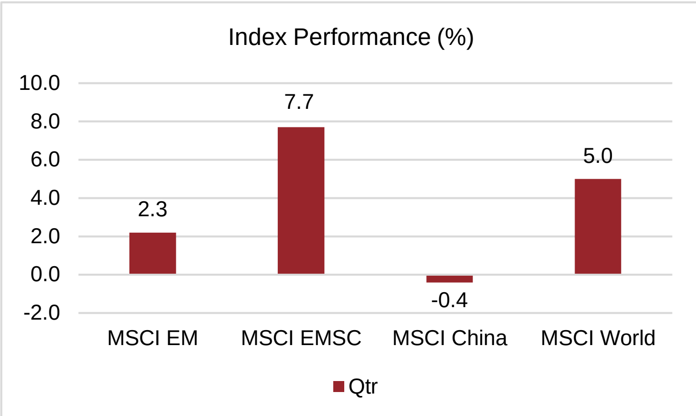
The Sophus team addresses risk factors in the portfolio using both proprietary tools and external risk tools (Axioma, Factset) to help manage the swings in the market. From a portfolio factor exposure perspective, market sensitivity was the biggest factor contribution in the portfolio. As an all-cap strategy, our small-cap exposure performed well as the cyclical rally continued and was the second largest contributing factor in the quarter. Momentum was the largest detractor as the rotation from growth to the cyclical/value trade continued.

During the quarter we took steps to add to our cyclicals exposure as global economies slowly begin to reopen. The portfolio continues to be tilted into Latin America. The region should benefit from the continued growth in commodities into the middle of the year. Within Latin America, we continue to be overweight Brazil, but have pared that back given the uncertainty surrounding rising Covid-19 cases and growing fiscal concerns. We have added to our Mexico exposure, as they should be a beneficiary of the strong economic growth in the US in the next year. We have reduced our exposure to Asia, with the bulk of that from China tech-oriented names as we saw opportunities in cyclical/value names, but also greater regulatory pressures in China. On a sector basis our largest overweight is in industrials, and we have transitioned our underweight exposure in materials to an overweight and have added to financials.

Market Overview

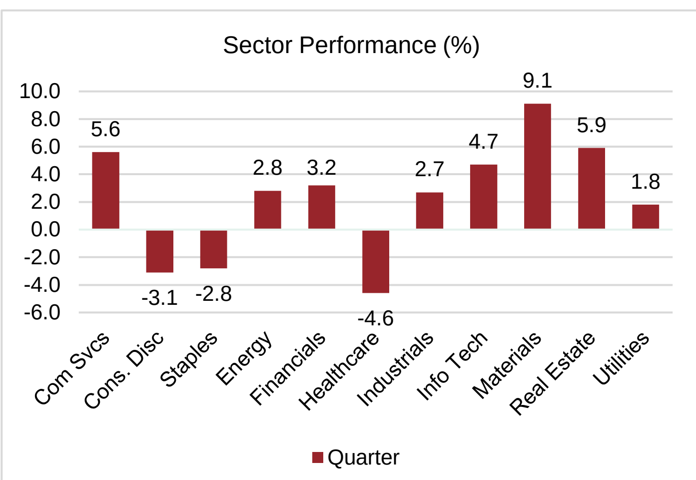
It was an eventful start to the new year, with a new president in the US, rising interest rates on the heels of trillions in new stimulus, the rollout of Covid-19 vaccines and the global reopening (with some hiccups), a hot commodities market, fears of a double-dip recession in Europe, and inflation fears in the US and other parts of the globe. The increase in interest rates and focus on economic reopenings led to a sell-off in many of the high-flying tech names that did so well in 2020, with a rotation to the cyclical/value names, as many of the equity market indexes across the globe hit all-time highs.

For the quarter, emerging markets equities advanced 2.2%. The quarter started off on solid footing for EM equities, advancing 3.1% in January, led by strong economic data out of China and a 4.5% increase in commodities led by a 7.9% increase in oil. Interestingly, growth outperformed value in the month and large-caps outperformed small-caps as the cyclical/value rotation, seen since the announcement of a vaccine in early November, paused in the month. In February, EM stocks were weighed down in the second half of the month by higher interest rates in the US and the subsequent strengthening of the US dollar, returning 0.8% for the month. As a result of steeper interest rates, the longer-duration tech stocks sold off in the month, in favor of value stocks. Small-cap stocks also outperformed. Commodities rallied 13.2% in February, led by a 18.3% spike in oil on the heels of a hard freeze in much of the United States which threatened supply. In March, EM equities fell 1.5%. The US dollar weighed on EM equites, with the dollar rallying 2.6% in March, pushed higher by the continued increase in US Treasury yields. Index heavyweight China was one of the worst performing countries in the month, declining 6.3% as shares in dual-listed Chinese companies fell sharply late in the month after the US SEC adopted measures that would remove foreign companies from American stock exchanges if they do not comply with US auditing standards. Chinese equities were also pressured by the news that China's government proposed a joint venture with local technology companies that would oversee the lucrative data they collect from hundreds of millions of consumers, raising additional concerns on China regulatory oversight.



Source: MSCI, Sophus Capital

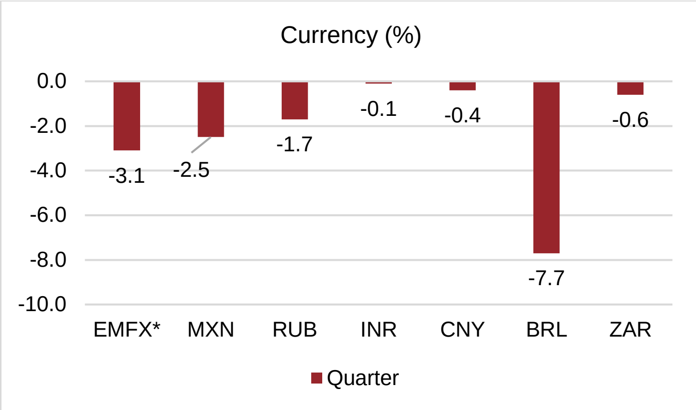
Within sectors, materials was the top performing sector in the quarter, advancing 9.1% on the strength in commodities. Real estate advanced 5.9% on strength in Chile and India, where the economies are reopening. China property management also did well on the heels of supportive policies with the country's fourteenth Five-Year Plan. Communication services (+5.6%) and IT (+4.7%) also outperformed the broader index in the quarter. The biggest laggard was the health care sector, down 4.6% as investors turned their attention to the stocks that should most benefit from the reopening of economies. Interestingly, consumer discretionary fell 3.1%, weighed down by Brazil (where Covid-19 cases continued to climb), and China (where regulatory issues and credit tightening weighed on the sector there).



Source: MSCI, Sophus Capital

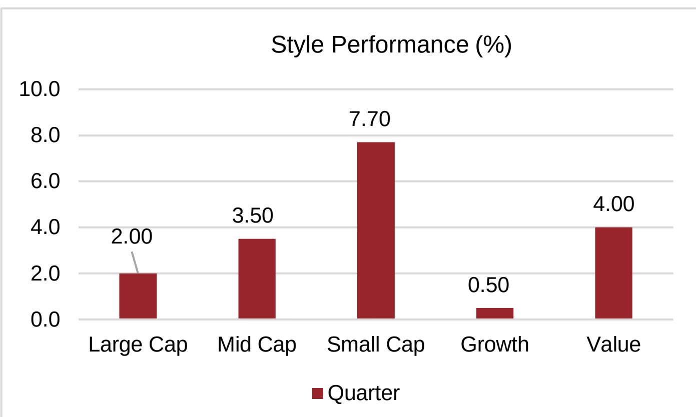
On a regional basis, EMEA was the top performer, advancing 8.1%, led by commodity-sensitive countries Saudi Arabia (+16.5%) and South Africa (+12.1%). Saudi Arabia also benefited late in the quarter from an announcement by Saudi's largest listed companies that they will reduce their dividends and redirect the money to help fund the country's $1.3 trillion economic overhaul plan. Russia advanced 4.9%. The country's central bank began their tightening cycle in March, raising rates by 25 basis points at their March meeting. Asia advanced 2.2% for the quarter. Taiwan led the region, advancing 12.9% on strength in the IT sector, particularly within semiconductors where the globe is experiencing a semiconductor shortage. India advanced 5.1%, benefiting from the announcement in February of a long-term growth focused FY22 budget. China declined 0.4% in the quarter on regulatory pressures, both internal on large tech companies, and external with the enactment by the SEC in the US of auditing standards for Chinese dual-listed stocks. Rising interest rates also had a negative impact on many of China's large-cap growth-oriented stocks, with the general rotation from growth to cyclical/value stocks also having an impact. Latin America declined 5.3%. Brazil fell 10.0%, as they have had a difficult time managing the pandemic, which has taken a heavy toll on the economy and public finances, as well as increased political risk following President Bolsonaro's removal of Petrobras' CEO. Mexico advanced 4.2%, as Mexico should be a beneficiary of US fiscal stimulus through several different avenues, including exports, remittances and tourism. Chile was the strongest country in the region and in the broader index, advancing 16.9% on strength in commodities and a better economic outlook for 2021, buoyed by a very strong vaccination program.

The US dollar finished the quarter up 3.7%, climbing 2.6% in the month of March on the back of higher US Treasury bond yields – a reflection of the stronger US GDP growth outlook vis-à-vis the rest of the world. A basket of EM currencies declined 3.1% against the stronger US dollar. Amongst the majors, the Brazilian real declined 7.7% as Covid-19 cases continued to climb and concerns mounted regarding the country's budget deficit, which grew to over 10% of GDP. The South Korean won and Mexican peso fell 4.0% and 2.5%, respectively. The Turkish lira was the worst performing currency within all of EM, declining 9.8% on uncertainty surrounding the firing of the central bank governor and the deputy governor just days after the central bank dramatically raised rates to address double-digit inflation. The move led to market turmoil amid concerns Turkey may return to unorthodox economic policies and rapid, premature rate cuts. Commodities advanced 17.5% on a 26.5% spike in oil. Oil was pushed higher by the demand recovery expectations as economies reopen, as well as OPEC's unexpected announcement to roll over production cuts in an already undersupplied market. Industrial metals advanced 9.5%, with copper up 21.5%, while precious metals declined 9.9%. Agricultural commodities advanced 3.4%.



JPMorgan EM Currency Index
Source: Bloomberg, Sophus Capital

On a style basis, small-caps advanced 7.7% and outperformed both large-caps and mid-caps, which gained 2.0% and 3.5%, respectively, as the cyclical rally continued through much of the quarter. Value stocks continued to outperform growth, advancing 4.0% versus a 0.5% gain in growth stocks. On a market factor perspective, not surprisingly, value was the best performing factor in the quarter. Forward earnings growth and earnings revisions also performed well. Quality was mixed. Long-term momentum and volatility were the worst performing factors as the rotation from growth to value was reestablished in February and March after a brief hiatus in January.



Source: MSCI, Sophus Capital

Outlook

Emerging markets equities are up over 68% since the market lows in March of last year related to the pandemic, and had a strong start to 2021 before taking a pause to refresh in March of this year. While much of the easy money has been made, we believe there are a number of reasons to be optimistic for the remainder of 2021 and beyond. A post-pandemic recovery of EM economies, accelerating global growth and a weaker US dollar over the long-term are just a handful of the many factors supporting an exposure to emerging markets equities.

Valuations of emerging markets equities look a bit rich relative to historical norms. However, earnings momentum in EM continues to be positive. Consensus estimates have been rising since October, with earnings growth estimates currently standing at 49% for 2021. Thus, we expect the majority of the upward movement in equities to be from earnings growth, rather than a multiple rerating. The 2021 EM EPS growth is expected to be strong in just about every sector, led by the cyclical ones with energy, materials and consumer discretionary expected to see earning growth well over 100% this year.

Despite lingering uncertainties about the global reopening process, vaccine distribution and virus containment measures have elevated global growth expectations for 2021. After a contraction of -3.5% in 2020, the global economy is forecasted to grow 5.5% in 2021, according to IMF estimates as of January 2021. While developed markets are anticipated to achieve 4.3% growth in 2021, Emerging Markets on average are forecasted to achieve 6.3% growth, as accelerated global trade and higher commodity prices boost EM current account balances, while general economic activity boosts domestic consumption. While EMs are uniquely positioned to benefit from a global recovery near-term, considering how sharply these markets were hit in 2020, we believe their economic resilience to crisis, long-term structural and demographic shifts supporting consumption growth, and the economic impact of technology and digitalization make them especially compelling over the longer term. Furthermore, improved global growth prospects (together with supply constraints) should continue to support commodity prices, benefiting key EM commodity exporters.

Emerging market equities tend to do better in a weaker US dollar environment as a weaker dollar leads to easier financial conditions and attracts foreign capital into emerging markets. Conversely, as the dollar strengthens, emerging markets typically experience outflows and weaker returns for US investors. The dollar has been range-bound over the past several weeks as US Treasury yields rose, and there is potential for some further strengthening if upward pressure on rates continues and/or near-term US economic growth far outpaces the near-term growth in emerging markets. However, the fundamental factors for a longer-term trend of a weaker dollar continue – namely, massive money printing, a huge fiscal deficit, and broadening global growth. A weaker US dollar could provide a tailwind for emerging market equities to move higher.

Our process seeks out sustainable, attractive earnings growth. We know that earnings growth drives markets most of the time. We look to buy earnings growth at attractive valuations. We anticipate that markets will continue to be volatile as economies reopen and the pandemic evolves. Ultimately, we believe the pace of vaccinations/herd immunity across the globe, and the potential for new variants creating a resurgence in the number of Covid-19 cases, will be important in determining the pace of economic and earnings growth across countries and sectors. We have seen, and generally expect vaccination progress in most emerging markets to lag that in advanced economies, either due to logistical issues, supply, or vaccine acceptance. Chile is the outlier, with roughly 40% of their population with at least one dose. However, most emerging markets are stuck at 5% or below. It is this issue that is a key variant in determining the timing and pace of economic growth and, we believe, a key reason why an active approach, with a focus on stock picking, is extremely important when investing in the asset class.

We thank you for your continued support.

Sincerely,
The Sophus Emerging Markets Team

Regional Allocation
As of March 31, 2021

Region	% of Portfolio
Asia	75.8
EEMEA	10.6
Latin America	11.3

Top 10 Holdings
As of March 31, 2021

Holding	% of Portfolio
Tencent Holdings Ltd.	5.74
Taiwan Semiconductor Manufacturing Co., Ltd.	5.46
Alibaba Group Holding Ltd. Sponsored ADR	4.39
Samsung Electronics Co., Ltd.	4.11
Infosys Limited Sponsored ADR	1.85
Ping An Insurance (Group) Co. of China, Ltd. Class H	1.58
SK hynix Inc.	1.52
China Merchants Bank Co., Ltd. Class H	1.49
MediaTek Inc.	1.28
Meituan Class B	1.27

Top 5 Contributors
As of March 31, 2021

Holding	Contribution to Relative Return %
Weimob, Inc.	0.51
KIA Corporation	0.32
Hindalco Industries Limited	0.30
China Longyuan Power Group Corp. Ltd. Class H	0.30
Impala Platinum Holdings Limited	0.29

Top 5 Detractors
As of March 31, 2021

Holding	Contribution to Relative Return %
Petroleo Brasileiro SA	-0.30
Xinyi Solar Holdings Ltd.	-0.24
Banco do Brasil S.A.	-0.21
TIM SA (Brazil)	-0.14
Anadolu Efes Biracilik ve Malt Sanayii A.S.	-0.13

Performance
Average Annual Returns as of March 31, 2021

Sophus Emerging Markets Strategy	Quarter	YTD	1-Year	3-Year	5-Year	7-Year	Since Inception (3/31/13)
Gross of Fees	4.85%	4.85%	65.64%	6.48%	14.31%	8.66%	7.35%
Net of Fees	4.64%	4.64%	64.32%	5.62%	13.36%	7.76%	6.45%
MSCI Emerging Markets Index (Net)	2.29%	2.29%	58.39%	6.48%	12.07%	6.58%	5.54%

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars. Composite returns are net of transaction costs and gross of non-reclaimable withholding taxes, if any, and reflect the reinvestment of dividends and other earnings.

Please note: High double-digit returns are highly unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions.

Investing involves risk, including the possible loss of principal. International investing involves special risks, which include changes in currency rates, foreign taxation, differences in auditing standards and securities regulations, political uncertainty, and greater volatility. Emerging markets involve heightened risks related to the same factors, as well as increased volatility and lower trading volume.

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.

Characteristics, Top Ten Holdings and Sector Diversification source: FactSet Research Systems, Inc. The top ten holdings and sector diversification are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

Holdings are as of the date shown and are subject to change. Portfolio holdings should not be construed as a recommendation to buy, sell, or hold any security. Holdings do not include cash, money market instruments, options or futures.

The representative account serves as the model against which each Sophus Emerging Markets strategy account is managed. The representative account is an actual portfolio and the information provided, including performance, will vary for other accounts. The representative account is being used solely as a tool to help demonstrate how performance can be attributed to the investment policies applied in the management of the Sophus Emerging Markets strategy.

This information 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 recommendations of security selection is available by request for the previous 12 months. Furthermore, 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 in this report.

The Sophus Emerging Markets Composite includes all discretionary accounts invested in the Emerging Markets Strategy. The Strategy employs an integrated investment approach whereby powerful proprietary quantitative screens are melded with deep fundamental analysis to capture the growth of emerging markets companies across the market-cap spectrum. The composite creation month is May 2013.

Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. 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 II of its Form ADV.

The MSCI Emerging Markets Index is a free-float-adjusted market-capitalization-weighted index designed to measure equity market performance in the global emerging markets.

Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses. One cannot invest directly in an index. Non-US indices are net of non-reclaimable withholding taxes, if any.

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Request a GIPS-compliant presentation from your Institutional Relationship Manager or visit www.vcm.com. Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

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