INTEGRITY ASSET MANAGEMENT

Victory Integrity Discovery Fund — As of June 30, 2022

Quarterly Commentary

And you run, and you run to catch up with the sun but it's sinking
Racing around to come up behind you again
The sun is the same in a relative way but you're older
Shorter of breath and one day closer to death

– Pink Floyd, "Time"

After failing to create inflation with fourteen years of zero to negative real interest rates, the Federal Reserve is now racing to reverse that policy. We are convinced that increasing rates will have an impact on the economy. We are not convinced it will have the same impact on inflation. Markets have become more pessimistic, starting to price in a recession. The first half performance for the S&P 500 was one of the worst on record. The second quarter performance for the Russell 2000® Value Index was the worst ever.

Where does this leave us from a portfolio perspective? In the last month or so, we began incrementally adding companies with better balance sheets, more stable business models, and higher returns on invested capital. When I was in Little League, my coach gave our team the Ten Commandments of Baseball. One of them was "Throwing behind the runner is like closing the barn door after the horse has been stolen." Are we throwing behind the runner? Given the many uncertainties in the market, we think it makes sense to continue to move to the more stable, less cyclical side of the benchmark. We realize that a lot of bad news is already priced in. However, we don't necessarily see a "rebound" opportunity in the deeper cyclical names in our benchmarks. Moreover, the Russell indices had their annual rebalance on June 24, 2022. The Russell Value benchmarks have become less cyclical and more "growth-like." Below is a table showing the before and after sector weights for our respective benchmarks. We made changes in the portfolio to maintain similar over/underweights in sectors.

	Russell Microcap Value New	Russell Microcap Value Old	Diff	Russell 2000 Value New	Russell 2000 Value Old	Diff	Russell 2500 Value New	Russell 2500 Value Old	Diff	Russell Mid Cap Value New	Russell Mid Cap Value Old	Diff
Communication Services	3.33	3.33	0.00	3.36	3.06	0.30	3.30	2.56	0.74	3.64	3.67	-0.03
Consumer Discretionary	11.43	7.60	3.83	10.01	6.92	3.09	10.97	8.71	2.25	9.85	9.40	0.45
Consumer Staples	1.84	2.19	-0.34	3.14	3.45	-0.31	3.12	3.59	-0.47	4.12	4.97	-0.85
Energy	4.45	10.45	-6.00	4.92	9.80	-4.88	4.04	7.56	-3.51	4.83	7.61	-2.78
Financials	30.75	34.68	-3.93	27.89	26.12	1.77	21.54	20.46	1.08	17.95	16.32	1.63
Health Care	21.64	15.38	6.26	11.12	8.90	2.22	9.23	8.16	1.08	7.45	7.72	-0.27
Industrials	10.09	11.12	-1.02	12.61	14.89	-2.28	16.37	16.89	-0.52	14.32	13.97	0.35
Information Technology	6.74	5.37	1.37	6.20	5.24	0.96	9.01	8.14	0.87	9.65	9.08	0.56
Materials	3.83	4.59	-0.76	3.90	4.38	-0.49	5.82	7.36	-1.54	7.54	7.83	-0.29
Real Estate	5.42	4.59	0.83	11.77	11.32	0.45	12.38	12.10	0.27	12.01	11.25	0.76
Utilities	0.48	0.71	-0.23	5.08	5.91	-0.83	4.21	4.46	-0.26	8.65	8.18	0.47

Source: Factset, Russell, Integrity Asset Management

There is a significant style difference post-rebalance. For example, we calculated that the new Russell 2000® Value Index would've underperformed the old by approximately 800 basis points year-to-date. Our portfolio has become less cyclical. However, we are underexposed to growth relative to the rebalanced benchmark. Potentially, these recently added, "growthy" benchmark names could snap back, which would be negative for our relative performance. We believe most of the increased growth exposure in the benchmark came from the inclusion of biotechnology stocks as well as unprofitable technology companies. We will explore our growth underweight on a company-by-company basis, looking for opportunities to buy stocks that meet our Right Company, Right Price, Right Time framework. Unprofitable, cash-burning technology and biotechnology companies are unlikely to meet those criteria.

Utilities (+9%) and consumer staples (-6%) were the top performing sectors. Materias (-27%), consumer discretionary (-26%), and communication services (-25%) were the worst performing sectors relative the benchmark. Micro cap value outperformed micro cap growth.

Quarterly Commentary

The Victory Integrity Discovery Fund (A shares without sales charge) outperformed its benchmark, the Russell Microcap® Value Index. Relative performance was broad based, with most sectors contributing. Stock selection in consumer discretionary, energy, and industrials were the most significant positives. Stock selection in communication services was the largest detractor. Sector weights were a modest negative, as we did not own consumer staples or utilities, which held up in this risk-off environment. Higher earnings growth was a positive style attribute.

Outperformance in consumer discretionary was led by Funko, Inc. Class A (FNKO) and Modine Manufacturing Company (MOD). Funko, Inc. Class A (FNKO) rallied 29% on solid earnings and guidance as well as news of a strategic investment in the company at a premium price. Continued progress on initiatives to reduce costs and take share amidst a challenging backdrop helped Modine Manufacturing Company (MOD) outperform. Additionally, we missed owning some of the worst performing discretionary stocks. Red Robin Gourmet Burgers, Inc. (RRGB), a restaurant chain, and Lindblad Expeditions Holdings, Inc. (LIND), a cruise operator, were notable detractors. They both lagged on investor concerns about a potential recession and the impact of higher inflation and interest rates on consumer demand.

CONSOL Energy Inc. (CEIX), Earthstone Energy, Inc. Class A (ESTE), and Solaris Oilfield Infrastructure, Inc. Class A (SOI) were the main positives in energy. CONSOL Energy Inc. (CEIX) advanced 31% as tightening in the coal market and record metallurgical coal prices have been driven by geopolitical tension in Ukraine. Many countries are now focused on diversifying their energy supply, which includes adding more coal energy to offset higher natural gas prices. Initial well results on recently acquired acreage have been encouraging at Earthstone Energy, Inc. Class A (ESTE). Solaris Oilfield Infrastructure, Inc. Class A (SOI) is benefiting from higher units deployed and increased profitability per unit, driven by a strong energy price environment.

Covenant Logistics Group, Inc. Class A (CVLG) and DXP Enterprises, Inc. (DXPE) were the largest contributors in industrials. Covenant Logistics Group, Inc. Class A (CVLG) provided constructive comments about elevated demand and strength in their dedicated segment. Revenue growth and margin expansion highlight the improved fundamentals at DXP Enterprises, Inc. (DXPE). Solid results and a strong balance sheet that allows for good capital allocation led to outperformance at CRA International, Inc. (CRAI). CIRCOR International, Inc. (CIR) was a negative. The company is reviewing strategic alternatives to be sold entirely or in pieces after restating financial statements, but the lack of news and market volatility led to the weakness.

In health care, Natus Medical Incorporated (NTUS) and lack of exposure to biotech and pharmaceutical stocks aided performance. Natus Medical Incorporated (NTUS) announced it accepted a deal to go private and was up 25%. Biotech and pharmaceutical stocks underperformed, and our sizable underweight contributed 58 basis points. Conversely, Community Health Systems, Inc. (CYH) and Brookdale Senior Living Inc. (BKD) disappointed. They faced higher costs associated with using more contract labor to address ongoing labor challenges.

Materials were a minor positive due to Clearwater Paper Corporation (CLW). It rebounded 20% after reporting a better than feared quarter. It is passing through price increases and continues to reduce leverage. A stronger U.S. dollar and weakening export prices for scrap metal products hurt the shares of Schnitzer Steel Industries, Inc. Class A (SCHN).

Financials were also a minor positive thanks to EZCORP, Inc. Class A (EZPW). Strong results and improved execution at EZCORP, Inc. Class A (EZPW) led to the 24% advance. Some of this was offset by Heritage Insurance Holdings, Inc. (HRTG) within insurance. It was negatively impacted by larger-than-expected weather losses and higher reinsurance costs.

Technology was another minor contributor. Fundamentals at Digi International Inc. (DGII) continue to be solid as it ramps up products and services that are more recurring and target higher growth IoT (Internet of Things). Kimball Electronics, Inc. (KE) outperformed after reporting strong margins and record backlog, and signs indicate that supply chain constraints are beginning to ease.

Real estate was break-even. CatchMark Timber Trust, Inc. Class A (CTT) was a bright spot as it agreed to be acquired for a premium. This was offset by weakness elsewhere due to higher interest rates and recession worries.

Communication services suffered from weak selection, with Clear Channel Outdoor Holdings Inc. (CCO) the biggest negative. It posted mixed earnings resulting from a slower international recovery and foreign exchange headwinds. Additionally, high leverage and macro concerns continued to pressure shares. Audacy, Inc. Class A (AUD) and E. W. Scripps Company Class A (SSP) also detracted. With high leverage and exposure to discretionary advertising spending, macro concerns weighed on shares of Audacy, Inc. Class A (AUD). We exited the position. E. W. Scripps Company Class A (SSP) lagged on lower-than-expected guidance and investor fears of an advertising slowdown.

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The Russell Microcap® Value Index is a market- capitalization-weighted index that measures the performance of Russell Microcap® Index companies (1,000 smallest stocks in the Russell 2000® Index plus 1,000 smaller U.S.-based listed stocks) with relatively lower price-to-book ratios and lower forecasted growth values. It represents the value-oriented micro-cap segment of the U.S. equity market.

Fund holdings mentioned in the Quarterly Commentary are as of 6/30/2022 and the percentages shown are based on net assets as of that date. 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. The Fund's top ten holdings as of 6/30/2022 were AngioDynamics, Inc (1.3%), First MidBancshares, Inc (1.1%), Univest Financial Corp (1.1%), Origin Bancorp (1.1%), Digi International Inc (1.1%), Harmonic Inc (1.1%), First Foundation, Inc (1.1%), EZCORP, Inc Class A (1.1%), Premier Financial Corp (1.1%), and Kimball Electronics, Inc (1.1%). 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.

Contributors and Detractors Source: FactSet. The contributors and detractors mentioned are presented to illustrate examples of the Fund's investments and may not be representative of the Fund's current or future investments.

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