INTEGRITY ASSET MANAGEMENT

Victory Integrity Mid-Cap Value 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.

The best performing sectors of the market were utilities (-5.5%) and energy (-7%). Communication services (-25%) and technology (-20%) were the worst performing sector relative to the benchmark. Mid cap value outperformed mid cap growth.

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The Victory Integrity Mid-Cap Value Fund (A shares without sales charge) underperformed the Russell Midcap® Value Index for the quarter. Security selection in consumer discretionary, materials, and industrials led to slight underperformance. Financials, real estate, and utilities helped performance. Sector weights were positive due to our underweights in communication services, materials, and energy. A higher beta than the benchmark was a notable style headwind.

Hotels, restaurants, and leisure names were the largest source of underperformance within consumer discretionary. Caesars Entertainment Inc. (CZR), Norwegian Cruise Line Holdings Ltd. (NCLH), and Travel + Leisure Co. (TNL) lagged on investor concerns about a potential recession and the impact of higher inflation and interest rates on consumer demand. Retailers such as Victoria's Secret & Co. (VSCO) underperformed on concerns about a potential recession as well as the impact of high inventory levels on future earnings.

Security selection in materials detracted. Weakening steel prices and concerns about faltering consumer demand for autos hurt shares of Cleveland-Cliffs, Inc. (CLF). Alcoa (AA) underperformed after a strong first quarter as aluminum prices peaked in March following Russia's invasion of Ukraine.

Spirit AeroSystems Holdings, Inc. Class A (SPR) was a notable detractor within industrials. Spirit AeroSystems Holdings, Inc. Class A (SPR) reduced its 2022 production guidance for the 737 MAX, delaying its earnings recovery, due to schedule changes at its largest customer, Boeing. Delta Air Lines, Inc. (DAL), Hertz Global Holdings Inc. (HTZ), and J.B. Hunt Transport Services, Inc. (JBHT) also lagged. Higher oil prices and recession fears weighed on shares of Delta Air Lines, Inc. (DAL). Hertz Global Holdings Inc. (HTZ) underperformed, as investors believe that consumers will have less discretionary income with an economic slowdown. J.B. Hunt Transport Services, Inc. (JBHT) underperformed on concerns over peak freight demand causing investors to sell. We exited the position. There were a few positives. BWX Technologies, Inc. (BWXT) benefited from strong Navy budget growth and winning a key award from the U.S. government for building a nuclear microreactor prototype. Booz Allen Hamilton Holding Corporation Class A (BAH) held up well after reporting strong new business wins and a stronger than expected defense budget.

Stock selection within insurance companies and capital market companies helped performance in financials. A pair of insurers were bright spots. Reinsurance Group of America, Inc. (RGA) rallied as COVID-19 mortality claims came in below expectations, as investors believe this may be behind the company. American Financial Group, Inc. (AFG) announced another special dividend, continuing to return excess capital to shareholders. LPL Financial Holdings Inc. (LPLA) was the top highlight in capital markets. LPL Financial Holdings Inc. (LPLA) continued to execute in asset gathering and benefited from being less sensitive to market swings compared to capital market peers.

VICI Properties Inc. (VICI) and Realty Income Corp. (O) led the way in real estate as investors rotated toward larger and more stable companies. VICI Properties Inc. (VICI) also benefited from being included in the S&P 500® Index. Apartment REITs such as Essex Property Trust, Inc. (ESS) underperformed on worries over higher interest rates, a weakening economy, and tougher comparisons ahead.

UGI Corp. (UGI), Vistra Corp. (VST), and Constellation Energy Corp. (CEG) were highlights within utilities. UGI Corp. (UGI) was up 7% and held up better amidst the market volatility throughout the quarter. Vistra Corp. (VST) outperformed due to increased visibility in long-term guidance also reaffirming their EBITDA guidance. As the largest nuclear operator, Constellation Energy Corp. (CEG) benefited from increased demand for its zero carbon capacity, the launch of a clean energy retail product, and a potential federal legislative package that supports nuclear initiatives.

Security selection in energy hurt performance. We purchased Phillips 66 (PSX) late in the quarter and missed out on some relative outperformance. Hess Corp. (HES), Devon Energy Corp. (DVN) and Pioneer Natural Resources Co. (PDX) were notable contributors. All three companies benefited from the strong energy price environment driven by geopolitical tensions and possible sanctions on Russia.

Selection within health care was a positive. McKesson Corp. (MCK) was a standout due to an accelerated earnings growth outlook and EU (European) divestiture that was positively received and to opioid litigation that is nearing its conclusion.

Centene Corp. (CNC) raised guidance ahead of their investor day, partially driven by stronger revenues and favorable marketplace performance. Jazz Pharmaceuticals PLC (JAZZ) raised full-year guidance and should see improvement in their Xyrem sales trends. Tenet Healthcare Corp. (THC) detracted as labor challenges continued to be a headwind.

Positive contribution from communication services was largely due to not owning some of the worst performing names in the benchmark. Most notable was Warner Bros. Discovery Inc., Series A (WBD), which was down 46%. Lions Gate Entertainment Corp.

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Class B (LGF.B) and Paramount Global Class B (PARA) limited performance. Shares of Lions Gate Entertainment Corp. Class B (LGF.B) were pressured by lackluster earnings results as well as reduced valuations for streaming assets following a large competitor's disappointing results. Paramount Global Class B (PARA) underperformed on investor fears of an advertising slowdown.

Molson Coors Beverage Company Class B (TAP) led the way within consumer staples due to stronger than expected top-line growth as reopenings continued and on-premise volumes lapped easier comparisons.

Technology was a minor negative. Semicap equipment names such as MKS Instruments, Inc. (MKSI) lagged on concerns that a recession and a slowing semi cycle could result in capex cuts at semiconductor manufacturers.

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

Fund holdings mentioned in the Quarterly Commentary are as of 6/30/22 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 6/30/22 were: Realty Income Corp (1.6%), Arthur J. Gallagher & Co (1.4%), Welltower Inc (1.3%), Motorola Solutions, Inc (1.4%), Fifth Third Bancorp (1.3%), Republic Services, Inc (1.3%), M&T Bank Corp (1.2%), Essex Property Trust (1.1%), Vistra Corp (1.2%), and Xcel Energy, 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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