

Quarterly Commentary

*“It’s difficult to make predictions,
especially about the future.”*

– Yogi Berra

Over the holiday, I read the book *Same as Ever* by Morgan Housel. It was an excellent read. The overriding theme of the book is that short-term forecasts miss the surprises that move markets. However, there are behaviors and biases that never change and repeat throughout time. Understanding those behaviors can give you an advantage. With that in mind, I would like to share 10 of the book’s key points and relate them to how we think about money management.

1. We are good at predicting the future, except for surprises, and it’s the surprises that matter. No one saw Pearl Harbor, 9/11, or the COVID lockdowns.
2. Some things never change. People will always cycle between fear and greed, pessimism and optimism.
3. Calm plants the seeds of crazy. Economic stability leads to optimism. Optimism leads to taking on debt. Debt leads to instability.
4. The world breaks every 10 years or so. In between, there will always be disasters. In a world of 8 billion people, all connected by technology, something terrible happens every day. If there are over 100 possible once-in-a-hundred-year events that can happen in a year, the odds of one happening are pretty good. Crazy, therefore, is normal.
5. The best story wins. Every market valuation is just a number today multiplied by a story about tomorrow.
6. Good news takes time; bad news occurs instantly. Things are created step-by-step and piece-by-piece but can be broken or destroyed by one event.
7. Compounding is powerful. Don’t ask, “what is the highest return I can achieve?” Ask, “what’s the highest level of return I can sustain for the longest period of time?” Concentration maximizes return. Diversification increases the odds of owning a winner.
8. Everything dies. Competitive advantage doesn’t last forever. Almost 40% of public companies lost ALL their value between 1980 and 2014!
9. It’s better to be approximately right than exactly wrong. There are typically a handful of simple variables that drive most outcomes. Too much focus on precision loses the big picture, where you have a higher chance of being correct.
10. We can say we are in it for the long run. We must remember that the long run is full of short-term disasters.

For the last 20+ years, Integrity has wrestled with a lot of these concepts. We know nothing lasts forever. Our valuation models incorporate competitive advantage decay. We believe diversification at the sector and characteristic level increases our chances of sustaining consistent returns over time. Our Flexible Value philosophy of investing is built on the knowledge that markets cycle between fear and greed, and always will. We believe that by being cognizant of that cycle, we can better position the portfolio to benefit from these changes. Our simple goal is to provide consistent returns for our clients, control risk, and take advantage of changes in market psychology, where appropriate. So, what will the market do this year: volatility and some surprises along the way. That’s

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the forecast. We will be monitoring, as usual, for what we see as the best risk/reward opportunities for our clients and trying to take advantage of them.

The best performing sector of the market was financials. Energy was the worst performing sector in the benchmark. Mid cap growth outperformed mid cap value.

The Victory Integrity Mid-Cap Value Fund (A shares without sales charge) underperformed the Russell Midcap[®] Value Index for the quarter. Security selection in financials, energy, and health care led to underperformance. Materials and consumer staples helped. Sector weights were a small negative. Lower exposure to financials, which outperformed, detracted.

In financials, security selection in insurance companies and capital market companies hurt performance. Within insurance, Kinsale Capital Group, Inc. (KNSL) and Unum Group (UNM) lagged. Kinsale Capital Group, Inc. (KNSL) beat quarterly earnings, but sales growth decelerated, and investors punished the stock due to a lack of confidence that growth would reaccelerate. With employment growth slowing, Unum Group (UNM) lagged. Capital Markets were weak as we did not own Coinbase Global, Inc. Class A (COIN), which surged 132% and cost us 22 basis points. Banks were a very small positive. Banks outperformed as interest rates declined due to softer inflation data and expectations the Fed is done hiking short-term rates. Our best-performing banks were Fifth Third Bancorp (FITB) and Western Alliance Bancorp (WAL). Fifth Third Bancorp (FITB) benefitted from solid deposit inflows and encouraging guidance. Western Alliance Bancorp (WAL) rebounded 44% as it was one of the worst performers early in the year due to worries over liquidity, credit, and higher deposit costs.

Security selection in energy hurt performance. Transocean Ltd. (RIG) lagged as sentiment turned bearish on concerns that fundamentals for offshore rig demand and pricing could face headwinds driven by increased idle times and discounted floater rates. Ovintiv Inc. (OVV) underperformed as oil prices retreated on weaker demand and higher domestic production. Antero Resources Corp. (AR) slipped as natural gas prices retreated on higher supply and a mild start to winter.

In health care, our average holding underperformed the benchmark (+1.2% vs. +7.8%). Organon & Co. (OGN), down 15%, was the worst performer. Foreign exchange headwinds and continued pricing pressure across their Women's Health segment hurt Organon & Co. (OGN).

Cleveland-Cliffs Inc. (CLF) and Celanese Corp. (CE) were top performers within materials. Cleveland-Cliffs Inc. (CLF) rallied as steel prices rose and the company announced a large share repurchase plan after losing out in the bidding war to buy U.S. Steel (X). Celanese Corp. (CE) outperformed as the market priced in interest rate cuts in 2024 helping companies with high leverage and cyclicity. CF Industries Holdings, Inc. (CF) limited performance as weakening fertilizer and crop prices pressured shares.

Stock selection in consumer staples helped performance, with Dollar Tree, Inc. (DLTR) leading the way. The company posted mixed results, but shares rallied on turnaround optimism as management announced a store optimization plan for the struggling Family Dollar division. BJ's Wholesale Club Holdings, Inc. (BJ) detracted as sales growth slowed because of disinflation causing investors to sell the stock.

Overall performance in consumer discretionary lagged. A higher-than-expected credit charge as well as continued impact from the Maui wildfire hurt Marriott Vacations Worldwide Corp. (VAC) results. Visteon Corp. (VC) underperformed as sales growth missed expectations. PVH Corp. (PVH) and Kontoor Brands, Inc. (KTB) aided performance. Despite a challenging wholesale environment, PVH Corp. (PVH) delivered results that bested analysts' estimates and provided positive quarterly commentary. Cautious guidance notwithstanding, positive inventory and market share comments as well as a new buyback plan and an analyst upgrade sent shares of Kontoor Brands, Inc. (KTB) higher.

Stock selection in industrials was a minor negative. KBR, Inc. (KBR) underperformed following third quarter earnings as the company walked away from its 2025 earnings per share targets. We exited the position. Valmont Industries, Inc. (VMI)'s new CEO walked back growth assumptions in its 2027 financial targets due to weakening agriculture fundamentals, which pressured the stock. ITT, Inc. (ITT) was a bright spot as the company posted solid third quarter earnings and raised guidance above expectations.



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Technology was a minor detractor as Teradata Corp. (TDC) underperformed. Commentary at an investor conference regarding a contract push-out pressured Teradata Corp. (TDC) shares. MKS Instruments, Inc. (MKSI), ON Semiconductor Corp. (ON), and Gen Digital Inc. (GEN) were positive highlights. MKS Instruments, Inc. (MKSI) was a solid performer as the company continues to pay down debt and reported good quarterly results as the semiconductor market has likely hit bottom. We purchased ON Semiconductor Corp. (ON) late in the quarter, missing a majority of the underperformance driven by an inventory correction at a large automotive customer. Solid quarterly results and an upbeat analyst day boosted Gen Digital Inc. (GEN) shares.



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All investing involves risk, including the potential loss of principal. In addition to the normal risks associated with investing, investments in small- and mid-cap companies typically exhibit higher volatility. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors. The financial services industry is subject to extensive government regulation that affects the scope of their activities, the prices they can charge and capital maintenance. The industry is subject to severe competition and can be significantly affected by market conditions and activity. Investments in companies in the industrials sector may be adversely affected by changes in supply and demand for products and services, governmental regulation and changes spending policies, world events and economic conditions. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

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 12/31/23 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 12/31/23 were: Parker-Hannifin Corp (1.6%), Ferguson Plc (1.5%), Realty Income Corp (1.4%), PACCAR Inc (1.4%), State Street Corp (1.3%), Cleveland-Cliffs Inc (1.3%), Westinghouse Air Brake Technologies Corp (1.3%), Martin Marietta Materials, Inc (1.2%), PVH Corp (1.2%), and Essex Property Trust, Inc (1.2%). 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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