



Quarterly Commentary

*A long December and there's reason to believe
Maybe this year will be better than the last*
– Counting Crows

- Around mid-year 2024, value characteristics started to underperform significantly. That trend continued through 2025.
- 2025 was a momentum market with narrow leadership, driven by retail investors and short-term traders.
- Our value benchmarks were influenced heavily by unprofitable companies, artificial intelligence (AI) associated companies, electricity producers, precious metals miners, bitcoin miners, and biotechnology stocks.
- We are starting to see some cracks in momentum's armor. Soaring capital expenditures (some financed by debt) and declining free-cash-flow margins are two red flags.
- The setup for small and value is improving. Relatively cheap valuations and improving earnings growth could signal an inflection point.

In our August 2025 Catalyst we quoted Morgan Housel, who said that “every market valuation is a number from today multiplied by a story about tomorrow.” Retail investors have bought into the AI story and are a significant driver of this momentum market. As with most tales, there comes a plot twist. Investors have been thrown a bit of a curveball as it becomes clear that the investment needed to compete and stay current in AI-related technologies is much greater than initially expected. This is weighing on free-cash-flow margins and on some stock prices.

While the momentum market hasn't yet ended, we sense growing skepticism. As an example, Oracle's (ORCL) credit default swaps have widened significantly over the last six months as investors grow concerned over their expanding capital expenditure needs. Conversely, Bloomberg ran an article on 12/9/2025 titled “Apple Becomes ‘Anti-AI’ Stock as Market Grows Weary of Spending.” Through the first half of 2025, Apple (AAPL) had been a laggard among the Magnificent 7 over its perceived lack of an AI strategy. Recently, however, it has been viewed positively, and the stock has rebounded.

Further, as we pointed out in our November Catalyst, this market is being driven by retail investors. In that piece, we cited a recent study showing that retail investors lose money 74%–89% of the time. In the dot-com bubble in 2000, investors would talk about “dancing with one foot out the door.” A lot of people lost a leg with that strategy. Caution is warranted.

As free-cash-flow margins shrink in the market-leading AI plays, earnings and estimate revisions have been quietly improving in the small-cap and value spaces. While the value benchmarks saw significant contributions to returns from non-earners, AI-related firms, and precious metals companies, more traditional value stocks are looking relatively attractive from both an earnings and valuation perspective. If the momentum market breaks down, this could lead to a rotation into value.

Diversification has been a losing strategy for some time. We don't believe that will be the case forever. Retail investors have a poor track record of success. We believe strongly in reversion to the mean. This is why we have stayed true to disciplined value investing. Our style of investing has been out of favor. However, we believe we are well positioned for a rotation back to diversified value investing.

The best performing sectors of the market were health care and technology. Consumer staples was the worst performing sector in the benchmark. Small/mid cap value outperformed small/mid cap growth.

The Victory Integrity Small/Mid Cap Value Fund (A shares without sales charge) outperformed the Russell 2500™ Value Index benchmark for the period.* Security selection in technology and health care led to underperformance. Stock selection in industrials

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and consumer discretionary helped performance. Sector weight performance was muted. From a style perspective, lower volatility than the benchmark was a style headwind.

Our largest detractors in technology were companies that we did not own: Sandisk Corp. (SNDK) +112%, Lumentum Holdings, Inc. (LITE) +127%, Ciena Corp. (CIEN) +61%, and Coherent Corp. (COHR) +71%. Of names that we owned, F5, Inc. (FFIV) was the largest detractor. The company issued cautious guidance, as a recent security incident is disrupting the normal sales cycle. MKS Inc. (MKSI) was a bright spot as shares rallied on a beat-and-raise quarter, driven by broad-based demand as well as strong positioning to benefit from AI-driven demand.

Within health care, our underweight to biotechnology was the largest source of underperformance. Perrigo Co. Plc (PRGO) also hurt. The company reported soft quarterly earnings and lowered 2025 guidance due to a challenging consumer environment caused by macro pressures. Globus Medical Inc. Class A (GMED) and Jazz Pharmaceuticals Public Limited Co. (JAZZ) aided performance. Shares of Globus Medical Inc. Class A (GMED) rose 52% as quarterly sales and margins outperformed expectations. Jazz Pharmaceuticals Public Limited Company (JAZZ) reported positive clinical trial results which support a supplementary New Drug Application in 2026.

Solid stock selection in industrials helped performance. Kirby Corp. (KEX) beat low expectations for earnings, and investors were excited about the company's power units' ability to help with AI power needs. Truckload stocks such as Knight-Swift Transportation Holdings Inc. Class A (KNX) rallied as new regulations were introduced to remove a substantial amount of drivers from the road. This reduction in capacity caused spot rates to shoot up. Strong third quarter results in WESCO International, Inc. (WCC)'s data center exposed business led to positive estimate revisions and investors rewarding it with a higher valuation. C.H. Robinson Worldwide, Inc. (CHRW) announced another strong quarter and raised guidance for 2026 due to AI productivity gains. Owens Corning (OC) limited performance as continued pressure on housing fundamentals led to a very underwhelming fourth quarter guide and negative stock reaction.

Victoria's Secret & Company (VSCO), up 100%, was the top highlight within consumer discretionary. Turnaround efforts that are beginning to bear fruit, an earnings beat, and several analyst upgrades lifted its shares. Steven Madden, Ltd. (SHOO) was another winner as shares rallied on better-than-feared earnings and positive quarter-to-date commentary. A few names hurt performance. Bath & Body Works, Inc. (BBWI) reported disappointing earnings and guidance as core product categories were weaker than expected. Shares of Visteon Corp. (VC) slumped as a factory fire at another Ford supplier threatens to impact fourth quarter earnings. Sally Beauty Holdings, Inc. (SBH) earnings and comps exceeded estimates, but it issued conservative upcoming first quarter guidance due to pressures on lower-income consumers. Marriott Vacations Worldwide Corp. (VAC) reported disappointing earnings and guidance, driven by poor execution. Continued weakness in the housing and repair & remodel (R&R) markets coupled with a weaker-than-expected earnings outlook hampered Mohawk Industries, Inc. (MHK).

Performance in materials was a very minor negative. Mosaic Company (MOS) lagged as the company struggled to ramp its phosphate production, leading to a third quarter miss and reduction in guidance. Commercial Metals Company (CMC) and Sealed Air Corp. (SEE) were positives. Shares of Commercial Metals Company (CMC) surged 25% to end the year after a solid third quarter print and the announced acquisition of Foley Products. Sealed Air Corp. (SEE) is being acquired for a premium. We exited the position. Dollar Tree, Inc. (DLTR) led to small outperformance in consumer staples. The company delivered better-than-expected earnings, benefiting from their multi-price strategy and a strong Halloween season. Performance Food Group Co. (PFGC) limited performance as investors were disappointed that merger talks with US Foods Holding Corp. (USFD) ended without a deal.

Overall performance in financials was slightly positive, led by Bread Financial Holdings, Inc. (BFH). The company gained 33% thanks to better credit trends. Virtus Investment Partners, Inc. (VRTS) detracted as shares were hurt by worse-than-expected outflows.

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The Russell 2500™ Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2500™ Index with higher composite value scores.

Fund holdings mentioned in the Quarterly Commentary are as of 12/31/2025 and the percentages shown are based on net assets as of that date. Holdings are subject to change and should not be construed as investment advice or a recommendation to buy, sell, or hold any security. 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 12/31/2025 were Textron Inc. (1.4%), Cushman & Wakefield Ltd. (1.3%), Valmont Industries, Inc. (1.3%), C.H. Robinson Worldwide, Inc. (1.3%), First Industrial Realty Trust, Inc. (1.3%), Globus Medical Inc Class A (1.3%), MKS Inc. (1.3%), Victoria's Secret & Company (1.2%), Flagstar Bank, National Association (1.2%), Commercial Metals Company (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.

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