VICTORY RS INVESTORS FUND QUARTERLY COMMENTARY

RS Investments
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2023

Market Commentary

As the year drew to a close, financial markets celebrated, and investors cheered what may yet be known as the "immaculate disinflation." After all the peculiarities of the pandemic and the subsequent monetary and fiscal stimuli, is the economy normalizing and are we really on track for that proverbial soft landing? That's what the financial market seemed to be suggesting during the fourth quarter.

The benchmark 10-year Treasury, which rose as high as 4.99% early in the quarter, fell to as low as 3.79% toward the end of the year, as inflation continued to abate, the labor market showed signs of normalizing, and the consumer remained surprisingly resilient. Markets rallied sharply, led by sectors that had been most adversely impacted by higher interest rates and a weakening economic environment, such as Financial Services and Real Estate.

Earlier in the fourth quarter, however, the picture wasn't quite so rosy. The quarter began with small-cap stocks, as defined by the Russell 2000® Index,[1] declining 6.82% in the month of October. Large-cap stocks, as measured by the Russell 1000® Index,[2] also fell for their third consecutive month, declining 2.42% in October. While corporate earnings and economic growth continued to surpass expectations, concerns over rising interest rates overwhelmed fundamentals and weighed heavily on the market. Fortunately, as the quarter progressed, equity markets flipped, and there was a significant move higher across most styles beginning in late October. The rally was triggered by growing optimism that inflation was being contained, thus giving the Federal Reserve the freedom to end its aggressive interest rate hikes. Yields on 2-year and 10-year Treasurys fell 88 and 120 basis points, respectively, intra-quarter.

In terms of the overall numbers for our area of focus—domestic value-oriented strategies—the Russell 3000® Value Index[3] returned 9.83% during the fourth quarter, bringing the full year return to 11.66%. In terms of market capitalizations, small-cap value stocks, as represented by the Russell 2000® Value Index,[4] returned 15.26% for the quarter. The Russell Midcap® Value Index[5] returned 12.11%, while large-cap stocks, as represented by the Russell 1000® Value Index,[6] returned 9.50% during the same period.

Indeed, let's celebrate the good news and recent rally. Yet we should also acknowledge that after an extended period of exceedingly low interest rates, fiscal tailwinds, and easy access to cheap capital, we are firmly in a new regime. This reality has been difficult for the market to digest, and we've seen that manifest in periods of volatility and uncertainty. Naturally, this often causes prices to dislocate from fundamentals, thus creating an environment that should benefit astute active managers.

With regard to investment styles, we believe value-oriented approaches should be rewarded going forward in this higher-rate, tighter monetary policy era. Companies with sound balance sheets and solid fundamentals should once again be viewed favorably in this environment, whereas more speculative companies or those that require substantial debt to fuel growth will face higher capital costs and, in many cases, shrinking margins.

Specifically, our team seeks to identify companies with a combination of improving ROIC (return on invested capital) and stock prices trading at what we perceive as a deep discount to intrinsic value. We believe that allocating to these types of businesses is a means to generate attractive risk-adjusted returns over longer time periods, and this continues to be a primary focus for us as we look ahead to 2024.

Performance Review

For the three months ended December 31, 2023, the Victory RS Investors Fund (A shares without sales charge) underperformed its benchmark Russell 3000® Value Index (the "Index") and returned 7.74% versus a return of 9.83% for the Index.

In the fourth quarter, strong performance from stock selection in Financials and Utilities aided relative performance, while stock selection in Energy and Information Technology detracted.

Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, that are attractively valued. Our decision to invest in any company starts with business analysis and an understanding of the company's unit-level economics. Our work on unit-level economics helps us determine the quality and key drivers of the business. We are ROIC-focused investors and seek to invest in companies that we believe have the potential to create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We are long-term investors who use our investment time horizon as a competitive advantage and are attracted to out-of-favor and/or misunderstood companies in the market.

The next step in our process is to assess the management team. Our evaluation of a company's management team is critical to our investment decision. We regularly meet with management to gauge how they think about their business: Are they focused on (and compensated for) growing earnings at any cost, or do they understand ROIC and how value is created? Additionally, we perform detailed historical analyses of management's capital decisions—looking at acquisitions, asset sales, and measures of capital stewardship. This analysis provides us with the conviction to invest with strong management teams that we expect will be able to navigate through short-term market volatility and appear to be poised to deliver long-term shareholder value.

The final step in our analysis is valuation. To the RS Value Team, value investing is buying a business at a discount to what we believe it is actually worth. We determine what a company is worth by assessing a company's current share price versus its expected cash flow streams or long-term net asset value based upon the management team's plan for value creation. ROIC is the lens through which we analyze that value creation. Our research has shown that, over time, stock price performance has a strong correlation to improving ROIC as opposed to traditional valuation measurements like price to earnings (P/E). We seek to invest in

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companies that we believe can create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We pay close attention to a company's financial strength, scrutinizing financial statements, and we run various financial models to understand our downside. This quantitative analysis gives us confidence in our investment thesis and helps us determine at what stock price we are comfortable investing.

Select Position Review

Below, we review two businesses in an effort to use tangible examples to highlight our investment process.

Granite Construction (GVA) is a vertically integrated civil contractor and construction materials producer. The company provides aggregates and asphalt for its construction projects, building and renovating highways, roads, bridges and other infrastructure. GVA operates in 29 U.S. states and in Guam. Granite receives roughly 70% of its revenues from federal, state or local governments and over the past few years has focused on relatively smaller projects, avoiding large fixed-price work where there is more risk of meaningful losses through cost overruns.

Granite performed well for us in the fourth quarter as the company continued to make progress on improving margins while demonstrating nice growth in its business. The company's move toward lower-risk projects has helped improve margins as GVA completes its larger fixed-price enterprises which have experienced cost pressure with smaller but higher margin infrastructure work. At the same time, GVA is accelerating revenue growth as governments are spending more money to update ageing transport infrastructure and to support manufacturing and energy spending by the private sector. With improved margins, return on invested capital (ROIC) is increasing for GVA and the stock is expected to follow the growing cash flow and earnings estimates for the next few years. We continue to believe that GVA will see better ROIC over our investment horizon and that the company will create value for our shareholders.

Humana (HUM) is one of the largest managed health care companies in the U.S., with a leading position in the Medicare Advantage (MA) market. HUM's MA and Medicare Part D plans serve over 8 million American seniors.

Shares of HUM underperformed during the fourth quarter of 2023 due to growing investor concerns about increased medical utilization by seniors and the related gross margin headwind. Second, rumors were published regarding a merger process between Cigna (CI) and Humana. Investors in HUM viewed a merger negatively given that Cigna participates in lower-growth end markets, namely commercial medical and pharmacy benefits, which have resulted in CI trading for 9-11x P/E historically, well below HUM's 17-19x. While the process ended without a transaction, investors viewed Humana's willingness to consider a merger as a signal that fundamental risks may be emerging.

As a result of these developments and in line with our risk management process, we reduced exposure to HUM during the quarter. A smaller position enables us to be nimble in adding opportunistically while we are comfortable owning shares based on the attractive asymmetry of return between our downside and warranted values.

Outlook

Since March of 2022, the Federal Reserve has aggressively raised interest rates in an effort to lower inflation, causing significant uncertainty within the stock and bond markets. Although it seems likely that interest rate increases are now behind us, the U.S. and the rest of the world continue to manage through the resulting economic impact of the higher inflation and higher yields. At this juncture, we lean toward a continued slowdown in economic activity in 2024.

The biggest risk right now would seem to be from a "shock to the system" during this period of relative weakness while we are troughing the transition from a pandemic economy to a more normalized economy. Geopolitical risk remains heightened around the globe, with the potential of a systemic shock from a number of regions. As always, with our bias toward quality, we strive to mitigate the downside, while also participating in the upside.

Meanwhile, employment remains strong. Heavy fiscal stimulus from already passed U.S. legislation for defense, infrastructure, semiconductors, and energy investments is only now beginning to be awarded. The spending will not peak until later in the decade. Relatively high energy costs in Europe, and Germany in particular, make manufacturing here relatively more attractive. Political risk in China makes that country less attractive to do business in. We expect housing to continue to be challenged by high mortgage rates and affordability concerns, although a shortage of housing after more than a decade of underinvestment should help home prices. Consumer balance sheets remain generally healthy for the majority of Americans, and consumer credit quality remains strong at the moment.

Following years of low interest rates helping to drive ever-higher growth-stock valuations, we feel value investing is ripe for a period of outperformance. We continue to find opportunities to invest in quality businesses with solid balance sheets and cash flows, where the return on invested capital (ROIC) is improving, and whose share prices have detached from our assessment of the fundamentals.

We thank you, as always, for your support.

Sincerely,

RS Value Team

Sector Allocation[7]

As of December 31, 2023

Sector	% of Portfolio
Communication Services	7.6%
Consumer Discretionary	3.0%
Consumer Staples	10.9%
Energy	9.0%
Financials	19.9%
Health Care	14.3%
Industrials	11.4%
Information Technology	3.4%
Materials	6.2%
Real Estate	5.8%
Utilities	4.5%

Top 10 Holdings[8]

As of December 31, 2023

Holding	% of Portfolio
Progressive Corporation	5.40%
Fairfax Financial Holdings Limited	4.86%
White Mountains Insurance Group Ltd.	4.77%
Vistra Corp.	4.50%
Keurig Dr Pepper Inc.	4.00%
Alphabet Inc. Class A	3.97%
Nomad Foods Ltd.	3.94%
TKO Group Holdings, Inc. Class A	3.66%
Plains GP Holdings LP Class A	3.48%
Verint Systems Inc.	3.42%

Performance

Average Annual Total Returns as of December 31, 2023

Victory RS Investors Fund (Class A – RSINX)	Fourth Quarter 2023	1-Year	3-Year	5-Year	10-Year	Since Inception (11/15/05)
without sales charge	7.74%	13.17%	11.72%	11.91%	7.36%	7.92%
with maximum sales charge (5.75%)	1.54%	6.66%	9.54%	10.59%	6.73%	7.57%
Russell 3000® Value Index[3]	9.83%	11.66%	8.81%	10.84%	8.28%	7.64%

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, visit www.vcm.com. Returns include reinvestment of dividends and capital gains. Performance returns for periods of less than one year are not annualized. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which Fund performance would have been lower.

The Fund's total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.64%/1.33%. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through April 30, 2024. Other share classes are available, but not all share classes are available to all investors.

Carefully consider a fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus or summary prospectus containing this and other important information, visit www.vcm.com/prospectus. Read it carefully before investing.

All investing involves risk, including the potential loss of principal. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility. The Fund is non-diversified, which means that it may invest a large portion of its assets in a small number of issuers. Non-diversified funds may be more susceptible to economic or credit risks than diversified funds. 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 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 opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes. Any discussions of specific securities should not be considered a recommendation to buy or sell those securities.

Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

1 The Russell 2000® Index is a market-capitalization-weighted index that measures the performance of the 2,000 smallest-cap companies in the Russell 3000® Index.

2 The Russell 1000® Index is a market-capitalization-weighted index that measures the performance of the 1,000 largest-cap companies in the Russell 3000® Index.

3 The Russell 3000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 3000® Index (which consists of the 3,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

4 The Russell 2000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index (which consists of the 2,000 smallest-cap companies in the Russell 3000® Index) with lower price-to-book ratios and lower forecasted growth values.

5 The Russell Midcap® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell Midcap® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which consists of the 1,000 largest U.S. companies based on total market capitalization.)

6 The Russell 1000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

7 The Fund's holdings are allocated to each sector based on their GICS classification. If a holding is not classified by GICS, it is assigned a GICS designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.

8 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

The Funds are distributed by Victory Capital Services, Inc., an affiliate of Victory Capital Management Inc., the Fund's investment adviser.

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