VICTORY SOPHUS EMERGING MARKETS FUND QUARTERLY COMMENTARY

Sophus CAPITAL℠
A VICTORY CAPITAL℠ INVESTMENT FRANCHISE

As of September 30, 2020

Executive Summary

Sophus Capital employs a disciplined, bottom-up approach utilizing both quantitative and fundamental processes to invest in companies that we believe have the potential for strong and sustainable earnings growth at attractive valuations, with revisions as the catalyst. By investing in companies with these characteristics, coupled with our risk-managed approach, we seek to provide a consistent excess return pattern over time.

- The Victory Sophus Emerging Markets Fund (A-Share, without sales charge) outperformed the MSCI Emerging Markets Index (Net) during the third quarter.
- Emerging markets (EM) equities continued to recover in the third quarter following the dramatic sell-down in the first quarter from the shocks related to the pandemic, advancing 9.6%.
- While the degree of uncertainty remains high, our long-term enthusiasm for the asset class remains intact.

Performance Recap

The Victory Sophus Emerging Markets Fund (A-Share, without sales charge) outperformed its benchmark in the quarter. The largest contributor to relative performance on a sector basis was industrials, driven by stock selection. The largest detractor was the information technology sector. On a country basis, the largest contributor was China, once again driven by stock selection. The largest detractor was Taiwan.

At the stock level, the largest contributor to performance was Chinese IT company Xinyi Solar Holdings (Ticker: 968-HK). Xinyi Solar is the largest manufacturer of the ultra-clear PV glass which is a key component of solar modules. During the quarter, the company reported first-half results that were better than expected on improved revenues and gross margins. Revenues were driven by the global growth in solar demand as they saw a large increase in the approved solar farm grid connected capacity, with an improved outlook in solar demand not only in China, but globally, as alternative sources of energy production are sought. The Chinese government recently announced plans to accelerate its energy transition, aiming to achieve carbon neutrality by 2060, which has continued to support this sector generally.

The largest detractor from relative performance on a stock basis was Chinese consumer staples company Ausnutria Dairy Corp. (Ticker: 1717-HK). Ausnutria is a vertically integrated high-end cow milk and goat milk infant formula provider mainly serving the China market. After surprising positively on volumes during 1Q20, the company noticed inventory buildup in May, ahead of planned price increases and as some retailers wanted to prevent stockouts during the Covid-19 disruptions. This led to a slowdown in shipments in 2Q20, which disappointed the market. We regard this impact as temporary, and expect growth to return to normal in the next few months once inventories normalize. Growth outlook for cow and goat infant milk formula remains robust, in our view.

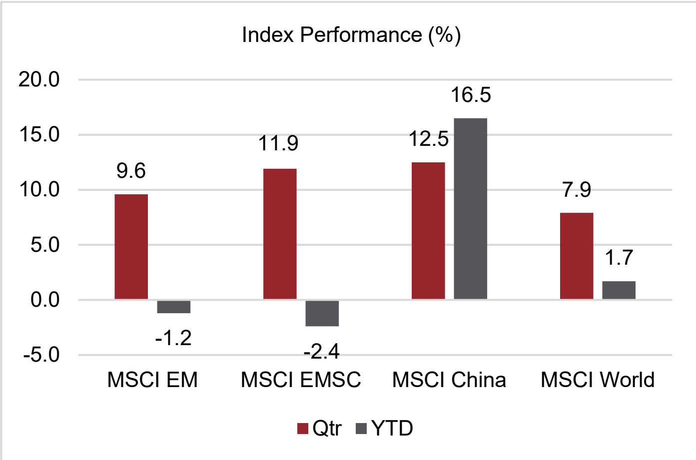
The Sophus team addresses risk factors in the portfolio using both proprietary tools and external risk tools (Axioma, Factset) to help manage the swings in the market. From a factor perspective, market sensitivity and volatility normally perform well in market reversals. Value also typically works well in a rapidly recovering market. In this instance, momentum continued to be the best performing factor during the quarter, with growth also performing well. Value, on the contrary, has continued to underperform.

Low bond yields and volatile economic expectations make growth attractive. While we have a meaningful exposure to growth, we have taken steps to mitigate the impact of a potential short-lived value rally and have reduced our negative tilt to value. The portfolio is now tilted into countries like South Korea and China, both of which offer cheap exposure to attractive growth. On a sector basis we have added to value-oriented sectors such as industrials and real estate.

Our process seeks out sustainable, attractive earnings growth. We know that earnings growth drives markets most of the time. We look to buy earnings growth at attractive valuations. We anticipate that markets will continue to be volatile as economies begin to reopen and the pandemic evolves. But different countries across EM are at different stages of the Covid-19 cycle. Asia, where the virus began and efforts to contain the virus were arguably among the best, is returning to some semblance of normalcy, while Latin America is still suffering a dramatic surge in the epidemic, and Eastern Europe is suffering the start of a second wave.

Market Overview

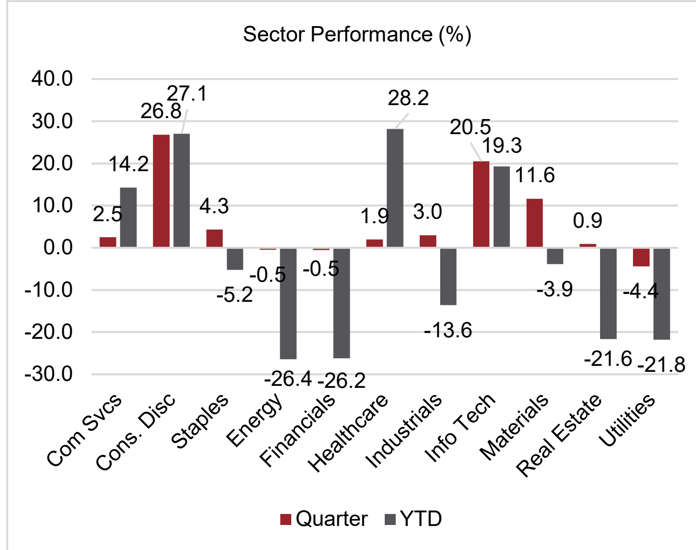
Emerging markets (EM) equities continued to recover in the third quarter following the dramatic sell-down in the first quarter from the shocks related to the pandemic. EM advanced 9.6% for the three-month period ending 9/30/2020, with the bulk of that performance coming in July, when the benchmark advanced 8.9%. Monetary and fiscal stimulus measures, as well as a weakening US dollar, pushed EM equities higher during the month. Commodities also rallied on continued optimism for a global growth recovery. August saw a continuation of the rally, though EM equities were somewhat muted relative to global markets, advancing 2.2% for the month. The rally in equities stalled in September as rising Covid-19 cases in Europe, rising political uncertainty in the US, and concerns over the ability/ willingness for further stimulus from central banks across the globe called into question the pace and sustainability of the economic recovery. EM equities declined 1.6% for the month of September as the US dollar strengthened with the change in sentiment and commodities sold off.



Source: MSCI, Sophus Capital

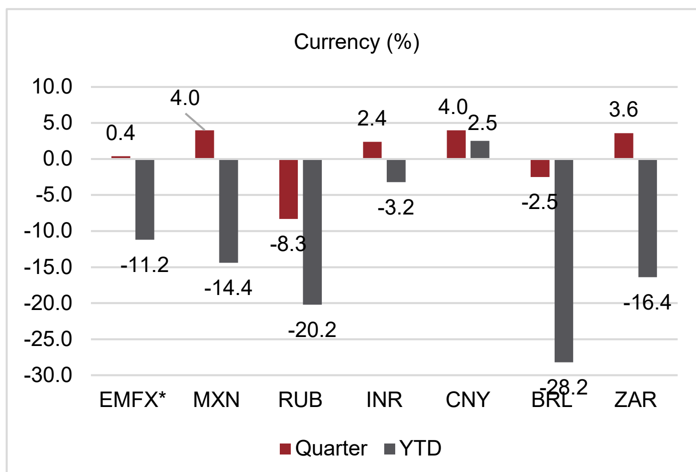
On a regional basis, Asia was the top performer, advancing 11.9% in the quarter, led by Taiwan (+16.5%) fueled by index heavyweight Taiwan Semiconductor Manufacturing Co. (Ticker: 2330-TT) in the information technology (IT) sector, which rallied on strong earnings. India advanced 15.0% on strength in the IT and energy sectors. The EMEA region advanced 1.8%, underperforming the benchmark. Saudi Arabia led the region, up 9.3%, as the country has taken steps in the quarter to further open up their financial markets. South Africa advanced 3.7% on strength in materials, particularly with the mining companies that benefited from the rally in gold prices and improvements in mining production. Russia declined 4.7%, weighed down by the weakness in oil and the potential for additional international sanctions. Turkey, the worst performing country in the benchmark, declined 15.7% on an 11.2% decline in the lira. In September, Turkey's central bank surprised the markets by raising the one-week repurchase rate by 200 basis points to contain inflation and arrest the slide in the lira. Latin America declined 1.3%, also underperforming. Brazil declined 3.3% on concerns around the government's ability to provide further fiscal or monetary stimulus and its inability to advance various reforms. Mexico advanced 4.6% on strength in the materials sector on firmer commodity prices and improved sentiment toward a post-Covid rebound.

Sector performance within the benchmark was led by consumer discretionary, which advanced 26.8%, with particular strength in Korean autos and China e-commerce companies. The IT sector advanced 20.5% on strength in India and Taiwan, particularly with the strength in index behemoth Taiwan Semiconductor Manufacturing Co. (as mentioned earlier). The biggest laggard was the utilities sector, down 4.4% in the quarter, as value/ defensives continued to underperform in this risk-on environment.



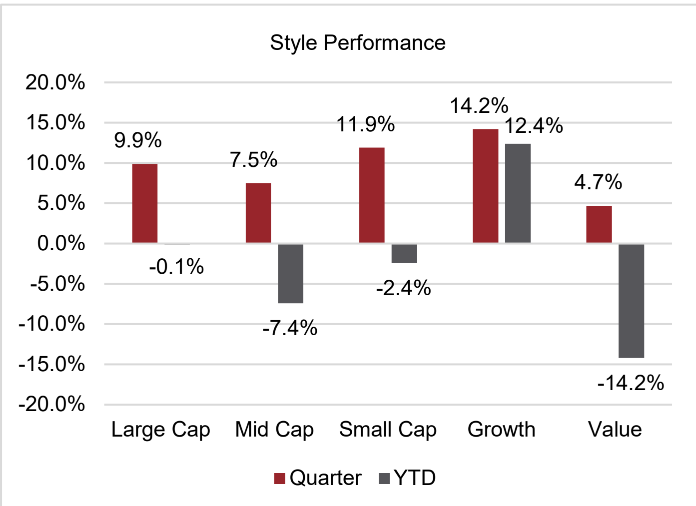
Source: MSCI, Sophus Capital

As optimism for a global growth recovery continued for the bulk of the quarter, the US dollar weakened by 3.6%. A basket of EM currencies was able to post a slight gain of 0.4%. Amongst the majors, the Chinese renminbi advanced 4.0% on stronger economic data. The Mexican peso also advanced 4.0% on relatively high interest rates and a bet on a manufacturing revival. The Russian ruble declined 8.3% on fear of new international sanctions. Commodities advanced 2.7%. Oil declined 0.5% in the period in a constant conflict between supply and demand. Gold advanced 6.2%, hitting an all-time high in early August, supported by the weakening US dollar and low interest rates globally.



*JPMorgan EM Currency Index
Source: Bloomberg, Sophus Capital

On a style basis, small-caps advanced 11.9% and outperformed both large-caps and mid-caps, which gained 9.9% and 7.5%, respectively, as economies continued to reopen from lockdown. Year-to-date, large-caps have outperformed both mid- and small-caps by 730 basis points and 229 basis points, respectively. Growth advanced 14.2% to outperform value, which gained 4.7%. Year-to-date, growth has outperformed value by 2,664 basis points. On a market factor perspective, earnings revisions and momentum did well in the quarter, reflecting the ongoing recovery in the economies and financial markets. Growth and quality also outperformed. Value once again underperformed in the quarter, with some pockets recovering in September as markets cooled.



Source: MSCI, Sophus Capital

Outlook

The third quarter was not a one-way street for risk assets, and EM equities had their fair share of volatility due to shifting perceptions toward the pace of economic recovery, the ongoing increase in the number of Covid-19 cases across many countries and the timing of a vaccine, along with a late-quarter resurgence in virus cases in Europe. Nevertheless, EM equities added further to second-quarter gains, though not enough to bring the year-to-date performance back into positive territory. We continue to be cautiously optimistic in the near-to-intermediate term, given favorable global liquidity and improving economic growth (particularly in Asia) as countries come out of lockdown, with the resultant improvement in business fundamentals. On the latter point, we saw a favorable trend in positive earnings revisions throughout the quarter, with roughly 59% of companies in the benchmark experiencing positive earnings revisions as of 9/30/2020. This is up from 22% at the end of the second quarter.

EM central banks have applied a full-court press in providing stimulative policies, with the primary outcome of improving overall confidence in the economy and supporting households and businesses. As such, these policies appear to be having the appropriate effect, with many high-frequency data points reflecting as much. One such indicator is the global manufacturing and service PMIs that, broadly, have risen above 50 into expansion territory in each month through the third quarter.

In EM, manufacturing PMIs continued to outperform developed markets on a relative basis, reaching their highest level since March 2011 of 52.5 in August, driven by trade and strong domestic demand. EM Asia has led the rise thanks to a still strong demand for electronics and medical equipment.

The consensus view for Global GDP in 2020 has been creeping higher, with expectations improving particularly in the US, Eurozone and Asia. The consensus view for China 3Q GDP is over 5%, coming off a 3.2% print in the second quarter. The recovery there continues to be driven by consumption and exports. China just completed its “golden week,” a weeklong national holiday where they reported consumer spending increased 6.4% over 2019. It is clear that China is nearing full strength. The rest of EM is more mixed, as many countries have just recently emerged from lockdowns, while some countries continue to deal with rising Covid-19 cases.

A weaker US dollar is favorable for emerging markets equities, and we have seen the US dollar decline 8.9% since it peaked on March 20 of this year. The near-term outlook is quite murky, driven in large part by uncertainty regarding the outcome of the US elections. The Covid-19 virus also continues to weigh on the market. Two points here. The first is the timing of effective therapeutics and/or a vaccine. As of this writing it appears that we may be quite close to highly effective therapeutic drugs. The other is whether we see a widespread resurgence of the virus. Recently we have seen this in parts of Europe, with additional lockdowns mandated in some locales. However, a resurgence with an approved therapeutic/vaccine will likely be less of an issue. Also, it seems that governments are being more protective of their economies this time around. Both the US elections and a virus resurgence could also have negative repercussions on global financial markets, creating a tremendous amount of volatility.

While the degree of uncertainty as we enter the final quarter of 2020 remains high, our long-term enthusiasm for the asset class remains intact. Ongoing urbanization and the growth of the middle class (and hence, consumption) is a clear long-term trend. Higher EM spending power will propel GDP growth well ahead of developed economies for the foreseeable future. The buildout of infrastructure across emerging markets, both physical and in technology, will enhance the growth trajectory. These long-term trends, coupled with attractive valuations on both an absolute and relative basis, as well as structural reforms at both the public and private sector level, keep us quite optimistic on the prospect for emerging markets equities.

We thank you for your continued support.

Sincerely,

The Sophus Emerging Markets Team

Regional Allocation
As of September 30, 2020

Sector	% of Portfolio
Asia	84.0%
EEMEA	4.8%
Latin America	9.7%

Top 10 Holdings
As of September 30, 2020

Holding	% of Portfolio
Alibaba Group Holding Ltd. Sponsored ADR	9.96%
Tencent Holdings Ltd.	7.43%
Taiwan Semiconductor Manufacturing Co., Ltd.	6.13%
Samsung Electronics Co., Ltd.	4.34%
Meituan Dianping Class B	2.62%
Reliance Industries Limited	1.87%
JD.com, Inc. Sponsored ADR Class A	1.60%
Ping An Insurance (Group) Co. of China, Ltd. Class H	1.59%
Infosys Limited Sponsored ADR	1.58%
MediaTek Inc.	1.42%

Top 5 Contributors
As of September 30, 2020

Holding	Contribution to Relative Return %
Xinyi Solar Holdings Ltd.	0.32
KIA Motors Corporation	0.24
Alibaba Group Holding Ltd.	0.22
Top Glove Corporation Bhd.	0.20
Reliance Industries Limited	0.19

Top 5 Detractors
As of September 30, 2020

Holding	Contribution to Relative Return %
Ausnutria Dairy Corp. Ltd.	-0.25
China Oilfield Services Limited Class H	-0.18
Turk Telekomunikasyon A.S.	-0.17
SK hynix Inc.	-0.16
Tofas Turk Otomobil Fabrikasi A.S.	-0.16

Performance
Average Annual Returns as of September 30, 2020

Victory Sophus Emerging Markets Fund (Class A – GBEMX)	Third Quarter 2020	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (5/1/97)
without sales charge	9.97%	-2.39%	10.99%	1.45%	8.78%	1.50%	6.82%
with maximum sales charge (5.75%)	3.63%	-7.99%	4.62%	-0.53%	7.49%	0.90%	6.55%
MSCI Emerging Markets Index (Net)	9.56%	-1.16%	10.54%	2.42%	8.97%	2.50%	—

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. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month-end, visit www.vcm.com.

The Fund's total gross/net annual operating expense ratio for the Class A Shares is 1.62%/1.34%. Investment returns reflect the reinvestment of dividends and capital gains. Fee waivers were in place for all or some of the periods shown, without which performance would have been lower. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index. Returns are average annual total returns, except those for periods of less than one year, which are cumulative. Performance for other share classes will vary. High double-digit returns are unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions.

An investor should consider the fund's investment objectives, risks, charges and expenses carefully before investing or sending money. This and other important information about the investment company can be found in the fund's prospectus, or, if available, the summary prospectus. To obtain a copy, visit www.vcm.com. Please read the prospectus carefully before investing.

All investing involves risk, including potential loss of principal. There is no guarantee that the Fund will achieve its objective. International investing involves special risks, which include changes in currency rates, foreign taxation and differences in auditing standards and securities regulations, political uncertainty and greater volatility. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

The Adviser has contractually agreed to waive a portion of its management fee and/or reimburse certain expenses through at least April 30, 2021. The Adviser is permitted to recoup advisory fees waived and expenses reimbursed by it for up to three years after the fiscal year in which the waiver or reimbursement took place, subject to the lesser of any operating expense limits in effect at the time of the original waiver or expense reimbursement and at the time of recoupment or reimbursement. This agreement may only be terminated by the Fund's Board of Trustees.

Except as otherwise specifically stated, all information and portfolio manager commentary, including portfolio security positions, are as of September 30, 2020.

Active weight is the difference in allocation of an individual security or portfolio segment between the portfolio and the benchmark.

The Morgan Stanley Capital International (MSCI) Emerging Markets Index total return (Net) data is provided by Morgan Stanley Capital International, and includes the reinvestment of dividends and reflects no deduction for fees, expenses or taxes except foreign withholding taxes. The MSCI Emerging Markets Index is a market-capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin; it excludes closed markets and those shares in otherwise free markets which may not be purchased by foreigners. The MSCI Emerging Markets Index is an unmanaged index that is not available for direct investment. There are no expenses associated with the index, but there are expenses associated with the Fund.

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

Contributors and Detractors source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed in the final column is relative contribution to return. Holdings are as of quarter end and may change at any time.

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