INTEGRITY ASSET MANAGEMENT

Victory Integrity Discovery Fund | As of June 30, 2025

Quarterly Commentary

Your everlasting summer you can see it fading fast
So you grab a piece of something that you think is gonna last
Well you wouldn't even know a diamond if you held it in your hand
The things you think are precious I can't understand

– Steely Dan, "Reelin' In the Years"

The first half of the year has been nothing short of challenging. Tariffs, Department of Government Efficiency (DOGE) spending cut noise, deficit concerns, wars, and interest rate volatility all created bouts of short-term heartburn. It is said that the market doesn't like uncertainty—you wouldn't know that looking at where equities ended the first half of 2025.

The major indices all posted positive returns: S&P 500® Index +6.20%; Dow Jones Industrial Average +4.55%; and Nasdaq Composite +5.85%. Meanwhile, the VIX (a measure of market volatility) is down.

Small-cap stocks weren't as fortunate. Amid uncertainties, investors gravitated toward larger, more stable, and more expensive stocks. While the Russell Midcap® Value Index and Russell 2500™ Value Index delivered positive returns (3.12% and 1.03%, respectively), the Russell 2000® Value Index dropped 3.16%. More telling, the most expensive quintile (measured by cashflow yield) significantly outperformed the cheapest quintile:

- **Russell Midcap® Value Index:** Most expensive quintile outperformed cheapest by ~600 bps
- **Russell 2500™ Value Index**: Most expensive quintile outperformed by ~400 bps
- **Russell 2000® Value Index**: Most expensive quintile outperformed by ~500 bps

(Source: FactSet, Integrity Asset Management)

Cashflow yield and valuation are cornerstones of our investment approach. We typically overweight cheaper quintiles and underweight the most expensive. This dynamic created a performance headwind for us in the first half of the year.

Outlook

The path forward remains uncertain. The tariff reprieve ends soon, potentially reintroducing volatility. Tension between the president and Federal Reserve chairman continues, with President Trump suggesting a new appointment before Chairman Powell's term concludes. Budget negotiations change by the minute. Yet major indices remain at or near all-time highs. We acknowledge our recent performance challenges but remain committed to our disciplined value approach. Current valuation disparities present compelling long-term opportunities. Historically, these periods of lopsided performance have normalized, creating potential outperformance for those who maintain discipline. We continue focusing on fundamentally sound companies trading at attractive valuations, positioning ourselves to benefit when market sentiment returns to these unloved companies.

Technology and industrials were the top performing sectors in the benchmark. Real estate, materials, and utilities were the worst performing sectors in the benchmark. Micro cap value underperformed micro cap growth.

The Victory Integrity Discovery Fund (A shares without sales charge) underperformed its benchmark, the Russell Microcap® Value Index. Stock selection in technology, health care, and energy led to underperformance. Selection in financials, consumer discretionary, and materials were the biggest positives. An overweight to technology, the best-performing sector, and an underweight to financials, which lagged, resulted in good sector allocation. A lower beta was a style headwind.

Technology was hurt by not owning some of the best-performing software and communications equipment stocks. Most of the software companies are unprofitable. nLIGHT, Inc. (LASR) was our largest overall contributor. Shares of nLIGHT, Inc. (LASR) rallied 153% on excitement around future laser defense opportunities as well as a beat-and-raise quarter driven by defense product sales.

Orthofix Medical, Inc. (OFIX) and HealthStream, Inc. (HSTM) were the main culprits in health care. Planned distributor transitions resulted in softness in the Biologics and Spine Fixation businesses at Orthofix Medical, Inc. (OFIX). It also saw higher costs and charges associated with the phasing out of its M6 disc business line. HealthStream, Inc. (HSTM) missed estimates, driven by funding cuts to some federal programs, lower renewal rates, and some deals that were expected to close having been delayed. We also missed owning some of the better-performing biotech stocks. Conversely, Artivion, Inc. (AORT) was up almost 27%. It reported revenue and EBITDA ahead of estimates as strong product growth offset a cybersecurity incident in Preservation Services.

Energy was hurt by ProPetro Holding Corp. (PUMP) and Vital Energy, Inc. (VTLE). Both stocks suffered from concerns related to the demand outlook for energy driven by macro uncertainty. Additionally, not owning Centrus Energy Corp. (LEU), which advanced 194%, hurt.

Modest underperformance in industrials was tied to Liquidity Services, Inc. (LQDT) and not owing Tutor Perini Corporation (TPC). After a few quarters of strong results, softer-than-expected revenues and earnings led to the decline at Liquidity Services, Inc. (LQDT). Not owning Tutor Perini Corporation (TPC) cost us 40 basis points as it advanced 102%. Willdan Group, Inc. (WLDN) was the biggest highlight as it rose 54%. New wins, steady funding in core programs, and several strategic acquisitions led to solid earnings and raised guidance at Willdan Group, Inc. (WLDN). Better-than-expected revenues and pricing, along with increased quoting activity, led to material outperformance at Insteel Industries, Inc. (IIIN). Great Lakes Dredge & Dock Corporation (GLDD) rebounded after reporting better-than-expected results due to higher utilization. Ducommun Incorporated (DCO) gained 42% due to higher margins thanks to restructuring initiatives (footprint realignment) and expectations for improved production rates in the second half.

Real estate was a minor detractor. After some outperformance in the first quarter, Global Medical REIT, Inc. (GMRE) sold off on mixed results. Apartment REITs such as NexPoint Residential Trust, Inc. (NXRT) underperformed as investors rotated away from more stable groups as there was progress on the trade front.

Very strong selection within insurance led to positive relative performance in financials. Heritage Insurance Holdings, Inc. (HRTG) was up 73% as it reported strong results with expectations that this would continue as solid pricing enables them to grow again.

Positive performance in consumer discretionary was mainly due to National Vision Holdings, Inc. (EYE). It reported a beat-and-raise quarter as transformation initiatives are starting to take hold. A couple of analyst upgrades also contributed. BJ’s Restaurants, Inc. (BJRI) rallied 30% on the hiring of a new CEO and a beat-and-raise quarter driven by operational improvements.

Materials were a modest positive thanks to Ramaco Resources, Inc. Class A (METC). It rebounded as met coal prices appear to have bottomed and President Trump signed an executive order reducing restrictions on the mining and use of coal.

Quarterly Commentary

Past performance does not guarantee future results. For standardized performance, please visit www.vcm.com.

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. Micro-cap companies may have narrower markets and be difficult to buy and sell. Micro-cap companies may have limited products or resources and may experience higher failure rates than larger, more seasoned companies. 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. Companies in the financial services sector are subject to extensive government regulation that may affect 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, including interest rate changes. Investments in companies in the industrials sector, including producers of durable goods and companies that process raw materials, may be adversely affected by changes in supply and demand for products and services, governmental regulation and changes in 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 fund is also subject to liquidity risk, which is the risk that the Adviser may not be able to sell a security at an advantageous time or price, which may adversely affect the Fund. The value of your investment is also subject to geopolitical risks such as wars, terrorism, trade disputes, 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 Microcap® Value Index is a market- capitalization-weighted index that measures the performance of Russell Microcap® Index companies (1,000 smallest stocks in the Russell 2000® Index plus 1,000 smaller U.S.-based listed stocks) with relatively lower price-to-book ratios and lower forecasted growth values. It represents the value-oriented micro-cap segment of the U.S. equity market.

Fund holdings mentioned in the Quarterly Commentary are as of 6/30/2025 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 6/30/2025 were nLIGHT, Inc (1.3%), Digi International Inc (1.2%), Interface, Inc (1.2%), Ducommun Inc (1.2%), Ribbon Communications, Inc (1.2%), Artivion, Inc (1.2%), First Mid Bancshares, Inc (1.2%), Peoples Bancorp Inc (1.2%), Great Lakes Dredge & Dock Corp (1.1%), and ConnectOne Bancorp, 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.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice.

Distributed by Victory Capital Services, Inc.

V17.051 // 2Q 2025 INTGY Discovery Fund COM

VictoryFunds®